

# 2025 Health Insurance Rate Review

## Actuarial Memoranda

September 3, 2024

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*These actuarial memoranda document the analysis and final decision of the State of Rhode Island Office of the Health Insurance Commissioner review of 2025 commercial health insurance premiums in the individual market, small group market, and large group market*

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STATE OF RHODE ISLAND

Office of The Health Insurance Commissioner

Department of Business Regulation

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\*Actuarial memos are individually paginated.

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29 August 2024

**Individual Market Rate Filings for Neighborhood Health Plan of Rhode Island (NHPRI) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions  
SERFF Filing #NHRI-134103963**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of NHPRI's individual market rate filings. This letter documents our review and the final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted on May 13, 2024. NHPRI resubmitted a revised filing on July 8<sup>th</sup>. The revised filing clarified one set of plans that are to be offered off-exchange only.

Throughout the filing process, OWA corresponded with NHPRI's actuarial consultant, Michelle B. Klein, FSA, MAAA of Milliman Inc. and Elizabeth McClaine of Neighborhood Health Plan. An actuarial memorandum and certification are included in the filing signed by Ms. Klein. OWA submitted questions through SERFF on May 24, June 18, and July 16. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the NHPRI small group filing that pertain to NHPRI individual filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 16, 2024. The RI Health Insurance Commissioner provided preliminary decisions to NHPRI on August 20, 2024. NHPRI submitted revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the Year 2 Hospital Unit Cost trend from 5.0% to 4.2%. This will decrease the rates approximately 0.3%.

**Assumption #2:** Revise the 2023 risk adjustment payable assumption from \$47.84 PMPM to \$45.02 PMPM. This will result in a 2025 risk adjustment assumption of \$35.00 and a \$1.72 HCRP surcharge for a combined payment of \$36.72. This will decrease the rate approximately 0.9%.<sup>1</sup>

**Administrative PMPM Charge:** The RI Health Insurance Commissioner has approved a 3.3% administrative charge trend.<sup>2</sup>

**Contribution to Reserve:** The RI Health Insurance Commissioner has approved a 3.0% contribution to reserve.

The table below shows NHPRI's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	NHPRI IND		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$309.86	\$310.85	+0.3%
Year 2 Hospital Cost Trend	5.0%	4.2%	-0.3%
Risk Adjustment Assumption	\$40.92	\$36.72	-0.9%
Administrative PMPM Charge	\$67.00	\$66.01	-0.1%
Contribution to Reserves/Profit	1.5%	3.0%	+1.5%
<b>CPAIR Change from 2024</b>	5.6%	5.9%	

**Table 1: Requested and Final Approved Rate Change**

## III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average increase.<sup>3</sup> The CPAIR reflects the average base rate

<sup>1</sup> The rate change impact due to final risk adjustment results was provided by NHPRI and verified by OWA.

<sup>2</sup> The 3.3% is the average of the CPI for all items less food & energy for the months of May (3.4%), June (3.3%), and July (3.2%). 12-month percentage change, Consumer Price Index, selected categories (bls.gov)

<sup>3</sup> We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering.

The proposed average CPAIR change is 5.6%. As of January 2024, there were 31,147 members. NHPRI has not terminated any plans and has added ten new plans for 2025 (all off-exchange only). They have revised some of their plan designs resulting in a change in rates ranging from 0.0% to 0.4% with an overall increase of 0.2%. NHPRI's rate increase fluctuate by plan offering ranging from 4.8% to 7.3%. The distribution of rate change is shown below.

Proposed Rate Increases for Renewing Plans					
Rate Change Range	Number of Plans	Number of Members	2024 CPAIR PMPM	2025 CPAIR PMPM	Rate Change
4% to 5.9%	5	25,351	\$310.02	\$326.81	5.4%
6% to 7.9%	2	5,796	\$221.13	\$235.74	6.6%
<b>Total</b>	<b>17</b>	<b>31,147</b>	<b>\$293.48</b>	<b>\$309.86</b>	<b>5.6%</b>

**Table 2: Distribution of Rate Increases**

The 2025 average rate change of 5.6% is driven by these key factors as reported by NHPRI in Tab V of the RIOHIC rate template:

- 6.1% due to trend
- -0.4% due to pharmacy rebate improvements
- -5.4% due to prior period adjustments<sup>4</sup>
- 1.3% due to increased risk adjustment payable
- 3.2% due to an increased calibration factor

#### **IV. Experience & Trend Assumptions**

A review of actual allowed claims experience shows that actual trends for NHPRI's individual market were 4.9% from 2021 to 2022 and 7.9% from 2022 to 2023.

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<sup>4</sup> NHPRI has indicated this is "the remainder of the rate increase after accounting for other quantified changes on Tab V...also incorporates changes not already captured by the template due to the mechanics of the calculation".

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$57.66	\$57.53	\$55.83
Outpatient Hospital	\$112.06	\$120.80	\$140.09
Professional	\$106.48	\$109.67	\$118.69
Other Medical	\$4.90	\$5.30	\$5.75
Capitation	\$1.74	\$1.15	\$0.03
Prescription Drug	\$92.10	\$98.77	\$103.86
Total	\$374.93	\$393.22	\$424.26
Member Months	299,128	283,099	269,533

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	-0.2%	-3.0%
Outpatient Hospital	7.8%	16.0%
Professional	3.0%	8.2%
Other Medical	8.2%	8.5%
Capitation	-34.1%	-97.0%
Prescription Drug	7.2%	5.2%
Total	4.9%	7.9%
Member Months Trend	-5.4%	-4.8%

**Table 3: Allowable Claims PMPM and Trend CY 2021 – CY 2023<sup>5</sup>**

NHPRI is assuming an average annual trend assumption of 7.1% which is lower than the trend in last year's rate filing of 9.4%. The table below shows NHPRI's cost and utilization & severity trend assumptions by service category. NHPRI uses a combination of historical data, utilization & severity assumptions used in past years, and actuarial judgement to determine their utilization assumptions for 2023 and forward. NHPRI is currently assuming a 1.0% medical utilization & severity trend assumption. NHPRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

<sup>5</sup> Data paid through March 2024, adjusted for IBNR.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	5.3%	0.1%	5.5%
Outpatient Hospital	5.3%	1.2%	6.7%
Professional	4.2%	1.1%	5.4%
Other Medical	5.1%	1.0%	6.2%
Capitation	0.0%	0.0%	0.0%
<b>Total Medical</b>	<b>4.9%</b>	<b>1.0%</b>	<b>6.0%</b>
<b>Prescription Drug</b>	<b>7.6%</b>	<b>2.5%</b>	<b>10.3%</b>
<b>Total</b>			<b>7.1%</b>

**Table 4: Proposed Trend Assumptions**

NHPRI's hospital unit cost trend assumptions are 5.3% for 2024 and 5.0% for 2025. NHPRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.<sup>6</sup> NHPRI reviews the Rhode Island's Affordability Standards which are tied to a hospital price cap set by the Rhode Island Office of the Health Insurance Commissioner (RIOHIC) each October. As of July 2024, the CPI-U: Less Food and Energy is 3.2%.<sup>7</sup> If the 2025 maximum hospital unit cost increase was determined based on information as of July 2024, this would lead to a maximum of 4.2%. NHPRI is currently assuming a 5.0% combined inpatient and outpatient unit cost increase. Therefore, with the CPI-U information as of July 2024, NHPRI's combined hospital inpatient and outpatient unit cost trends are 0.8% higher than what the maximum would be.

**Assumption #1:** Revise the Year 2 Hospital Unit Cost trend from 5.0% to 4.2%. This will decrease the rates approximately 0.4%.

Unit Cost Trend	Proposed Assumptions		Revised Assumptions	
	Year 1 2024	Year 2 2025	Year 1 2024	Year 2 2025
Hospital Inpatient	5.5%	5.2%	5.5%	4.4%
Outpatient Hospital	5.5%	5.2%	5.5%	4.4%
Professional	4.4%	4.1%	4.4%	4.1%
Other Medical	5.1%	5.1%	5.1%	5.1%

**Table 5: Unit Cost Trends**

We performed our own trend analysis on NHPRI Individual and Small Group Market data combined. The combined pool represents approximately 25,000 enrollees but the enrollment has ranged from 22,600 to

<sup>6</sup> Note, the RIOHIC rate filing template shows 5.5% and 5.2% for 2024 and 2025 respectively – NHPRI has explained the variance between the trend shown in the detailed unit cost increase schedule and the OHIC template.

<sup>7</sup> 12-month percentage change, Consumer Price Index, selected categories (bls.gov)

27,500 over the past two years. We received monthly data from January 2019 through March 2024, paid through April 2024, and adjusted for IBNR. We subtracted out COVID testing and vaccine claims from the data. We then performed an actuarial trend analysis using the most recent data (Table 6) and also comparing the most recent data to 2019 data (Table 7). A summary of our results is shown below. As shown, annual medical PMPM trends adjusted for COVID expenses range from 5.6% to 11.0% when excluding the latest data point and comparing results across the two tables. Also note that trends appear to be decreasing significantly in the later time periods (Table 6) but when reviewing four-year annualized trends, the trends appear more stable (though still decreasing). NHPRI is assuming 6.0% for their overall medical PMPM trend, which is within this range and is reflective of the decreases in trend seen in recent months.

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Medical Rolling 3 Trend	Medical Rolling 6 Trend	Medical Rolling 12 Trend
October	2023	14.9%	13.3%	10.4%
November	2023	15.3%	11.7%	11.9%
December	2023	10.1%	11.1%	11.6%
January	2024	5.6%	10.1%	9.9%
February	2024	2.8%	8.8%	9.6%
March	2024	-2.6%	3.5%	7.1%
Avg. of 6 Most Recent Data Points		7.7%	9.8%	10.1%
Avg. of 5 Data Points, Excl. Most Recent		9.7%	11.0%	10.7%

**Table 6: OWA Medical Trend Analysis**

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Medical Rolling 3 Trend (4 Year Annualized)	Medical Rolling 6 Trend (4 Year Annualized)	Medical Rolling 12 Trend (4 Year Annualized)
October	2023	6.6%	6.7%	
November	2023	6.0%	6.2%	
December	2023	5.6%	6.0%	6.6%
January	2024	5.2%	5.9%	6.3%
February	2024	4.5%	5.2%	6.1%
March	2024	4.5%	5.0%	5.7%
Avg. of 6 Most Recent Data Points		5.4%	5.8%	6.2%
Avg. of 5 Data Points, Excl. Most Recent		5.6%	6.0%	6.3%

**Table 7: OWA Medical Trend Analysis (4 Year Annualized)**



We have also analyzed pharmacy trends. The table below shows a range from 10.4% to 11.5%; NHPRI is assuming 10.6%, which is within this range.

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Pharmacy Rolling 3 Trend (4 Year Annualized)	Pharmacy Rolling 6 Trend (4 Year Annualized)	Pharmacy Rolling 12 Trend (4 Year Annualized)
October	2023	9.9%	10.6%	
November	2023	10.3%	10.3%	
December	2023	10.7%	10.0%	11.8%
January	2024	10.6%	10.2%	11.4%
February	2024	11.5%	10.9%	11.3%
March	2024	11.0%	10.9%	10.8%
Avg. of 6 Most Recent Data Points		10.7%	10.5%	11.3%
Avg. of 5 Data Points, Excl. Most Recent		10.6%	10.4%	11.5%

**Table 8: OWA Pharmacy Trend Analysis**

## **IBNR and Base Experience**

NHPRI submitted a rate filing which utilized 2023 base experience paid through March 2024. This data is adjusted for IBNR. The IBNR in the prior two years appeared to be overstated when compared to final claims (i.e., after 12+ months of run out). NHPRI reviewed their IBNR development to remove some conservatism in their estimate with a goal of ensuring the IBNR for 2023 data is not overstated.

## **V. Cost Sharing Reduction (CSR) Adjustment**

Milliman estimated the CSR adjustment by first projecting the allowed claims for every CSR plan variant. The variation in allowed claims by CSR plan are due to induced demand assumptions which were derived from Milliman's benefit relativity tool. For example, projected allowed claims for the CSR 94 enrollees is \$496.35 and the projected allowed claims for the CSR 73 enrollees is \$444.15. This is a 11.8% variance. Then, Milliman utilizes its pricing models to calculate the actuarial value ("AV") for the CSR plans and the AV for the Silver plan offered on Exchange.<sup>8</sup> For example, the pricing AV for the CSR 94 plan is 96.0% and the pricing AV for the standard Silver plan is 74.9%.<sup>9</sup> The pricing AVs for CSR plans are applied to the allowed claims. This represents the projected actual incurred and paid claims and estimated actual insurer liability. The Silver plan AV is also applied to the allowed claims. This represents the estimated insurer liability if everyone was enrolled in the base Silver plan. This shortfall is spread across all the Silver plan enrollees, including those who are not eligible for CSR, resulting in a PMPM of \$79.76. Milliman also estimates the induced demand for the CSR enrollees and includes this as part of the CSR load. The final load

<sup>8</sup> The AVs calculated here exclude induced demand assumptions as they are already included in the allowed claims. Milliman uses its benefit relativity models to calculate these AVs.

