

August 5, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: UnitedHealthcare of New England and United Healthcare Insurance Company  
2025 EPO and POS Small Group Rate Filings  
SERFF# UHLC-134066729 & UHLC-134066736

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, LLC's (L&E) actuarial analysis regarding the proposed 2025 EPO and POS Small Group Rate Filings for UnitedHealthcare of New England (UHCNE) and United Healthcare Insurance Company (UHIC) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating possible changes to the proposed rates.

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## FILING DESCRIPTION

1. UHCNE and UHIC will be referred to collectively in this report as "UHC" or "Company".
2. The purpose of this filing is to submit the Small Group rates for the Rhode Island business effective January 1, 2025, through December 31, 2025, by UHCNE and UHIC. All plans are to be offered off exchange.
3. UHCNE and UHIC submitted proposed rates on May 13, 2024. The Company is proposing an average 8.8% rate increase for UHCNE and 22.7% for UHIC. The reason for the significant difference in the rate increases between the two entities is due to the termination of existing plans and mapping these customers to plans with different pricing.
4. The rating development methodologies used are the same for the UHCNE and UHIC filed rates. The numerical results are different primarily due to the difference in network between UHCNE and UHIC. This report discusses the rating methodology used in both filings and discloses the numerical results for each entity separately.

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## PURPOSE AND SCOPE

Pursuant to R.I. Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and

advocate for quality and affordable health care for the people of Rhode Island and to take “all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island.”

The OAG has engaged L&E to perform such an actuarial review for the 2025 Small Group market Affordable Care Act (ACA) rates. This letter is to assist the OAG in evaluating changes to the proposed rates, if applicable. L&E’s observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E’s actuarial review.

## SUMMARY OF RECEIVED DATA

UHC provided the methodology to develop the proposed 2025 Small Group market premiums. The Company provided exhibits that demonstrated the quantitative development for each component of the premium request, including the manual rate, trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

UHC provided additional exhibits and information as requested during the rate review process.

## L&E ANALYSIS

The items outlined below are key filing assumptions:

### 1. TREND

The annual pricing trend assumed in the filings is 8.5% and includes the components shown below:

| RHODE ISLAND SMALL GROUP PRICING TREND BY COMPONENT |             |             |              |             |             |               |                 |                    |
|---|-------------|-------------|--------------|-------------|-------------|---------------|-----------------|--------------------|
| Component Summary                                   | Inpatient   | Outpatient  | Professional | Other       | Capitation  | Total Medical | Retail Pharmacy | Weighted Aggregate |
| Utilization / Service Mix                           | 3.3%        | 3.5%        | 4.9%         | 5.0%        | 0.0%        | 3.3%          | 5.2%            | 3.6%               |
| Unit Cost   | 4.6%        | 3.9%        | 1.8%         | 1.9%        | 6.0%        | 3.9%          | 4.7%            | 4.0%               |
| Demographic Change                                  | 0.0%        | 0.0%        | 0.0%         | 0.0%        | 0.0%        | 0.0%          | 0.0%            | 0.0%               |
| Benefit Leveraging                                  | 0.4%        | 0.9%        | 1.4%         | 0.6%        | 0.0%        | 0.8%          | 0.7%            | 0.8%               |
| <u>Margin</u>                                       | <u>0.0%</u> | <u>0.0%</u> | <u>0.0%</u>  | <u>0.0%</u> | <u>0.0%</u> | <u>0.0%</u>   | <u>0.0%</u>     | <u>0.0%</u>        |
| <b>Total Proposed Pricing Trend</b>                 | <b>8.5%</b> | <b>8.5%</b> | <b>8.3%</b>  | <b>7.6%</b> | <b>6.0%</b> | <b>8.1%</b>   | <b>10.9%</b>    | <b>8.5%</b>        |
| <b>Service Weight - Rhode Island</b>                | 19.0%       | 36.0%       | 19.0%        | 0.0%        | 12.0%       | 86.0%         | 14.0%           | 100.0%             |

UHC develops forward-looking medical expense estimates based on a number of considerations. Recent/emerging claims experience is reviewed at the market level for several broad medical expense

<sup>1</sup>This is based on Actuarial Standards of Practice No. 8

<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

categories (inpatient, professional, pharmacy, etc.), with utilization, unit cost, and benefit leveraging identified for each category. Future trends are developed based on a projection of each component.

Forward-looking utilization levels are developed based on emerging market-level data, supplemented by regional and national level utilization data. The unit cost projections are developed based on evaluations of current and anticipated provider contract economics and considering both current and expected changes in noncontracted provider cost exposure. Unit cost projections also consider the estimated cost impact of new technologies, service availability/mandates, other factors that influence the mix of procedures, and contractual changes with providers.