<sup>9</sup> Note that NHPRI offers two Silver plans on Exchange, one plan has a pricing AV of 71.5% and the other has a pricing AV of 75.9% and the weighted average of the AVs for the two plans using enrolled membership is 74.9%.

is 23.4%. Last year it was 29.1% and the year prior it was 27.7%. We have also reviewed historical incurred claims and premium for the Silver plan and the ratio of claims to premium appear reasonable suggesting the historical CSR load is reasonable.

## **VI. 1332 Waiver (Reinsurance)**

NHPRI is assuming a 3.8% reduction in their rates for reinsurance or approximately \$20.08 PMPM recoveries. This is consistent with information provided by HSRI. NHPRI assumed a 4.0% reduction in the prior year.

## **VII. Risk Adjustment**

NHPRI has assumed a \$32.97 PMPM payable for risk adjustment and a \$1.72 PMPM High-Cost Risk Pool surcharge for a combined payment of \$40.92 PMPM. This translates to approximately \$15.3M in payments or a 7.8% adjustment to the revenue requirement. NHPRI develops their risk adjustment assumption by beginning with an estimated 2023 risk adjustment payment of \$13.1M or \$47.84 PMPM. They then adjust this payout for premium trend from 2023 to 2025 as well as expected changes in morbidity (i.e., PLRS change). The result is a \$39.20 risk adjustment PMPM or a \$14.6M payment (excluding the high-cost risk pool cost). Their 2025 PMPM estimate is approximately 18% lower than their estimated 2023 numbers. Note that at the time of the submission of the rate filing, the actual 2023 results had not been released and NHPRI had to rely on completion estimates when developing the 2023 values. CCIIO released the risk adjustment report on July 22<sup>nd</sup>, 2024. The 2023 results indicate a payment of \$12.3M which translates to \$45.02 PMPM. This actual 2023 risk adjustment result is approximately 6% lower on a PMPM basis than what NHPRI originally projected.

**Assumption #2:** Revise the 2023 risk adjustment assumption from \$47.84 PMPM to \$45.02 PMPM. This will result in a 2025 risk adjustment assumption of \$35.00 and a \$1.72 HCRP surcharge for a combined payment of \$36.72. This will decrease the rate approximately 0.9%.

## **VIII. Morbidity**

NHPRI includes a 1.1% adjustment to their projected claims costs for morbidity. NHPRI expects higher costing members to join their ACA plans due to Medicaid redetermination as the public health emergency ends. To develop this assumption, a claims analysis was performed comparing the paid claims difference between redetermined members and all members in the 2023 individual population resulting in an adjustment of 1.6%. The data provided by NHPRI indicated a larger adjustment could be supported, but the 1.6% appears reasonable due to uncertainty in the final impact these members could have. A Kaiser Family Foundation review of filings for over 60 carriers in 10 states and DC shows that most carriers are not building in any impact due to Medicaid redetermination.<sup>10</sup> Additionally, there was an assumption that statewide morbidity (excluding the impact of Medicaid redetermination) would decrease -0.5%. We have reviewed their calculation and support as well as claims cost for the redetermined and total population.

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<sup>10</sup> [How much and why ACA Marketplace premiums are going up in 2025 - Peterson-KFF Health System Tracker](#)

## IX. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, NHPRI projects a 2025 MLR of 86.9% which includes a 1.5% contribution to reserve. NHPRI reports an 84.9% MLR for CY 2021, 79.4% MLR for 2022, and 86.4% MLR for 2023.<sup>11</sup> The CY 2022 estimate provided in the OHIC template utilized the estimated 2022 risk adjustment receivable as used in 2024 pricing; updating the risk adjustment estimate for the final 2022 risk adjustment report, the MLR for CY 2022 is estimated to be 83.1%.

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. NHPRI is proposing an average retention charge of 17.6% for 2025 compared to 17.7% for 2024. The decrease is due to a decrease in assessments and fees and a reduction in other administrative expenses which is partially offset by an increase in the contribution to reserve. NHPRI includes 1.6% in their rates for RI assessments and fees, and last year it was 2.4%. As shown in Table 10, NHPRI assumed \$8.51 for Adult Immunization costs in 2024; this was noted as an error in last year's filing and revised. We have reviewed the 2025 assessment estimates. NHPRI includes 3.5% for Exchange User Fees (which are not included in the tables below).

Proposed Retention Charge	2025	2024	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	1.5%	1.0%	0.5%
Investment Income Credit	-0.3%	-0.1%	-0.1%
Administrative Expense Load	14.3%	14.8%	-0.5%
<b>Total Retention Charge</b>	<b>17.6%</b>	<b>17.7%</b>	<b>-0.1%</b>

Table 9: Proposed Retention Charge<sup>12</sup>

Assessment	2025 Assumptions		2024 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$1.22	0.2%	\$1.14	0.2%
Adult Immunization Account	\$4.77	0.9%	\$8.51	1.6%
Children's Health Account	\$0.40	0.1%	\$0.40	0.1%
Care Transformation Collaborative of RI	\$1.23	0.2%	\$1.34	0.3%
Current Care	\$1.00	0.2%	\$1.03	0.2%
<b>Total</b>	<b>\$8.62</b>	<b>1.6%</b>	<b>\$12.42</b>	<b>2.4%</b>

Table 10: RI Assessments

<sup>11</sup> 2023 reported MLR are estimates at the time of the rate filing submission and does not reflect final 2023 risk adjustment results. There may be other updates to the 2023 MLR that are not reflected in what was reported in the rate filing.

<sup>12</sup> Excludes 3.5% for Exchange User Fee. All state assessments are included in NHPRI's retention charge within the administrative expense load.

The table below shows the final approved administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 3.3% from 2024 to 2025.<sup>13</sup>

NHPRI Individual			
	2025	2024	Admin Charge Trend
Admin PMPM	\$66.01	\$63.89	3.3%

**Table 11: Administrative PMPM Charge**

The final approved contribution to reserves is 3.0% of premium.

## X. Financial Position

A review of NHPRI's financial measures show that NHPRI's RBC levels have been decreasing since 2020 and continued to decrease in 2023; an RBC ratio lower than 200% may trigger regulatory intervention. NHPRI is including a 1.5% contribution to reserve in its rates this year. Last year, NHPRI included a 1.0% contribution to reserve; the underwriting gain/loss in 2023 was negative.

NHPRI				
	2020	2021	2022	2023
Total Revenues	\$1,392,298,811	\$1,520,834,669	\$1,634,875,021	\$1,873,897,941
Net Underwriting G/L	\$21,228,747	\$10,313,351	\$2,638,932	-\$1,304,107
<b>Underwriting G/L</b>	<b>1.5%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>-0.1%</b>
Capital and Surplus end of reporting year	\$122,648,134	\$126,138,439	\$129,171,416	\$132,013,105
<b>SAPOR</b>	<b>8.8%</b>	<b>8.3%</b>	<b>7.9%</b>	<b>7.0%</b>
Total Adjusted Capital	\$122,648,134	\$126,138,440	\$129,171,418	\$132,013,105
Authorized control level risk-based capital	\$48,513,766	\$53,359,759	\$57,649,243	\$61,313,035
<b>RBC</b>	<b>252.8%</b>	<b>236.4%</b>	<b>224.1%</b>	<b>215.3%</b>

**Table 12: Summary of Financials**

## XI. URRT

We have reviewed the URRT for consistency with the Rhode Island rate template.

<sup>13</sup> From Tab IV Retention Charge, the Taxes, Licenses and Fees (7g) attributable to assessments are subtracted from the Administrative Expense Load PMPM reported in row 20 (7). Initial requested administrative expense PMPM was \$67.00.

## XII. Requested and Final Approved Rate Change

The table below shows NHPRI's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

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<b>CPAIR Change from 2024</b>	5.6%	5.9%	

**Table 13: Requested and Final Approved Rate Change**

## XIII. Conclusion

This letter communicates our findings regarding our review of NHPRI's individual market rate filings (SERFF tracking number NHRI-134103963.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by NHPRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in black ink that reads "Corryn Brown". The signature is written in a cursive, flowing style.

Corryn Brown FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King  
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29 August 2024

**Small Group Market Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #BCBS-134064404**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of BCBSRI's small group market rate filing. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted May 13<sup>th</sup>, June 12<sup>th</sup> and July 16<sup>th</sup>.<sup>1</sup>

Throughout the filing process, OWA corresponded with Michael Bodenrader, Whitney Campion, and Sarah Bewick of BCBSRI. An actuarial memorandum and certification are included in the filing signed by Whitney Campion, ASA, MAAA. OWA submitted questions through SERFF on June 5<sup>th</sup>, July 18<sup>th</sup>, August 1<sup>st</sup>, and August 15<sup>th</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the BCBSRI individual and large group filings that pertain to BCBSRI small group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 20, 2024. The RI Health Insurance Commissioner provided preliminary decisions to BCBSRI on August 20, 2024. BCBSRI submitted

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<sup>1</sup> The initial filing was submitted on May 13<sup>th</sup> and an average rate change of 15.6%. A revised rate filing was submitted on June 12<sup>th</sup> which updated CY 2022 incurred claims on Tab I, updated rates for four plans in Tab III to account for the correct coinsurance, and updated information on Tab V Components of Premium. The average rate change in the June 12<sup>th</sup> filing was changed to 15.4%. Another revised filing was submitted on July 16<sup>th</sup> which updates rates for two plans in Tab III to account for the correct deductible and out-of-pocket maximum to adhere to the IRS guidelines for high deductible health plan coverage. There was no impact to the average rate change from the revised July 16<sup>th</sup> filing.

revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Update the experience period to reflect claims-runout through May 2024 rather than February 2024. This assumption change would decrease the rates by approximately 0.6%.

**Assumption #2:** Revise the Year 2 hospital unit cost trends to reflect the CPI-U inflation of 3.2% plus 1%. This assumption change would decrease the rates by approximately 0.5%.

**Assumption #3:** Revise the medical utilization & severity trend assumptions from 2.9% to 2.4% in Year 1 and from 3.2% to 2.6% in Year 2. These assumption changes would decrease the rates by approximately 1.1%.

**Assumption #4:** Revise the trend used in the 2025 pharmacy rebate PMPM projection from 10.6% to 18.3%. This assumption change would decrease rates by approximately 0.6%.

**Assumption #5:** Revise the 2025 risk adjustment assumption from \$4.89 PMPM to \$2.20 PMPM, based solely on the final 2023 risk adjustment report,. These assumption changes would increase the rates by approximately 0.4%.

**Administrative PMPM Charge:** The RI Health Insurance Commissioner has approved a 3.3% administrative charge trend.<sup>2</sup>

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

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<sup>2</sup> The 3.3% is the average of the CPI for all items less food & energy for the months of May (3.4%), June (3.3%), and July (3.2%). 12-month percentage change, Consumer Price Index, selected categories (bls.gov)



	BCBSRI SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$485.94	\$475.38	-2.2%
Base Period Experience (Incurred Claims PMPM)	\$514.89	\$511.54	-0.6%
Hospital Unit Cost Trend Year 2	4.6%	4.2%	-0.5%
Medical Utilization & Severity Trend Year 1	2.9%	2.4%	-0.4%
Medical Utilization & Severity Trend Year 2	3.2%	2.6%	-0.7%
Pharmacy Rebate Trend	10.6%	18.3%	-0.6%
Projected 2025 Risk Adjustment PMPM (Receivable)	\$4.89	\$2.20	0.4%
Administrative Charge PMPM	\$88.18	\$86.76	-0.2%
Contribution to Reserves/Profit	1.25%	1.25%	0.0%
<b>CPAIR Change from 2024</b>	<b>15.4%</b>	<b>12.9%</b>	

**Table 1: Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average increase.<sup>3</sup> The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer's assumptions on member migration from terminated plan offerings to existing plan offerings.

The proposed full year weighted average rate change is 15.4% and for 1Q renewals it is 15.1%. As of March 2024, there were 39,660 members enrolled throughout the year and 13,998 members enrolled in the first quarter. For January 1, 2025, BCBSRI is renewing 66 plans, terminating no plans, and adding no new plans.

The average rate change due to plan design changes is -0.08%. Of the 66 renewing plans, 16 plans revised their plan designs resulting in changes in rates ranging from -1.0% to +0.6%. The variance in rate change by plan are primarily driven by changes in cost sharing. BCBSRI's rate increases for 1Q fluctuate by plan offering ranging from 14.0% to 18.1%. BCBSRI has made changes in their benefit pricing model which results in variation in rate change by plan offering. BCBSRI has stated that their benefit pricing model has been updated to use 2023 claims which resulted in a higher pharmacy weighting as percentage of total claims. For the two plans with the 18.1% rate change, BCBSRI stated that the pricing model changes impacted these plans more than other plans because pharmacy costs are subject to a deductible with these plans. The distribution of rate change is shown below.

<sup>3</sup> We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

Rate Change Range	Number of Plans	Number of Members	1Q 2024 CPAIR PMPM	1Q 2025 CPAIR PMPM	Rate Change
14% to 15.9%	50	11,809	\$429.60	\$493.63	14.9%
16% to 17.9%	14	1,793	\$287.25	\$335.21	16.7%
18% to 19.9%	2	396	\$308.28	\$364.07	18.1%
Total	66	13,998	\$407.93	\$469.67	15.1%

**Table 2: Distribution of Rate Change 1Q 2025 for Renewing Plans Only**

BCBSRI uses the same quarterly trend factor of 1.018 to develop rates in subsequent quarters. Rate changes vary by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 25	15.1%	13,998
2Q 25	15.4%	7,626
3Q 25	15.5%	8,142
4Q 25	15.7%	9,894
Total	15.4%	39,660

**Table 3: Average Rate Changes by Renewal Quarter**

The 2025 average rate change of 15.4% is driven by these key factors as reported by BCBSRI in Tab V of the RIOHIC rate template:

- 6.4% due to trend
- 6.8% due to overstatement of prior year fee-for-service claims<sup>4</sup>
- 1.4% due to increase in contribution to reserve

<sup>4</sup> This only includes the impact of fee-for-service claims and does not include the impact from pharmacy rebates or out-of-system claims.

- -0.4% due Rhode Island assessments
- 0.4% due to changes in administrative charges

#### IV. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for BCBSRI's small group market was 0.2% from 2021 to 2022 and 10.1% from 2022 to 2023.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$104.33	\$85.82	\$112.77
Outpatient Hospital	\$148.51	\$152.08	\$168.52
Professional	\$177.38	\$181.99	\$185.43
Other Medical	\$14.47	\$15.30	\$15.69
Capitation	\$0.50	\$0.54	\$4.16
Prescription Drug	<u>\$99.25</u>	<u>\$110.08</u>	<u>\$114.57</u>
Total	\$544.44	\$545.80	\$601.15
Member Months	488,115	497,546	485,051

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	-17.7%	31.4%
Outpatient Hospital	2.4%	10.8%
Professional	2.6%	1.9%
Other Medical	5.7%	2.6%
Capitation	6.7%	676.6%
Prescription Drug	<u>10.9%</u>	<u>4.1%</u>
Total	0.2%	10.1%
Member Months Trend	1.9%	-2.5%

**Table 4: Allowable Claims PMPM and Trend CY 2021 – CY 2023**

BCBSRI was asked to provide an updated CY 2023 base period estimate with claims paid through May 2024 which showed the CY 2023 incurred and paid PMPM has restated lower by 0.6%.

**Assumption #1:** Update the experience period to reflect claims-runout through May 2024 rather than February 2024. This assumption change would decrease the rates by approximately 0.6%.

BCBSRI is assuming an average annual trend assumption of 8.3% which is higher than the trend assumption in last year's rate filing of 7.1%. The table below shows BCBSRI's cost and utilization & severity trend assumptions by service category. BCBSRI is currently assuming a 3.0% medical utilization & severity trend assumption.<sup>5</sup> BCBSRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	5.3%	0.0%	5.3%
Outpatient Hospital	4.3%	4.7%	9.2%
Professional	4.0%	3.3%	7.5%
Other Medical	4.0%	3.3%	7.5%
Capitation	3.2%	3.3%	6.7%
<b>Total Medical</b>	<b>4.4%</b>	<b>3.0%</b>	<b>7.6%</b>
<b>Prescription Drug<sup>6</sup></b>	<b><u>0.1%</u></b>	<b><u>11.0%</u></b>	<b><u>11.1%</u></b>
<b>Total</b>			<b>8.3%</b>

**Table 5: Proposed Trend Assumptions**

The table below shows BCBSRI's inpatient hospital outpatient hospital and professional unit cost trend assumptions for 2024 and 2025. On combined inpatient and outpatient basis, the annualized unit cost trend is 4.4% for 2024 and 5.0% for 2025.<sup>7</sup> BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.

Unit Cost Trend	Year 1 2024	Year 2 2025
Hospital Inpatient	5.1%	5.5%
Outpatient Hospital	4.0%	4.6%
Professional	4.1%	3.9%

**Table 6: Unit Cost Trends**

<sup>5</sup> BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but the weights by service category are different which causes total trends to differ slightly. In addition, the small group rate filing Year 2 trend includes an additional month of trend to project to 1Q.

<sup>6</sup> The pharmacy cost trend in this table represents changes to trend outside of BCBSRI's regression analysis and therefore does not represent true cost trend assumptions.

<sup>7</sup> The unit cost trends were weighted by the CY 2023 experience period allowed claims PMPM from the URRT. The small group rate filing Year 2 trend include an additional month of trend to project to 1Q.

RIOHIC sets the maximum hospital unit cost increase each October for the following year based on the Consumer Price Index for All Urban Consumers (CPI-U): Less Food and Energy as of September plus 1%. For 2024, the maximum hospital unit cost increase is 5.3%.<sup>8</sup> BCBSRI's 2024 hospital unit cost increase is 4.4% and therefore below this maximum. As of July 2024, the CPI-U: Less Food and Energy is 3.2%.<sup>9</sup> If the 2025 maximum hospital unit cost increase was determined based on information as of July 2024, this would lead to a maximum of 4.2%. BCBSRI is currently assuming a 4.6% combined inpatient and outpatient unit cost increase.<sup>10</sup> Therefore, with the CPI-U information as of July 2024, BCBSRI's combined hospital inpatient and outpatient unit cost trends are 0.4% higher than what the maximum would be.

**Assumption #2:** Revised the Year 2 hospital unit cost trends to reflect the CPI-U inflation of 3.2% plus 1%. This assumption change would decrease the rates by approximately 0.5%.

BCBSRI performs linear regression analyses combining their data across their individual, small group, and large group insured markets. They have provided their results with regression charts by major service category: inpatient hospital, outpatient hospital, professional, and pharmacy. For inpatient utilization, regressions are performed on both admissions per 1,000 and inpatient PMPMs.<sup>11</sup> BCBSRI adjusts allowed claims PMPMs for price and then performs regression analysis; therefore, the data represents the utilization and severity (or mix) of services. These are also referred to de-priced PMPMs. BCBSRI relied on data from January 2021 through December 2023 and data was rolled up to reflect twelve-month averages. BCBSRI excluded COVID-19 vaccines and testing claims from the data when analyzing historical outpatient hospital and professional utilization and mix trends. Their data has also been adjusted for age. Then BCBSRI uses the predicted data points for 2024 and 2025 to determine the utilization and severity trend assumptions. The assumption used for professional services was also used for "other" medical.

BCBSRI developed regression lines with varying amounts of data. The best fit regression line for outpatient hospital and professional (i.e. the lines with the highest r-squared values of 0.98 or 0.99) relied on more recent data which resulted in historically high utilization and severity trend assumptions. The regression lines using three years of data (25 data points) resulted in a lower r-squared fit of 0.91 and 0.83 for outpatient hospital and professional, respectively. However, BCBSRI stated that they decided to use the regression results with three years of data rather than the results with more recent data to incorporate a more longitudinal view of utilization and severity trends, especially knowing that post-Covid trends have been more volatile.

For inpatient hospital, BCBSRI stated that they relied on actuarial judgment to arrive at a 0% utilization trend assumption. The results from the different methods varied considerably and there was a clear inflection point at the end of 2022 resulting in a poor fit for the three-year trend line. Additionally for inpatient, BCBSRI observed a higher trend in the de-priced PMPMs when compared to admissions per 1,000 data points which they stated is due to an increase in high-cost cases in 2023.

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<sup>8</sup> [OHIC Bulletin 2023-4 Final.pdf \(ri.gov\)](#)

<sup>9</sup> [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](#)

<sup>10</sup> The combined hospital inpatient and outpatient unit cost trend is based on weighted average using 2023 allowed claims from the URRT as weights.

<sup>11</sup> BCBSRI stated that while they typically rely on admission data as this minimizes the impact of high-cost claimants, they also analyze inpatient PMPM data which will capture the impact of severity. They use results from both analyses to inform the inpatient trend projection assumption.

BCBSRI's pharmacy regression analysis starts with pharmacy PMPMs and then adjusts for expected changes in pharmacy discounts, dispensing fees, new drugs, new generics, the removal of high-cost members, and GLP-1 drugs. The result is a total pharmacy trend including utilization, severity changes, and manufacturer price changes. BCBSRI then separately develops a trend factor to represent changes to trend outside of the regression analysis. Unlike for the outpatient hospital and professional service categories, BCBSRI used the best fit regression line with more recent data (22 data points) rather than 25 data points citing that pharmacy has shown very little variability over time unlike medical.

OWA performed our own trend analysis by combining data across the three fully insured market segments for medical and pharmacy allowed claims PMPMs. We requested and received monthly data for each market segment and for medical and pharmacy services incurred from January 2019 through January 2024.<sup>12</sup> We also requested and received monthly data for COVID-19 vaccine and testing expenses and used this data to exclude COVID-19 expenses from the trend analysis. Finally, we adjusted for age and de-priced the claims data to focus on historical utilization and severity trends, consistent with the adjustments made by BCBSRI.

OWA first calculated unadjusted allowed PMPM trends (which include cost, utilization, and severity) through January 2024 analyzing rolling six-month and rolling twelve-month trends. The unadjusted trends do not adjust for COVID-19 costs, aging, or de-pricing. The table below shows a summary of these results. As shown, the total rolling six-month trend for January 2024 of 9.8% represents August 2023 through January 2024 compared to August 2022 through January 2023. The total rolling twelve-month trend for January 2024 of 10.0% represents February 2023 through January 2024 compared to February 2022 through January 2023. The rolling six-month trends indicate the more recent emerging trends while the rolling twelve-month trends reflect more historical data. As shown in Table 7, the rolling twelve-month trends change from 3.7% for the twelve months ending December 2022 increasing to 10.0% for the twelve months ending January 2024.

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<sup>12</sup> Incurred data and paid data was provided through March 2024. Since the data is only paid through March 2024, we only relied on data through January 2024 such that all data points contained at least two months of claims run out. The data provided is gross of pharmacy rebates and does not include out of system payments.

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	4.4%	3.7%
Jan-23	7.3%	5.2%
Feb-23	9.0%	6.2%
Mar-23	8.8%	6.2%
Apr-23	8.9%	6.6%
May-23	10.0%	7.1%
Jun-23	12.2%	8.3%
Jul-23	10.2%	8.8%
Aug-23	9.5%	9.2%
Sep-23	9.4%	9.1%
Oct-23	11.3%	10.1%
Nov-23	10.5%	10.2%
Dec-23	9.7%	10.9%
Jan-24	9.8%	10.0%

**Table 7: Medical & Pharmacy Unadjusted Allowed Claims Trend Assumptions (Fully Insured)<sup>13</sup>**

We then calculated unadjusted allowed PMPM trends for pharmacy and medical claims separately for the same time period analyzing rolling six-month and rolling twelve-month trends. The two tables below show a summary of these results. As shown, the unadjusted medical trends are volatile, showing a large increase in trends from December 2022 through January 2024. The unadjusted pharmacy trends are more stable and show a decrease in recent time periods.

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	2.6%	1.4%
Jan-23	5.5%	3.1%
Feb-23	8.3%	4.6%
Mar-23	8.0%	4.4%
Apr-23	8.3%	4.8%
May-23	9.3%	5.5%
Jun-23	12.2%	7.4%
Jul-23	10.1%	7.8%
Aug-23	8.7%	8.5%
Sep-23	9.3%	8.6%
Oct-23	11.6%	10.0%
Nov-23	11.0%	10.1%
Dec-23	10.1%	11.1%
Jan-24	10.4%	10.3%

<sup>13</sup> Trends reflect the total fully insured market which includes individual, small group, and large group fully insured products.