UHC provided trend support demonstrating the development of each trend component as well as actual realized trends for the past five years. The historical trends in RI had been relatively low from 2018 to 2021 but had been higher the last two years, especially in 2023.

In addition to reviewing the trend support provided by UHC, L&E performed a trend analysis using the last three years of normalized RI experience provided by UHC. The regression models in this analysis supported the trend assumed in the filing. While we realize that this trend is not fully appropriate given the credibility of the RI experience, this analysis was considered.

We also compared the trend assumptions UHC has assumed to the other carriers in the RI small group market. UHC is at the high end but in line with the other trends assumed in the market.

Given the above observations, we do not recommend any changes to the assumed trend assumptions and believe the assumed 8.5% trend is reasonable.

## **2. PLRS ADJUSTMENT**

Since the RI block is not fully credible, the RI experience is blended with the Company's Massachusetts experience. Several adjustments are made to the Massachusetts data including an adjustment to reflect differences in the plan liability risk scores (PLRS) between the two blocks. The Massachusetts PLRS values are provided in a Wakely study. Since UHC does not participate in the RI Wakely study, Rhode Island PLRS values are calculated using an internal study. The internal study uses emerging UHC risk score experience for all states and compares it to prior year statewide averages published by CMS.

This initial estimate resulted in a PLRS adjustment to the MA experience of +27.9%. Based on the final Ratee Data received, UHC updated the PLRS adjustment calculation using the updated MA and RI PLRS values. The updated PLRS adjustment is +26.8%. L&E recommends that the PLRS adjustment be updated to reflect the most up to date values. Since this adjustment is only being applied to the manual rate portion, we expect this to have an impact on the overall rate of about -0.7%.

## **3. RISK ADJUSTMENT**

At the time of the initial filing, the final 2023 risk adjustment transfer amounts had not been released. Using the combined entities, UHC expected to be a 0.4% risk adjustment receiver in 2023. For Rhode Island, UnitedHealthcare of New England and United HealthCare Insurance Company did not

participate in Wakely’s risk adjustment study for 2023. Instead, UHC estimates Rhode Island’s risk adjustment using risk estimates determined from internal data and statewide expectations. The internal study uses emerging UHC risk score experience for all states and compares it to prior-year statewide averages (published annually by CMS in the risk adjustment summary report for all states), adjusting the market risk numbers to account for emerging experience in Wakely states (stratified by market and transitional relief status). The company provided additional support for their risk adjustment development in response to L&E’s inquiries.

| Expected            |         |                  |                 |                    |                        |
|---------------------|---------|------------------|-----------------|--------------------|------------------------|
| State               | License | Billable<br>MMon | Premium         | Transfer<br>Amount | Trans % of<br>UHC Prem |
| RI                  | UHCNE   | 5,264            | \$3,030,206.46  | \$88,843.75        | 2.9%                   |
| RI                  | UHIC    | 20,217           | \$12,515,080.16 | -\$28,796.61       | -0.2%                  |
|                     |         |                  |                 |                    | 0.4%                   |
| Actual 2023 Results |         |                  |                 |                    |                        |
| State               | License | Billable<br>MMon | Premium         | Transfer<br>Amount | Trans % of<br>UHC Prem |
| RI                  | UHCNE   | 5,363            | \$3,030,206.46  | \$106,545.00       | 3.5%                   |
| RI                  | UHIC    | 20,487           | \$12,515,080.16 | \$336,575.00       | 2.7%                   |
|                     |         |                  |                 |                    | 2.9%                   |

In the final CMS 2023 risk adjustment report, the UHC entities were larger receivers than expected, with the two entities combined being a 2.9% receiver. Updating the projected 2025 risk adjustment transfer amounts using the actual 2023 amounts would result in a rate decrease of approximately 2.8% for both UHCNE and UHIC. L&E recommends updating the rates to reflect the final risk adjustment numbers.

#### 4. RETENTION

As shown in Attachment 10 of the “2025 Attachments\_6.5.24.xlsx” file, the administrative expense charge as a percent of premium decreased from 10.9% to 9.7% in 2025 and total retention decreased from 17.1% to 15.1%. This decrease is driven by lower general administrative expenses, slightly lower commissions, and a decrease in the assumed profit margin from 0.5% to 0.0%.

Regarding the profit assumption in the filing, we note that the year-end 2023 RBC ratio is 681% for UHCNE and 694% for UHIC. Due to the capital and surplus levels of the Companies and their affiliates, we consider the profit margin to be reasonable.

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that UHC updates these assessments to reflect the final numbers which has an impact of -0.2% on the overall rate change.