**Table 8: Medical Unadjusted Allowed Claims Trend Assumptions (Fully Insured)**

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	10.1%	10.9%
Jan-23	12.6%	11.9%
Feb-23	11.0%	11.3%
Mar-23	11.4%	11.8%
Apr-23	10.5%	12.0%
May-23	12.0%	12.0%
Jun-23	12.0%	11.1%
Jul-23	10.6%	11.6%
Aug-23	11.7%	11.4%
Sep-23	9.6%	10.5%
Oct-23	10.5%	10.5%
Nov-23	9.3%	10.6%
Dec-23	8.9%	10.4%
Jan-24	8.1%	9.3%

**Table 9: Pharmacy Unadjusted Allowed Claims Trend Assumptions (Fully Insured)**

The trends shown in the previous three tables are all on an unadjusted basis. BCBSRI provided monthly unit price increases for the inpatient hospital, outpatient hospital, and professional service categories. I composited the unit price increases by service category into one medical unit price increase number.<sup>14</sup> I then adjusted medical allowed claims data for unit cost increases for all market segments. This allowed me to analyze medical utilization and severity trends. Examining medical trends in total rather than by service category eliminates some of the variation that can occur at a more granular level and it better accounts for shifting that may occur among service categories. BCBSRI also provided COVID-19 testing and vaccine costs by month which were removed from the data. Monthly age factors were also provided which allowed me to adjust for the impact of aging. The resulting adjusted medical trends are shown in Table 10 below. Even on an adjusted basis, the medical trends are volatile from December 2022 to January 2024. The rolling-twelve trend is -1.4% for the period ending December 2022, increases to 5.0% for the period ending July 2023, peaks at 8.0% for the period ending December 2023, and finally decreases to 7.2% for the period ending January 2024.

<sup>14</sup> The unit price increases by service category were composited using distributions by service category calculated from current and historical rate filings. It was assumed that Other Medical and Capitation had the same unit price increases as the composite.



Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	-0.1%	-1.4%
Jan-23	3.0%	0.3%
Feb-23	5.6%	1.6%
Mar-23	5.2%	1.4%
Apr-23	5.6%	1.8%
May-23	6.5%	2.5%
Jun-23	9.2%	4.5%
Jul-23	7.1%	5.0%
Aug-23	6.0%	5.8%
Sep-23	6.5%	5.8%
Oct-23	8.5%	7.0%
Nov-23	7.7%	7.1%
Dec-23	6.8%	8.0%
Jan-24	7.2%	7.2%

**Table 10: Medical Adjusted Allowed Claims Trend Assumptions (Fully Insured)**

Based on data provided by BCBSRI, it was found that the impact of high-cost claimants was significantly higher in 2023 compared to 2022 which can lead to volatile trend patterns. The impact of high-cost claimants can greatly impact trend analysis. Given the concerns with recent volatility and the impact of high-cost claimants, OWA examined the trend data by comparing data from January 2019 through January 2020 to January 2023 through January 2024 and then annualized the results. The impact of high-cost claimants in 2019 is more similar to 2023 and this approach looks at data over a longer time period, excluding the years most likely impacted by COVID-19. As shown in the table below, the results are more stable using this approach with the overall average of all data points at 2.4%. BCBSRI is currently using a 2.9% annualized medical utilization and severity trend in both Year 1 and Year 2. The Year 2 medical utilization & severity trend assumption is 3.2% because it includes an additional month of trend.

Period Ending	Rolling 6 Month	Rolling 12 Month
Jun-23	2.1%	
Jul-23	2.1%	
Aug-23	2.2%	
Sep-23	2.0%	
Oct-23	2.4%	
Nov-23	3.0%	
Dec-23	2.7%	2.4%
Jan-24	2.9%	2.5%
<b>Average of Data Points</b>	<b>2.4%</b>	<b>2.4%</b>

**Table 11: Medical Adjusted Allowed Claims Trend Assumptions (Fully Insured)**  
**4 Year Annualized**

**Assumption #3:** Revise the medical utilization & severity trend assumptions from 2.9% to 2.4% in Year 1 and from 3.2% to 2.6% in Year 2 (accounting for the additional month of trend). These assumption changes would decrease the rates by approximately 1.1%.

BCBSRI provided updated trend data incurred through April 2024 and paid through June 2024 during the course of the rate filing review. The new data did not provide any information that would cause us to change the alternative assumptions described above.

BCBSRI provided information related to pharmacy rebates including a description of how they are projected and how they are reflected in the rate development. BCBSRI stated that since the 2025 contract for pharmacy rebates is not yet finalized, they used the 2024 rebate estimates projected forward with a 10.6% pharmacy trend. Based on historical information provided by BCBSRI, pharmacy rebate PMPMs have increased at an average rate of 18.3% per year between 2020 and 2023. If BCBSRI were to assume that 2025 pharmacy rebates will increase 18.3% from 2024 to 2025, that change would increase the 2025 pharmacy rebate projection by approximately \$4 PMPM and reduce rates by an estimated 0.6%. Pharmacy rebates as a percentage of gross pharmacy costs have increased each year from 25% in CY 2020 to 32% in CY 2023. Using the revised trend assumption of 18.3% would lead to a pharmacy rebate as a percentage of gross pharmacy costs of 33%.

**Assumption #4:** Revised the trend used in the 2025 pharmacy rebate PMPM projection from 10.6% to 18.3%. This assumption change would decrease rates by approximately 0.6%.

## V. Risk Adjustment

BCBSRI has assumed a projected \$4.89 PMPM receivable for risk adjustment, \$0.60 high-cost risk pool recovery, and a \$5.25 PMPM high-cost risk pool surcharge for a combined receipt of \$0.24 PMPM. This translates to approximately \$0.1 M in receivables or a 0.2% downward adjustment to the revenue requirement. BCBSRI's estimate is based on an average of the 2022 final PMPM results and the interim 2023 PMPM results (blended equally at 50% each) trended forward using an assumed Rhode Island statewide average premium trend of 9.2% in 2023, 3.9% in 2023, and 15.1% in 2025.<sup>15</sup>

BCBSRI assumed a 2023 risk adjustment PMPM of \$4.10 based on the 2023 interim report. The final 2023 risk adjustment report, which was released after the rate filings were submitted, shows a risk adjustment receivable of \$1.84 PMPM. While there has been volatility with risk adjustment payables and receivables over time, more recent results will be more reflective of recent enrollment trends, market dynamics, coding practices and risk adjustments model changes. Therefore, we propose the final 2023 risk adjustment results are used exclusively in the projection. The \$1.84 PMPM trended forward to 2025 is \$2.20 PMPM.

**Assumption #5:** Revise the 2025 risk adjustment assumption from \$4.89 PMPM to \$2.20 PMPM, based solely on the final 2023 risk adjustment report. These assumption changes would increase the rates by approximately 0.4%.

## VI. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, BCBSRI projects an MLR for the rating year 2025 of 86.8% which includes a 1.25% contribution to reserve. BCBSRI reports an MLR of 84.2% for CY 2021, 84.7% MLR for 2022, and 89.0% MLR for 2023.<sup>16</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. BCBSRI is proposing an average retention charge of 15.8% for 2025. This is lower than the retention charge from 2024 of 16.1%. The contribution to reserve assumption increased from 0% to 1.25%, but this is offset by a decrease in assessments and administrative charges on a percentage of premium basis. BCBSRI includes 1.1% in their rates for RI assessments and fees, and last year this amount was 1.6%. The driver of the decrease is due to an increase in childhood and adult immunizations. As shown in Table 13, BCBSRI is assuming a \$3.09 PMPM Childhood Immunization Assessment and a \$3.24 PMPM Adult Immunization Assessment. The retention charges shown below do not include exchange user fees, which is 0.5%.

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<sup>15</sup> The 9.2% is the final approved rate change in the 2023 rate filings and the 3.9% trend is the final approved rate change in the 2024 filings. The 15.0% is an estimate based on a weighted average of BCBSRI's 2025 proposed rate change and the assumption that other carriers will propose a 10% rate change.

<sup>16</sup> The 2023 MLR reported in the RIOHIC rate filing template does not reflect final 2023 risk adjustment results. There may be other updates to the 2023 MLR that are not reflected in what was reported in the initial or revised rate filing.

Proposed Retention Charge	2025	2024	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.0%	1.3%	-0.3%
Contribution to Reserve (Profit/Risk Load)	1.3%	0.0%	1.3%
Investment Income Credit	-0.3%	-0.3%	0.0%
Administrative Expense Load	<u>11.8%</u>	<u>13.0%</u>	<u>-1.2%</u>
Total Retention Charge	15.8%	16.1%	-0.3%

**Table 12: Proposed Retention Charge<sup>17</sup>**

Assessment	2025 BCBSRI Assumptions		2024 BCBSRI Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$3.09	0.4%	\$3.37	0.5%
Adult Immunization Account	\$3.24	0.4%	\$4.04	0.6%
Children's Health Account	\$1.27	0.2%	\$1.29	0.2%
Care Transformation Collaborative of RI	\$0.52	0.1%	\$0.78	0.1%
CurrentCare <sup>18</sup>	<u>\$0.00</u>	<u>0.0%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$8.13	1.1%	\$10.49	1.6%

**Table 13: RI Assessments**

The table below shows the administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 5.0% from 2024 to 2025.<sup>19</sup>

Admin Charges	2025	2024	Admin Charge Trend
Admin PMPM	\$88.18	\$83.99	5.0%

**Table 14: Administrative PMPM Charge<sup>20</sup>**

<sup>17</sup> The Other Retention Charge Line includes the amount for assessments included in retention (Childhood Immunization Account, Adult Immunization Account, and Children's Health Account.) The charges for the Care Transformation Collaborative of RI and Current Care are included in the medical claims portion of the rate.

<sup>18</sup> For CurrentCare, BCBSRI stated that they are projected to spend the same amount in 2025 as what was incurred in 2023, but that they have moved these expenses from the out of system category to administrative expenses. The CY 2023 CurrentCare fee was \$1.00 PMPM.

<sup>19</sup> From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (7). This includes commissions.

<sup>20</sup> The administrative charge shown here include commissions, exclude assessments, and exclude exchange user fees.

## VII. Financial Position

A review of BCBSRI's financial measures show that BCBSRI's RBC level in 2023 is 656.2%. This is higher than the RBC from 2022 at 637.0%, but lower than the RBC from 2020 and 2021.

	2020	2021	2022	2023
Total Revenues	\$1,707,243,198	\$1,795,520,104	\$1,883,598,404	\$2,045,132,082
Net Underwriting G/L	\$7,713,021	\$9,239,068	\$19,004,861	-\$25,956,122
<b>Underwriting G/L</b>	<b>0.5%</b>	<b>0.5%</b>	<b>1.0%</b>	<b>-1.3%</b>
Capital and Surplus end of reporting year	\$415,814,234	\$434,692,861	\$408,954,583	\$439,548,497
<b>SAPOR</b>	<b>24.4%</b>	<b>24.2%</b>	<b>21.7%</b>	<b>21.5%</b>
Total Adjusted Capital	\$415,814,234	\$434,692,861	\$408,954,583	\$439,548,497
Authorized control level risk-based capital	\$58,616,377	\$63,315,995	\$64,201,018	\$66,982,806
<b>RBC</b>	<b>709.4%</b>	<b>686.5%</b>	<b>637.0%</b>	<b>656.2%</b>

Table 15: Summary of Financials

## VIII. URRT

We have reviewed the URRT for consistency with the Rhode Island rate template.

## IX. Requested and Final Approve Rate Change

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	BCBSRI SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$485.94	\$475.38	-2.2%
Base Period Experience (Incurred Claims PMPM)	\$514.89	\$511.54	-0.6%
Hospital Unit Cost Trend Year 2	4.6%	4.2%	-0.5%
Medical Utilization & Severity Trend Year 1	2.9%	2.4%	-0.4%
Medical Utilization & Severity Trend Year 2	3.2%	2.6%	-0.7%
Pharmacy Rebate Trend	10.6%	18.3%	-0.6%
Projected 2025 Risk Adjustment PMPM (Receivable)	\$4.89	\$2.20	0.4%
Administrative Charge PMPM	\$88.18	\$86.76	-0.2%
Contribution to Reserves/Profit	1.25%	1.25%	0.0%
<b>CPAIR Change from 2024</b>	<b>15.4%</b>	<b>12.9%</b>	

**Table 16: Requested and Final Approved Rate Change**

## **X. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of BCBSRI's small group rate filing (SERFF tracking number BCBS-134064404.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by BCBSRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in dark ink, consisting of a large, stylized 'J' that loops around and ends with a horizontal stroke extending to the right.

Jenn Smagula FSA, MAAA

Cc: Corryn Brown FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

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Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
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29 August 2024

**Small Group Market Rate Filings for Neighborhood Health Plan of Rhode Island (NHPRI) for rates effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions  
SERFF Filing #NHRI-134103967**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of NHPRI's small group market rate filings. This letter documents our review and the final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted on May 13, 2024. NHPRI submitted a revised filing on June 3, 2024. The revised filing included correcting the exchange status of the filed plans.

Throughout the filing process, OWA corresponded with NHPRI's actuarial consultant, Michelle B. Klein, FSA, MAAA of Milliman Inc. and Elizabeth McClaine of Neighborhood Health Plan. An actuarial memorandum and certification are included in the filing signed by Ms. Klein. OWA submitted questions through SERFF on May 24, June 18, and July 16. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the NHPRI individual market filing that pertain to NHPRI small group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 16, 2024. The RI Health Insurance Commissioner provided preliminary decisions to NHPRI on August 20, 2024. NHPRI submitted revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.



## I. Requested and Final Approved Rate Changes

**Assumption #1:** Revise the Year 2 Hospital Unit Cost trend from 5.0% to 4.2%. This will decrease the rates approximately 0.2%.

**Assumption #2:** Revise the morbidity adjustments to reflect the recent risk adjustment data. This would reduce the adjustment applied to NHPRI's small group market experience from 1.155 to 1.086 and the morbidity adjustment applied to NHPRI's individual market experience would decrease from 1.214 to 1.191. This will decrease the rate approximately 3.6%.<sup>1</sup>

**Contribution to Reserve:** The RI Health Insurance Commissioner has approved a 1.0% contribution to reserve.

The table below shows NHPRI's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	NHPRI SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$377.87	\$367.85	-2.7%
Year 2 Hospital Cost Trend	5.0%	4.2%	-0.2%
<b>Morbidity Assumption</b>			-3.6%
Morbidity Adjustment for NHPRI SG Experience	1.155	1.086	
Morbidity Adjustment for NHPRI Ind Experience (manual rate)	1.214	1.191	
Contribution to Reserves/Profit	0.0%	1.0%	+1.0%
<b>CPAIR Change from 2024</b>	8.9%	6.0%	

Table 1: Requested and Final Approved Rate Change

## II. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The increases we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.<sup>2</sup> The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering.

<sup>1</sup> The rate change impact due to final risk adjustment results was provided by NHPRI and verified by OWA.

<sup>2</sup> We also focus our review on the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

The proposed annual average CPAIR increase is 8.9%, the first quarter rate change is 9.7%. As of April 2024, there were 2,236 members enrolled renewing throughout the year and 899 members renewing in the first quarter. NHPRI is not adding any new plans or discontinuing any plans. NHPRI offers a total of 18 plan offerings. They have revised some of their plan designs resulting in a change in rates ranging from 0.0% to 0.8% with an overall increase of 0.03%. NHPRI's 1Q rate increase fluctuates by plan offering ranging from 9.2% to 11.7%. The distribution of rate change is shown below.

Proposed 1Q Rate Increases					
Rate Change Range	Number of Plans	Number of Members	2024 CPAIR PMPM	2025 CPAIR PMPM	Rate Change
8% to 9.9%	8	616	\$363.24	\$397.12	9.3%
10% to 11.9%	10	283	\$283.35	\$314.26	10.9%
<b>Total</b>	<b>18</b>	<b>899</b>	<b>\$338.09</b>	<b>\$371.04</b>	<b>9.7%</b>

**Table 2: 1Q Distribution of Rate Increases**

The quarterly trend factor is 1.6% and the annual rate change by renewal quarter is shown in the table below.

Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 25	9.7%	899
2Q 25	9.1%	407
3Q 25	8.4%	466
4Q 25	7.6%	464
<b>Total</b>	<b>8.9%</b>	<b>2,236</b>

**Table 3: Annual Rate Change by Renewal Quarter**

The 2025 rate change is driven by these key factors as reported in Tab V of the RIOHIC rate template:

- 6.4% due to trend
- 1.6% due to prior period adjustments<sup>3</sup>
- 0.4% due to admin charge
- -0.6% due to decreased state assessments
- 0.5% due to an increased calibration factor
- 0.5% due to increased premium tax and exchange user fees

<sup>3</sup> NHPRI has indicated this is "the remainder of the rate increase after accounting for other quantified changes on Tab V...also incorporates changes not already captured by the template due to the mechanics of the calculation".

### III. Experience & Trend Assumptions

A review of actual allowed claims experience shows that actual trends for NHPRI's small group market are volatile. The tables below illustrate this volatility. The allowed claims PMPM trend was -8.5% in 2022 and 20.2% in 2023. This is to be expected considering NHPRI's small group risk pool is small and not credible for trend analysis. In addition, member months increased 8.0% in 2022 and 7.5% in 2023.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$58.78	\$49.54	\$50.02
Outpatient Hospital	\$106.13	\$104.85	\$160.56
Professional	\$96.20	\$91.39	\$98.63
Other Medical	\$10.10	\$5.37	\$6.99
Capitation	\$1.58	\$0.92	\$0.15
Prescription Drug	\$104.57	\$93.36	\$98.99
Total	\$377.36	\$345.43	\$415.35
Member Months	21,560	23,279	25,026

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	-15.7%	1.0%
Outpatient Hospital	-1.2%	53.1%
Professional	-5.0%	7.9%
Other Medical	-46.8%	30.1%
Capitation	-41.6%	-83.7%
Prescription Drug	-10.7%	6.0%
Total	-8.5%	20.2%
Member Months Trend	8.0%	7.5%

**Table 4: Allowable Claims PMPM and Trend CY 2021 – CY 2023<sup>4</sup>**

NHPRI is assuming an average annual trend assumption of 7.1% which is lower than what was assumed last year (9.4%) and consistent with what is used in the individual market filing. The table below shows NHPRI's cost and utilization & severity trend assumptions by service category. NHPRI uses a combination of historical data, utilization assumptions used in past years, and actuarial judgement to determine their utilization & severity assumptions for 2023 and forward. NHPRI is currently assuming a 1.0% medical utilization and severity trend assumption. NHPRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

<sup>4</sup> Data paid through March 2024, adjusted for IBNR.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization	2 Year Avg Total
Inpatient Hospital	5.3%	0.1%	5.5%
Outpatient Hospital	5.3%	1.2%	6.7%
Professional	4.2%	1.1%	5.4%
Other Medical	5.1%	1.0%	6.2%
Capitation	0.0%	0.0%	0.0%
<b>Total Medical</b>	<b>5.0%</b>	<b>1.0%</b>	<b>6.1%</b>
<b>Prescription Drug</b>	<b>7.5%</b>	<b>2.5%</b>	<b>10.2%</b>
<b>Total</b>			<b>7.1%</b>

**Table 5: Annual Trend Assumption**

NHPRI's hospital unit cost trend assumptions are 5.3% for 2024 and 5.0% for 2025. NHPRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.<sup>5</sup> NHPRI reviews the Rhode Island's Affordability Standards which are tied to a hospital price cap set by the Rhode Island Office of the Health Insurance Commissioner (RIOHIC) each October. As of July 2024, the CPI-U: Less Food and Energy is 3.2%.<sup>6</sup> If the 2025 maximum hospital unit cost increase was determined based on information as of July 2024, this would lead to a maximum of 4.2%. NHPRI is currently assuming a 5.0% combined inpatient and outpatient unit cost increase. Therefore, with the CPI-U information as of July 2024, NHPRI's combined hospital inpatient and outpatient unit cost trends are 0.8% higher than what the maximum would be.

**Assumption #1:** Revise the Year 2 Hospital Unit Cost trend from 5.0% to 4.2%. This will decrease the rates approximately 0.2%.

Unit Cost Trend	Proposed Assumptions		Revised Assumptions	
	Year 1 2024	Year 2 2025	Year 1 2024	Year 2 2025
Hospital Inpatient	5.5%	5.2%	5.5%	4.4%
Outpatient Hospital	5.5%	5.2%	5.5%	4.4%
Professional	4.4%	4.1%	4.4%	4.1%
Other Medical	5.1%	5.1%	5.1%	5.1%

**Table 6: Unit Cost Trend Assumption**

We performed our own trend analysis on NHPRI Individual and Small Group Market data combined. The combined pool represents approximately 25,000 enrollees but the enrollment has ranged from 22,600 to 27,500 over the past two years. We received monthly data from January 2019 through March 2024, paid

<sup>5</sup> Note, the RIOHIC rate filing template shows 5.5% and 5.2% for 2024 and 2025 respectively – NHPRI has explained the variance between the trend shown in the detailed unit cost increase schedule and the OHIC template.

<sup>6</sup> [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](https://www.bls.gov)

through April 2024, and adjusted for IBNR. We subtracted out COVID testing and vaccine claims from the data. We then performed an actuarial trend analysis using the most recent data (Table 7) and also comparing the most recent data to 2020 data (Table 8). A summary of our results is shown below. As shown, annual medical PMPM trends adjusted for COVID expenses range from 5.6% to 11.0% when excluding the latest data point and comparing results across the two tables. Also note that trends appear to be decreasing significantly in the later time periods (Table 7) but when reviewing four-year annualized trends, the trends appear more stable (though still decreasing). NHPRI is assuming 6.1% for their overall medical PMPM trend, which is within this range and is reflective of the decreases in trend seen in recent months.

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Medical Rolling 3 Trend	Medical Rolling 6 Trend	Medical Rolling 12 Trend
October	2023	14.9%	13.3%	10.4%
November	2023	15.3%	11.7%	11.9%
December	2023	10.1%	11.1%	11.6%
January	2024	5.6%	10.1%	9.9%
February	2024	2.8%	8.8%	9.6%
March	2024	-2.6%	3.5%	7.1%
Avg. of 6 Most Recent Data Points		7.7%	9.8%	10.1%
Avg. of 5 Data Points, Excl. Most Recent		9.7%	11.0%	10.7%

**Table 7: OWA Medical Trend Analysis**

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Medical Rolling 3 Trend (4 Year Annualized)	Medical Rolling 6 Trend (4 Year Annualized)	Medical Rolling 12 Trend (4 Year Annualized)
October	2023	6.6%	6.7%	
November	2023	6.0%	6.2%	
December	2023	5.6%	6.0%	6.6%
January	2024	5.2%	5.9%	6.3%
February	2024	4.5%	5.2%	6.1%
March	2024	4.5%	5.0%	5.7%
Avg. of 6 Most Recent Data Points		6.4%	5.4%	5.8%
Avg. of 5 Data Points, Excl. Most Recent		6.6%	5.6%	6.0%

**Table 8: OWA Medical Trend Analysis (4 Year Annualized)**

We have also analyzed pharmacy trends. The table below shows a range from 10.4% to 11.5%; NHPRI is assuming 10.2%, which is within this range.

NHPRI Individual and SG - Medical Only, Less COVID Vaccine & Testing				
		Pharmacy Rolling 3 Trend (4 Year Annualized)	Pharmacy Rolling 6 Trend (4 Year Annualized)	Pharmacy Rolling 12 Trend (4 Year Annualized)
October	2023	9.9%	10.6%	
November	2023	10.3%	10.3%	
December	2023	10.7%	10.0%	11.8%
January	2024	10.6%	10.2%	11.4%
February	2024	11.5%	10.9%	11.3%
March	2024	11.0%	10.9%	10.8%
Avg. of 6 Most Recent Data Points		11.5%	10.7%	10.5%
Avg. of 5 Data Points, Excl. Most Recent		12.1%	10.6%	10.4%

**Table 9: OWA Pharmacy Trend Analysis**

#### IV. Risk Adjustment and Morbidity Adjustment

NHPRI has assumed a 0% adjustment for risk adjustment. NHPRI develops their small group rates assuming the underlying morbidity reflects the entire small group market in Rhode Island. By assuming the average morbidity of the small group market, NHPRI does not need to apply a separate risk adjustment assumption. This is consistent with the prior year's pricing methodology.

NHPRI develops their claims projections for rate development by blending a projection based on their own small group experience with a projection based on their own individual market experience ("manual rate"). Their small group experience is adjusted for the ratio of the overall RI small group market morbidity to NHPRI's small group morbidity. The individual market experience is adjusted for the ratio of the overall RI small group market morbidity to NHPRI's individual market morbidity. Morbidity is defined as plan liability risk score (PLRS) normalized for differences in the age rating factor.<sup>7</sup> The diagram below shows how the morbidity adjustment is calculated.

<sup>7</sup> Plan Liability Risk Score is the risk score calculated by CMS for the Federal risk adjustment program.

Morbidity Factor Calculation			
		Original Pricing	Revised Estimate
A	RI SG Plan Liability Risk Score	1.325	1.314
B	RI SG Age Rating Factor	1.530	1.536
C = A / B	RI SG Morbidity Factor	0.866	0.855
D	NHPRI SG Plan Liability Risk Score	1.065	1.119
E	NHPRI SG Age Rating Factor	1.420	1.420
F = D / E	NHPRI SG Morbidity Factor	0.750	0.788
G	NHPRI Ind Plan Liability Risk Score	1.249	1.258
H	NHPRI Ind Age Rating Factor	1.751	1.751
I = G / H	NHPRI Ind Morbidity Factor	0.713	0.719
J = C / F	<b>Morbidity Adjustment for NHPRI SG Experience</b>	<b>1.155</b>	<b>1.086</b>
K = C / I	<b>Morbidity Adjustment for NHPRI Ind Experience (manual rate)</b>	<b>1.214</b>	<b>1.191</b>

**Table 10: Morbidity Factor Calculation**

Note that at the time of the submission of the rate filing, the final 2023 risk adjustment results had not been released. NHPRI had to estimate the PLRS for the RI small group market and for their own markets. NHPRI estimated that the PLRS for the RI small group market would be 1.325. I have recalculated the morbidity adjustment based on the final risk adjustment PLRS information released by CCIIO on July 22<sup>nd</sup>, 2024, and have estimated that the morbidity adjustment applied to NHPRI's small group market experience would decrease from 1.155 to 1.086 and the morbidity adjustment applied to NHPRI's individual market experience would decrease from 1.214 to 1.191.