#### 5. UPDATED EXPERIENCE

In the initial filing, UHC used an experience period of 1/2023 to 12/2023 with a paid through date of 2/29/2024. For months with sufficient adjudicated claim experience, incurred claims are estimated by applying completion factors derived from the historical claims. Adjustments are made based on specific knowledge of the entity (e.g., catastrophic claims, pended claims, etc.). For

incurral months where adjudicated claim experience is not sufficient to rely on completion factors, a PMPM is used to estimate incurred claims. PMPM estimates are based on expected claim seasonality patterns, monthly calendar days and workdays, emerging claim trends, and other factors.

In response to one of L&E's inquiries, the Company provided updated claims experience with an additional three months of run out through May, rather than February. Using this updated claim experience, the total incurred claims estimate is 1.0% lower. L&E recommends that the rates are developed from the most recent experience and runout available, and we expect this to have an impact of approximately -1.0% on the overall rates.

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## OBSERVATIONS

As noted above, L&E has the following observations regarding key assumptions in the filing:

### **PLRS ADJUSTMENT**

The manual rate was adjusted to reflect the differences in plan liability risk scores (PLRS) between RI and MA. The initial estimate resulted in a PLRS adjustment to the MA experience of +27.9%, and the updated PLRS adjustment based on the final Ratee Data received is +26.8%. L&E recommends that the PLRS adjustment be updated to reflect the most up to date values. Since this adjustment is only being applied to the manual rate portion, we expect this to have an impact on the overall rate of about -0.7%.

### **UPDATED EXPERIENCE:**

The Company provided updated claims experience with an additional three months of run out through May, rather than February. Using this updated claim experience, the total incurred claims estimate is 1.0% lower. L&E recommends that the rates are developed from the most recent experience and runout available, and we expect this to have an impact of approximately -1.0% on the overall rates.

### **RISK ADJUSTMENT:**

The projected 2025 risk adjustment transfer amounts have not been updated to reflect the final 2023 CMS risk adjustment Transfer report. This update would result in a rate decrease of approximately 2.8% for both UHCNE and UHIC.

### **RI ASSESSMENTS:**

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that UHC updates these assessments to reflect the final numbers which has an impact of -0.2% on the overall rate change.

**IMPACT ON OVERALL RATE INCREASE**

A breakdown of L&E's observations by rating component is provided below:

| <b>Component</b>            | <b>UHCNE<br/>Rate Change</b> | <b>UHIC<br/>Rate Change</b> |
|-----------------------------|------------------------------|-----------------------------|
| <b>UHC SG Proposal</b>      | <b>+8.8%</b>                 | <b>+22.7%</b>               |
| PLRS Adjustment             | -0.7%                        | -0.7%                       |
| Updated Experience thru May | -1.0%                        | -1.0%                       |
| Risk Adjustment             | -2.8%                        | -2.8%                       |
| Revised RI Assessments      | -0.2%                        | -0.2%                       |
| <b>UHC SG Revised</b>       | <b>+4.1%</b>                 | <b>+18.0%</b>               |

Please note that the impact on the rates is an estimate, and the actual impact may differ due to the Company's pricing model.

Sincerely,



Robert Dorman, ASA, MAAA  
Vice President & Consulting Actuary  
Lewis & Ellis, LLC



Josh Hammerquist, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, LLC



Dave Dillon, FSA, MAAA, MS  
Senior Vice President & Principal  
Lewis & Ellis, LLC

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## ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>2</sup>, promulgates Actuarial Standards of Practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct<sup>3</sup>, to observe the ASOPs of the ASB when practicing in the United States. ASOP #41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained below.

### IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

- Robert Dorman, ASA, MAAA, Vice President & Consulting Actuary.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 5, 2024. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is August 5, 2024.

### DISCLOSURES IN ACTUARIAL REPORTS

- The contents of this report are intended for the use of the Rhode Island Office of Attorney General. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring a suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis is financially and organizationally independent from UHC. L&E is not aware of anything that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the OAG in recommending changes to the proposed rates.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by UHC for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for the items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.

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<sup>2</sup> The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

<sup>3</sup> These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.



- L&E is aware that there may be subsequent events which could have a material impact on the findings.
- There are no other documents or files that accompany this report.

#### **ACTUARIAL FINDINGS**

The actuarial findings of the report can be found in the body of this report.

#### **METHODS, PROCEDURES, ASSUMPTIONS, AND DATA**

The methods, procedures, assumptions, and data used by the actuaries can be found in the body of this report.

#### **ASSUMPTIONS OR METHODS PRESCRIBED BY LAW**

This report was prepared as prescribed by applicable law, statutes, regulations, and other legally binding authority.

#### **RESPONSIBILITY FOR ASSUMPTIONS AND METHODS**

The actuaries do not disclaim responsibility for material assumptions or methods.

#### **DEVIATION FROM THE GUIDANCE OF AN ASOP**

The actuaries have not deviated materially from the guidance set forth in the applicable ASOPs.