**Assumption #2:** Revise the morbidity adjustments to reflect the recent risk adjustment data. This would reduce the adjustment applied to NHPRI's small group market experience from 1.155 to 1.086 and the morbidity adjustment applied to NHPRI's individual market experience would decrease from 1.214 to 1.191. This will decrease the rate approximately 3.6%.

## V. Projected MLR and Retention Charge

Using the federal definition and prior to credibility adjustments, under the proposed rates, NHPRI projects an 89.3% MLR for 2025. NHPRI reports an MLR of 97.3%, 78.8%, and 100.6% for CY 2021, 2022, and 2023

respectively.<sup>8</sup> The CY 2022 estimate provided in the OHIC template utilized the estimated 2022 risk adjustment receivable as used in 2024 pricing; updating the risk adjustment estimate for the final 2022 risk adjustment report, the MLR for CY 2022 is estimated to be 83.2%.

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. NHPRI is proposing an average retention charge of 15.6% for 2025 compared to 17.2% for 2024. The table below shows the components of retention. NHPRI has filed a 0.0% contribution to reserve, consistent with the assumption from last year. NHPRI's administrative expense load has decreased from 15.2% to 13.7% which appears to be mostly attributable to a change in state assessments. NHPRI includes 3.5% for Exchange User Fees (which are not included in the table below).

Proposed Retention Charge	2025	2024	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.0%	0.0%
Investment Income Credit	-0.2%	-0.1%	-0.1%
Administrative Expense Load	13.7%	15.2%	-1.5%
<b>Total Retention Charge</b>	<b>15.6%</b>	<b>17.2%</b>	<b>-1.6%</b>

**Table 10: Retention Charges<sup>9</sup>**

The table below shows the administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 2.2% from 2024 to 2025.<sup>10</sup>

NHPRI SG			
Admin Charges	2025	2024	Admin Charge Trend
Admin PMPM	\$64.88	\$63.51	2.2%

**Table 11: Administrative PMPM Charges**

The final approved contribution to reserves is 1.0% of premium.

NHPRI includes \$9.24 PMPM in their administrative expense load for RI assessments and fees. The table below shows the details of the RI assessments and fees. NHPRI includes 1.7% in their rates for RI assessments and fees, and last year it was 2.6%. As shown in the table below, both the childhood and adult immunization costs have decreased on a PMPM basis.

<sup>8</sup> 2023 reported MLR are estimates at the time of the rate filing submission and does not reflect final 2023 risk adjustment results. There may be other updates to the 2023 MLR that are not reflected in what was reported in the rate filing.

<sup>9</sup> Excludes 3.5% for Exchange User Fee. All state assessments are included in NHPRI's retention charge within the administrative expense load.

<sup>10</sup> From Tab IV Retention Charge, the Taxes, Licenses and Fees (7g) attributable to assessments are subtracted from the Administrative Expense Load PMPM reported in row 20 (7).



Assessment	2025 NHPRI Assumptions		2024 NHPRI Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$1.22	0.2%	\$3.15	0.7%
Adult Immunization Account	\$4.77	0.9%	\$5.45	1.2%
Children's Health Account	\$1.12	0.2%	\$1.12	0.2%
Care Transformation Collaborative of RI	\$1.13	0.2%	\$1.18	0.3%
Current Care	\$1.00	0.2%	\$1.03	0.2%
<b>Total</b>	<b>\$9.24</b>	<b>1.7%</b>	<b>\$11.93</b>	<b>2.6%</b>

Table 12: RI Assessments

## VI. Financial Position

A review of NHPRI's financial measures show that NHPRI's RBC levels have been decreasing since 2020 and continued to decrease in 2023; an RBC ratio lower than 200% may trigger regulatory intervention. NHPRI is including a 0.0% contribution to reserve in its rates this year, consistent with the prior year.

	NHPRI			
	2020	2021	2022	2023
Total Revenues	\$1,392,298,811	\$1,520,834,669	\$1,634,875,021	\$1,873,897,941
Net Underwriting G/L	\$21,228,747	\$10,313,351	\$2,638,932	-\$1,304,107
<b>Underwriting G/L</b>	<b>1.5%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>-0.1%</b>
Capital and Surplus end of reporting year	\$122,648,134	\$126,138,439	\$129,171,416	\$132,013,105
<b>SAPOR</b>	<b>8.8%</b>	<b>8.3%</b>	<b>7.9%</b>	<b>7.0%</b>
Total Adjusted Capital	\$122,648,134	\$126,138,440	\$129,171,418	\$132,013,105
Authorized control level risk-based capital	\$48,513,766	\$53,359,759	\$57,649,243	\$61,313,035
<b>RBC</b>	<b>252.8%</b>	<b>236.4%</b>	<b>224.1%</b>	<b>215.3%</b>

Table 13: Summary of Financials

## VII. URRT

I have reviewed the URRT for consistency with the Rhode Island rate template. The rates and data are consistent.

## VIII. Requested and Final Approved Rate Changes

The table below shows NHPRI's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	NHPRI SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$377.87	\$367.85	-2.7%
Year 2 Hospital Cost Trend	5.0%	4.2%	-0.2%
<b>Morbidity Assumption</b>			-3.6%
Morbidity Adjustment for NHPRI SG Experience	1.155	1.086	
Morbidity Adjustment for NHPRI Ind Experience (manual rate)	1.214	1.191	
Contribution to Reserves/Profit	0.0%	1.0%	+1.0%
<b>CPAIR Change from 2024</b>	8.9%	6.0%	

Table 14: Requested and Final Approved Rate Change

## IX. Conclusion

This letter communicates our findings regarding our review of NHPRI's small group market rate filings (SERFF tracking number NHRI-134103967.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by NHPRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in cursive script that reads "Corryn Brown". The ink is dark and the signature is fluid.

Corryn Brown FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Lead Counsel, RIOHIC

**Corryn Brown, FSA MAAA**

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Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Small Group Market Rate Filing for Harvard Pilgrim Health Care of New England, Inc (HPHCNE) & HPHC Insurance Company, Inc. (HPIC) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #HPHC-134097021 & SERFF Filing #HPHC-134083530**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of HPHCNE and HPIC's small group market rate filings. This letter documents our review and the final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted by HPHCNE and HPIC on May 13<sup>th</sup> of 2024. There are two separate filings for HPHCNE and HPIC; however, experience is combined for the purpose of rate development. This letter applies to both HPHCNE and HPIC, collectively called "HPHC" throughout the document.

Throughout the filing process, OWA corresponded with HPHC's actuary Besart Stavileci FSA, MAAA. An actuarial memorandum and certification are included in the filing signed by Besart Stavileci. OWA submitted questions through SERFF on May 24<sup>th</sup>, June 26<sup>th</sup>, and July 17<sup>th</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the HPHCNE & HPIC large group filing that pertain to the HPHCNE and HPIC small group filings.

From 2009 to 2023, Point32Health has sold commercial health insurance policies in Rhode Island through Tufts Associated Health Maintenance Organization, Inc. (TAHMO) and Tufts Insurance Company, Inc. (TICO), jointly referred to as Tufts Health Plan (THP). Beginning on renewal in 2024, Point32Health migrated commercial policies issued in Rhode Island from TAHMO to HPHCNE, and from TICO to HPIC. The 2025 rate filings for HPHCNE and HPIC are filed as renewing blocks of business.

OWA provided considerations for alternative assumptions to RIOHIC on August 16, 2024. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 20, 2024. HPHC submitted revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the manual rate morbidity assumption to rely on final 2023 risk adjustment results, changing the manual rate morbidity adjustment from -4.7% to -6.1%. This change would decrease rates by approximately 1.0% for both HPHCNE and HPIC.

**Assumption #2:** Revise the utilization trend assumption from 2.5% in 2024 and 2.2% in 2025 to 1.4% in each year. This change would decrease the rates by approximately 1.3% for both HPHCNE and HPIC.

**Assumption #3:** Revise the RI assessments to use the most recently published 2025 costs. This change would decrease the rates by approximately 0.2% for both HPHCNE and HPIC.

**Administrative PMPM Charge:** The RI Health Insurance Commissioner has approved a 3.3% administrative charge trend.<sup>1</sup>

The table below shows HPHC's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	HPHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$480.97	\$465.77	-3.2%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.7%	-6.1%	-1.0%
Utilization Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$12.23	\$11.10	-0.2%
Administrative PMPM Charge	\$91.05	\$83.53	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>11.0%</b>	<b>7.5%</b>	

<sup>1</sup> The 3.3% is the average of the CPI for all items less food & energy for the months of May (3.4%), June (3.3%), and July (3.2%). 12-month percentage change, Consumer Price Index, selected categories (bls.gov)

	HPIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$513.27	\$497.78	-3.0%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.7%	-6.1%	-1.0%
Utilization Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$12.23	\$11.10	-0.2%
Administrative PMPM Charge	\$97.09	\$90.36	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	10.2%	6.9%	

**Table 1: HPHC Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.<sup>2</sup> The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This change reflects the insurer's assumptions on member migration from terminated plan offerings to existing plan offerings.

In the small group rate filings, insurers file quarterly trend projection factors and therefore rates and rate changes can vary by quarter. Insurers also provide average rate changes by quarter. The focus of our review is the full year 2025 weighted average rate change (annual rate change) using the CPAIRs.

In the rate filing submitted on May 13th, the annual CPAIR change for HPHCNE was 11.0% and 10.3% for 1Q renewals. For HPIC, the annual CPAIR change was 10.2% and 9.5% for 1Q renewals

As of March 2024, there were 427 HPHCNE members enrolled throughout the year and 74 members renewing in 1Q. The HPHCNE rate filing includes 34 plans: 30 renewing plans, 4 new plans, and no terminated plans as of January 1, 2025.

As of March 2024, there were 435 HPIC members enrolled throughout the year and 157 members renewing in 1Q. The HPIC rate filing includes 32 plans: 28 renewing plans, 4 new plans, and no terminated plans as of January 1, 2025.

Rate changes vary slightly by plan, ranging from 10.0% to 11.8% for 1Q HPHCNE and from 9.5% to 11.3% for 1Q HPIC. This variance is primarily due to plan design changes implemented for some plans.

<sup>2</sup> We also focus our review on the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

Proposed 1Q Rate Increases					
Rate Change Range	Number of Plans	Number of Members	2024 CPAIR PMPM	2025 CPAIR PMPM <sup>3</sup>	Rate Change
HPHCNE					
9.0% to 9.9%	1	0	\$0.00	\$0.00	0.0%
10.0% to 10.9%	27	64	\$404.58	\$445.33	10.1%
11.0% to 11.9%	2	10	\$372.48	\$416.25	11.8%
<b>Total</b>	<b>30</b>	<b>74</b>	<b>\$400.24</b>	<b>\$441.40</b>	<b>10.3%</b>
HPIC					
9.0% to 10.9%	26	157	\$452.88	\$496.06	9.5%
11.0% to 11.9%	2	0	\$0.00	\$0.00	0.0%
<b>Total</b>	<b>28</b>	<b>157</b>	<b>\$452.88</b>	<b>\$496.06</b>	<b>9.5%</b>

**Table 2: HPHC Summary of Rate Changes for Renewing Plans 1Q 2025<sup>4</sup>**

There were some plan design changes in 2025 compared to 2024. Additionally, plans under the HPIC entity are expected to have decreased costs due to an enhanced provider network outside of the core service area; HPHC expected the enhanced network to decrease PPO plan costs approximately -0.4%. Some plans have small decreases in benefits and four plans (two for HPHCNE and two for HPIC) had increased benefits as they were mapped from Silver to Gold. The overall rate change due to plan design changes was 0.05% for HPHCNE and -0.4% for HPIC.

HPHC uses the same quarterly trend factors in the HPHCNE and HPIC filings. Cumulative factors of 1.02 (2Q), 1.04 (3Q), and 1.06 (4Q) are used to develop rates in subsequent quarters. Rate changes vary slightly by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for HPHC.

HPHCNE			HPIC	
Renewal Quarter and Year	Proposed Average Rate Change CPAIR	Renewal Membership	Proposed Average Rate Change CPAIR	Renewal Membership
1Q 25 Renewals	10.3%	74	9.5%	157
2Q 25 Renewals	10.8%	97	10.3%	96
3Q 25 Renewals	11.1%	148	10.6%	119
4Q 25 Renewals	11.5%	108	10.9%	63
<b>Total</b>	<b>11.0%</b>	<b>427</b>	<b>10.2%</b>	<b>435</b>

**Table 3: HPHC Average Rate Changes by Quarter**

<sup>3</sup> Plans with no membership will show \$0.00 CPAIR for 2024 and 2025.

<sup>4</sup> CPAIR values are a weighted average using March 2024 membership. No CPAIR shown when there is no membership in the plans.

The primary drivers of HPHC's rate change include:<sup>5</sup>

- 6.4% for trend and leverage
- 2.4% for changes in underlying experience data and rate methodology
- 0.8% for impact of additional trend for Q2-Q4 renewals
- 1.2% for change in administrative charge PMPM

#### **IV. Rate Development Methodology Changes**

There are two separate filings for HPHCNE and HPIC. HPHCNE and HPIC report on historical membership and claims experience separately by company, however HPHCNE and HPIC, collectively called "HPHC" in this document, are combined for purposes of rate development with the same Market Adjusted Index Rate. The one key place where the assumptions will vary are the AV and cost sharing factors (unique to each company's plan designs) which results in different rates. The HPIC PPO products are typically sold alongside the HPHCNE HMO products.

HPHC states that their combined HPHCNE and HPIC blocks are still non-credible and volatile, and membership continues to decrease so projected claims are developed relying on the CY 2023 experience from the HPHC Small Group book of business in Massachusetts as a manual rate. The Rhode Island HPHC experience has been assigned 31% credibility.

HPHC's 2025 rate development starts with the CY 2023 fee-for-service claim PMPM from the HPHC Massachusetts small group book of business normalized to an average age rating factor of 1.0 and an average benefit adjustment value of 1.0. Then HPHC adjusts the Massachusetts PMPM for differences in morbidity and relative cost between Rhode Island and Massachusetts as well as the impact of a cyber outage in Massachusetts and the impact of outstanding SG migration in Massachusetts.

##### **Morbidity Adjustment:**

The morbidity adjustment applied to the Massachusetts experience reflects differences between the HPHC Massachusetts small group book of business and the Rhode Island small group market population. This approach produces an HPHC rate representative of the RI market average risk. HPHC developed the morbidity adjustment as a blend of the following two methods:

1. 50% weight applied to a morbidity adjustment of 0.933 based on the ratio of PLRS scores, adjusted to remove the impact of the AV and ARF components, for the Rhode Island small group market compared to the HPHC Massachusetts market where PLRS scores used were based on 2022 RATEE submissions.
2. 50% weight applied to a morbidity adjustment of 0.972 which used the same analysis but relied on the 2022 final risk adjustment report for Rhode Island small group experience and the 2023 December Wakely report for the HPHC Massachusetts experience.

This results in the filed combined morbidity adjustment applied to the HPHC Massachusetts small group claims of 0.953 ( $50\% \cdot .933 + 50\% \cdot .971$ ) or -4.7%.

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<sup>5</sup> Impact varies slightly between HPHCNE and HPIC. Values shown represent HPHCNE.



Since the original filing submission, the final risk adjustment results for 2023 have been released. Using the same approach described above but relying solely on the final 2023 risk adjustment results would produce a morbidity adjustment of 0.939 (-6.1%). OWA proposes the HPHC puts full weight on the final 2023 results and updates the morbidity adjustment applied in the development of the manual rate accordingly.

**Assumption #1:** Revise the manual rate morbidity assumption to rely on final 2023 risk adjustment results, changing the manual rate morbidity adjustment from -4.7% to -6.1%. This change would decrease rates by approximately 1.0% for both HPHCNE and HPIC.

#### Relative Cost Adjustment:

HPHC developed a relative cost adjustment to reflect the expected difference in average provider reimbursement expected for employers sited in Rhode Island compared to those located in Massachusetts and is based on aggregated data for inpatient, outpatient, and professional services.

After applying the morbidity and relative cost adjustment, HPHC adjusts the resulting PMPM for a cyber outage and outstanding Massachusetts small group migration. The resulting PMPM is referred to as the Adjusted Experience Paid Claims PMPM for the manual rate and is subsequently trended forward to the projection period and adjusted for several other factors including State Assessments (discussed further below), pharmacy rebates, RI state mandates, other non-FFS medical costs including Supplemental Provider Payments, and pediatric dental. The resulting Total 2025 Projected Claims PMPM is then divided by their age normalization resulting in HPHC's 2025 manual claims PMPM.

HPHC treats this manual claims PMPM as their Manual EHB Allowed Claims PMPM on the URRT; however, OWA's understanding is that this is not reflective of allowed claims as it reflects a 1.0 benefit design.<sup>6</sup> HPHC's rate development uses paid claims instead of allowed claims and plan factors appear to not directly reflect paid to allowed relationships.

## **V. Experience & Trend Assumptions**

The table below shows a three-year history of allowed claims PMPMs. A review of actual claims experience shows that actual allowed claims PMPM for HPHCNE's small group market increased 7.2% in 2022 and 8.3% in 2023. HPHCNE has a fairly small population and their membership significantly decreased from 2021 to 2023, with a reduction of 61% over the two years. HPIC experienced claims decrease of 20.4% in 2022 and an increase of 5.8% in 2023; membership declined significantly over that same time period. This leads to fluctuations in claims trends.

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<sup>6</sup> HPHC describes as 1.0 benefit factor as a "hypothetical plan with a modeled actuarial benefit value of 1.0."

Allowed Claims PMPM						
	HPHCNE			HPIC		
	CY 2021	CY 2022	CY 2023	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$85.24	\$103.44	\$101.06	\$126.58	\$50.75	\$51.47
Outpatient Hospital	\$116.32	\$133.51	\$164.21	\$194.83	\$121.05	\$140.74
Professional	\$181.15	\$179.95	\$187.79	\$206.52	\$215.37	\$208.08
Other Medical	\$27.68	\$34.62	\$32.31	\$24.30	\$26.91	\$33.91
Capitation	\$0.96	\$1.12	\$1.19	\$0.00	\$0.00	\$0.00
Prescription Drug	\$107.49	\$103.54	\$115.71	\$125.56	\$125.52	\$136.48
<b>Total</b>	<b>\$518.85</b>	<b>\$556.18</b>	<b>\$602.28</b>	<b>\$677.80</b>	<b>\$539.61</b>	<b>\$570.69</b>
Member Months	19,525	12,209	7,524	9,752	7,463	5,952

Allowed Claims PMPM Trend				
	HPHCNE		HPIC	
	CY 2022	CY 2023	CY 2022	CY 2023
Inpatient Hospital	21.3%	-2.3%	-59.9%	1.4%
Outpatient Hospital	14.8%	23.0%	-37.9%	16.3%
Professional	-0.7%	4.4%	4.3%	-3.4%
Other Medical	25.1%	-6.7%	10.7%	26.0%
Capitation	16.2%	6.1%		
Prescription Drug	-3.7%	11.8%	0.0%	8.7%
<b>Total</b>	<b>7.2%</b>	<b>8.3%</b>	<b>-20.4%</b>	<b>5.8%</b>
Member Months Trend	-37.5%	-38.4%	-23.5%	-20.2%

**Table 4: HPHCNE and HPIC Allowed Claims PMPM and Trends**

The table below shows the trend assumptions being used by HPHC.

	Year 1		Year 2	
Trend Assumptions	Medical	Rx	Medical	Rx
Unit Cost	2.7%	13.0%	3.6%	3.5%
Utilization & Mix	2.5%	1.5%	2.2%	1.5%
<b>Total Allowed Trend</b>	<b>5.2%</b>	<b>14.7%</b>	<b>5.9%</b>	<b>5.1%</b>
Leveraging	0.7%	0.7%	0.7%	0.7%
<b>Total Paid Trend</b>	<b>6.0%</b>	<b>15.5%</b>	<b>6.6%</b>	<b>5.8%</b>

**Table 5: HPHC Trend Assumptions<sup>7</sup>**

The combined total medical and pharmacy trend varies between HPHCNE and HPIC due to slightly different weights by service category. The combined total annualized two year trend for HPHCNE is 7.2% and it is 7.4% for HPIC.

<sup>7</sup> Within the ROHC template, it appears the leveraging component of trend is included in the utilization & mix trend for medical and the unit cost trend for Rx.

HPHC stated that Rhode Island experience is not credible to use for trend analysis purposes. Medical utilization and severity trends are based on Harvard Pilgrim and Tufts Commercial fully insured Massachusetts data.

The medical cost trend is developed based on the provider contract arrangements in place for various provider groups.

Medical utilization and severity trends were developed by reviewing the fully insured Massachusetts claims data, normalizing for age, cost sharing, high-cost claimants above \$250K, and excluding COVID testing and vaccine costs. The annualized 2019-2023 utilization trend for the combined MA experience (HPHC and THP) was 1.2%, ranging by year from 0.5% to 2.3%. HPHC chose 2.0% for their utilization trend. For year 1 medical utilization trends an additional 0.25% was added for volatility and 0.24% was added for new medical drugs and gene therapy (based on information from the HPHC pharmacy department and their PBM). For year 2 medical utilization trends only the 0.24% was for new medical drugs and gene therapy was added.

If HPHC started with their normalized annualized trend of 1.2% and added in the adjustment for gene therapy drugs, but not the additional margin, this would result in 1.4% medical utilization trends for both Year 1 and Year 2.

**Assumption #2:** Revise the utilization trend assumption from 2.5% in 2024 and 2.2% in 2025 to 1.4% in each year. This change would decrease the rates by approximately 1.3% for both HPHCNE and HPIC.

In addition to the allowed trend assumptions discussed above, HPHC adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, HPHC used their pricing model to calculate a leverage adjustment for each plan design. HPHC's leverage assumption across all plans is 0.7%.

Pharmacy trends are set in aggregate by HPHC with a focus on the overall allowed trend. When setting the pharmacy trends HPHC considers historical utilization, AWP cost increases, changes to contractual AWP discount percentages, and the generic and brand/specialty drug pipeline. The baseline pharmacy trend developed was 14.7%. The year 2 pharmacy trend was adjusted downward to account for the exclusion of weight-loss GLP-1 drugs (e.g., Wegovy, Saxenda, Zepbound, etc.) and other changes to the small group formulary. OWA has performed our own trend analysis of the historical pharmacy trends, relying on the estimate from HPHC for the impact of formulary changes.

## VI. Assessments

HPHC includes the cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account, Care Transformation Collaborative of RI and Current Care in their medical claims projection. Tab IV of the RIOHIC template shows that HPHC includes \$12.23 PMPM for these Rhode Island assessments as shown in the table below.

Assessment	2025 Assumptions		2024 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$4.03	0.8%	\$3.76	0.9%
Adult Immunization Account	\$4.18	0.9%	\$4.41	1.0%
Children's Health Account	\$1.55	0.3%	\$1.58	0.4%
Care Transformation Collaborative of RI	\$1.47	0.3%	\$1.58	0.4%
Current Care	\$1.00	0.2%	\$1.00	0.2%
<b>Total</b>	<b>\$12.23</b>	<b>2.5%</b>	<b>\$12.33</b>	<b>2.8%</b>

**Table 6: HPHCNE Rhode Island Assessments<sup>8</sup>**

HPHC provided a detailed build-up of assessments which indicated that they were applying RI assessment rates to all Rhode Island residents. The filing was submitted prior to the final 2025 assessment costs being published. If HPHC was to update the assessment development the total 2025 cost PMPM would be \$11.10.

**Assumption #3:** Revise the Rhode Island assessments to use the most recently published 2025 costs. This change would decrease the rates by approximately 0.2% for both HPHCNE and HPIC.

## **VII. Risk Adjustment**

HPHC has assumed a risk adjustment transfer of 2.8% of premium. This reflects a blend of the experience assumption and the manual rate assumption.

HPHC developed a projected risk transfer using 2022 and 2023 historical information and projecting forward to 2025. They relied on the 2023 DIY risk adjustment model, the final 2022 risk adjustment results, interim 2023 risk adjustment results, and information provided by Wakely to estimate a risk adjustment payment equal to 7.5% of premium (inclusive of a high-cost risk pool charge of 0.77%). The final 2023 risk adjustment results (which were published after the initial rate filing) were very close to the estimate developed for pricing.

HPHC developed a manual rate that is consistent with the market wide average risk. Therefore, they have assumed no risk adjustment transfer for the manual rate. They do include an adjustment to reflect 0.77% of premium in expected high-cost risk pool charges.

## **VIII. Projected MLR and Retention Charge**

Using the federal definition and under the proposed rates, HPHCNE projects an 91.8% MLR for 2025.<sup>9</sup> HPHCNE reported historical MLRs in Tab VI for TAHMO based on the federal definition of 87.6% for CY 2021 and 77.2% CY 2022. HPHCNE reported a CY 2023 MLR for TAHMO of 95.3%.<sup>10</sup>

<sup>8</sup> All RI Assessments are included in HPHC's projected medical claims.

<sup>9</sup> This is coming from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

<sup>10</sup> MLR reported is from filing submitted as of May 13<sup>th</sup> and may change due to final risk adjustment or for other updates.

Using the federal definition and under the proposed rates, HPIC projects an 91.4% MLR for 2025.<sup>11</sup> HPIC reported historical MLRs in Tab VI for TICO based on the federal definition of 93.7% for CY 2021 and 65.5% CY 2022. HPIC reported a CY 2023 MLR for TICO of 64.8%.<sup>12</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. HPHC proposed an average retention charge of 14.1%. For 2024, the retention charge was 13.9%. The table below shows the components of retention. HPHC has proposed a contribution to reserve assumption of 0.0% in 2025 which is consistent with the 2024 assumption.

<b>Proposed Retention Charge</b>	<b>2025</b>	<b>2024<sup>13</sup></b>	<b>Change</b>
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	12.0%	11.8%	0.2%
<b>Total Retention Charge</b>	<b>14.1%</b>	<b>13.9%</b>	<b>0.2%</b>

**Table 7: HPHC Retention Charges**

The table below shows the final approved administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 3.3% from 2024 to 2025 for HPHCNE and HPIC. The PMPMs vary by rate filing as some charges are developed as a percentage of premium and the premium rates vary for HPHCNE and HPIC.

<b>HPHC SG</b>			
<b>Admin Charges</b>	<b>2025</b>	<b>2024</b>	<b>Admin Charge Trend</b>
HPHCNE	\$83.53	\$80.86	3.3%
HPIC	\$90.36	\$87.47	3.3%

**Table 8: HPHC Retention Charges<sup>14</sup>**

## **IX. Financial Position**

A review of TAHMO financial measures show that TAHMO's RBC position has increased to 719.1% in 2023 from 613.8% in 2022. The underwriting gain/loss was 3% in 2020 but decreased to -0.8% in 2021 and -1.0%

<sup>11</sup> This is coming from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

<sup>12</sup> MLR reported is from filing submitted as of May 13<sup>th</sup> and may change due to final risk adjustment or for other updates.

<sup>13</sup> There were slight differences in the HPHCNE and HPIC retention charges in 2024 for the administrative expense load (11.8% for HPHCNE and 11.9% for HPIC).

<sup>14</sup> From Tab IV Retention Charge, Section I row 20 item (7). Initial requested administrative expense PMPM was \$91.05 for HPHCNE and \$97.09 for HPIC.

in 2022; in 2023 the underwriting gain/loss increased slightly to -0.2%. The SAPOR<sup>15</sup> has decreased from 30.7% in 2021 to 25.5% in 2023 (though this is slightly higher than 2022 SAPOR).

	2020	2021	2022	2023
Total Revenues	\$2,798,892,444	\$2,773,179,809	\$2,963,623,714	\$2,737,821,760
Net Underwriting G/L	\$76,576,206	-\$23,061,853	-\$30,526,018	-\$5,260,511
<b>Underwriting G/L</b>	<b>2.7%</b>	<b>-0.8%</b>	<b>-1.0%</b>	<b>-0.2%</b>
Capital and Surplus end of reporting year	\$738,870,321	\$852,681,676	\$711,733,566	\$697,579,289
<b>SAPOR</b>	<b>26.4%</b>	<b>30.7%</b>	<b>24.0%</b>	<b>25.5%</b>
Total Adjusted Capital	\$738,870,321	\$852,681,676	\$711,733,566	\$697,579,289
Authorized control level risk-based capital	\$121,103,639	\$119,693,706	\$115,954,780	\$97,008,789
<b>RBC</b>	<b>610.1%</b>	<b>712.4%</b>	<b>613.8%</b>	<b>719.1%</b>

Table 9: TAHMO Financials<sup>16</sup>

A review of TICO financial measures show that TICO's RBC position has fluctuated between 597.0% in 2020 and 521.7% in 2023. The underwriting gain/loss has also fluctuated and was -1.7% in 2023. The SAPOR has decreased from 22.3% in 2020 to 16.6% in 2023.

	2020	2021	2022	2023
Total Revenues	\$312,553,610	\$350,691,959	\$392,747,102	\$376,998,284
Net Underwriting G/L	-\$5,586,842	\$6,899,114	\$12,164,019	-\$6,292,241
<b>Underwriting G/L</b>	<b>-1.8%</b>	<b>2.0%</b>	<b>3.1%</b>	<b>-1.7%</b>
Capital and Surplus end of reporting year	\$69,677,169	\$76,838,407	\$86,058,475	\$62,504,019
<b>SAPOR</b>	<b>22.3%</b>	<b>21.9%</b>	<b>21.9%</b>	<b>16.6%</b>
Total Adjusted Capital	\$69,677,169	\$76,838,407	\$86,058,475	\$62,504,019
Authorized control level risk-based capital	\$11,670,898	\$14,387,007	\$14,411,792	\$11,980,119
<b>RBC</b>	<b>597.0%</b>	<b>534.1%</b>	<b>597.1%</b>	<b>521.7%</b>

Table 10: TICO Financials

## X. URRT

I have reviewed the rates in the URRT for consistency with the Rhode Island rate template.

<sup>15</sup> SAPOR is surplus as a percentage of revenue.

<sup>16</sup> TAHMO financial data based on amended 2022 financial statement and includes a restatement of 2021 Capital and Surplus and the Authorized control level risk-based capital.

## XI. Requested and Final Approved Rate Change

The table below shows HPHC's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	HPHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$480.97	\$465.77	-3.2%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.7%	-6.1%	-1.0%
Utilization Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$12.23	\$11.10	-0.2%
Administrative PMPM Charge	\$91.05	\$83.53	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>11.0%</b>	<b>7.5%</b>	

Table 11: HPHCNE Requested and Final Approved Rate Change

	HPIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$513.27	\$497.78	-3.0%
Morbidity Adjustment for HPHC SG MA to RI Market	-4.7%	-6.1%	-1.0%
Utilization Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$12.23	\$11.10	-0.2%
Administrative PMPM Charge	\$97.09	\$90.36	-0.6%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>10.2%</b>	<b>6.9%</b>	

Table 12: HPIC Requested and Final Approved Rate Change

## **XII. Conclusion**

This letter communicates our findings regarding our review of HPHCNE's small group rate filing (SERFF tracking number HPHC-134097021) and HPIC's small group rate filing (SERFF tracking number HPHC-134083530). Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by HPHC. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in cursive script that reads "Corryn Brown".

Corryn Brown FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA  
Emily Maranjian, Executive Legal Counsel, RIOHIC



Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Small Group Market Rate Filings for UnitedHealthcare Insurance Company (UHC) and UnitedHealthcare of New England (UHCNE) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing # UHLC-134066736 & UHLC-134066729**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of UHC's and UHCNE's (United's) small group market rate filings. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted on May 13, 2024<sup>1</sup>.

Throughout the filing process, OWA corresponded with UHC and UHCNE assistant pricing director Elvira Tananykin and pricing director Michael Duberowski. An actuarial memorandum and actuarial certification is included in the filing signed by Michael Duberowski, FSA, MAAA. OWA submitted questions through SERFF on May 29<sup>th</sup>, June 28<sup>th</sup>, August 2<sup>nd</sup>, and August 9<sup>th</sup>. OWA also conducted a phone call with Ms. Tananykin and Mr. Duberowski on June 3<sup>rd</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the UHC & UHCNE large group filing that pertain to UHC & UHCNE small group filings.

OWA provided considerations for alternative assumptions to RIOHIC on August 20, 2024. The RI Health Insurance Commissioner provided preliminary decisions to United on August 20, 2024. United submitted

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<sup>1</sup> Updated RIOHIC rate templates were submitted on June 4<sup>th</sup> (to revise how the 'RI Assessment & Fees PMPM' line on tab V is displayed) and July 10<sup>th</sup> (to revise the Primary Care Spend Obligation value and category on tab V). Neither template revision adjusted the requested rate change.

revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the overall medical FFS utilization & severity trend assumptions from 3.8% to 2.2%. These assumption changes would decrease the rates by approximately 2.4%.

**Assumption #2:** Revise the assumptions for RI assessments to reflect the updated Adult Immunization, Child Immunization, and Children’s Health Account costs for FY 2025. This would lower rates by approximately 0.1%.

**Assumption #3:** Revise the rate filing assumptions to reflect the final 2023 risk adjustment results. This results in an approximate 3.4% net decrease to rates, which is a combination of a 2.8% decrease due to the risk adjustment assumption change and a 0.6% decrease due to the change in the morbidity adjustment to the Massachusetts experience.

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$94.67 PMPM to \$81.12. This would lower rates by approximately 1.4%.

The table below shows United’s requested rate change and final approved rate change. Note, OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	UHIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$539.86	\$501.60	-7.1%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>Annual 2024 CPAIR Rate Change</b>	<b>22.7%</b>	<b>14.0%</b>	

**Table 1: UHIC Requested and Final Approved Rate Change**

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$475.27	\$441.26	-7.2%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>Annual 2024 CPAIR Rate Change</b>	<b>8.8%</b>	<b>1.0%</b>	

**Table 2: UHCNE Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.<sup>2</sup> The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer's assumptions on member migration from terminated plan offerings to existing plan offerings.

United submitted two filings, one for UHCNE and one for UHIC. The information is the same in both filings as both filings include information for UHCNE and UHIC. Some of the information is presented as combined across both companies and other information is separated by company.<sup>3</sup> The rates are developed using the same starting claims PMPM and then adjustments are applied which vary based on each company's specific plan designs.

In the submitted filing, the proposed full year weighted average rate change for UHIC is 22.7% and for 1Q renewals it is 22.5%. For UHCNE the proposed full year weighted average rate change is 8.8% and for 1Q renewals it was 6.5%. When combined across both companies, the full year weighted average rate change is 20.0% and for 1Q renewals it is 19.9%.

As of March 2024, there were 1,644 UHIC members and 403 UHCNE members enrolled throughout the year and 478 UHIC members and 91 UHCNE members renewing in the first quarter. For January 1, 2025, UHIC

<sup>2</sup> We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

<sup>3</sup> Tab I- Data and Rate Change, Tab IV- Retention Charge, Tab V-Components of Premium Change and Tab VI- MLR Exhibit is presented on a combined basis. Tab II-Rate Development is presented on a company specific basis. Tab III- Plan Rates is presented as one exhibit, but information is presented in a way that average rate changes by company can be determined.

includes 16 plans and UHCNE includes four plans, all new. UHIC is terminating 58 plans while UHCNE is terminating six plans<sup>4</sup>.

Proposed Rate Increases (UHIC)					
Category	Number of Plans	Number of Members	1Q 2024 CPAIR PMPM	1Q 2025 CPAIR PMPM	Rate Change
New	16	0	\$0.00	\$0.00	0.0%
Renewal	0	0	\$0.00	\$0.00	0.0%
Terminated	<u>58</u>	<u>478</u>	<u>\$422.20</u>	<u>\$517.25</u>	<u>22.5%</u>
Total	74	478	\$422.20	\$517.25	22.5%

**Table 3: UHIC Summary of Rate Changes for 1Q 2025**

Proposed Rate Increases (UHCNE)					
Category	Number of Plans	Number of Members	1Q 2024 CPAIR PMPM	1Q 2025 CPAIR PMPM	Rate Change
New	4	0	\$0.00	\$0.00	0.0%
Renewal	0	0	\$0.00	\$0.00	0.0%
Terminated	<u>6</u>	<u>91</u>	<u>\$432.20</u>	<u>\$460.50</u>	<u>6.5%</u>
Total	10	91	\$432.20	\$460.50	6.5%

**Table 4: UHCNE Summary of Rate Changes for 1Q 2025**

The overall rate change due to plan design changes was -1.25% for UHIC and -12.9% for UHCNE. For UHIC plans, the rate change due to plan design changes ranges from -21.10% to +9.53%. For UHCNE plans, the rate change due to plan design changes ranges from -14.18% to +3.52%. The plan design changes driving these rate changes are mainly changes due to differences in plan design when United is mapping terminated plans to the new plan offerings for 2025<sup>5</sup>. UHIC and UHCNE update their pricing model each year so some of the variation in rate changes may be due the pricing model changes.

United uses the same quarterly trend factor of 1.021 to develop rates in subsequent quarters. Rate changes vary by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for both UHIC and UHCNE.

<sup>4</sup> When asked about the reasoning why all plans were being terminated, United stated the bulk of the removed plans required PCP Selection and Referrals, and that it is choosing to only offer plans that are open access and do not require referrals in order to give members more flexibility. Additionally, brokers have told United that it offers too many plan designs, and it hopes to make the portfolio more manageable by simplifying and streamlining plan offerings.

<sup>5</sup> When asked about how United determines how terminated plans map to new plans, United stated that it focuses on benefit relativity factors between plans as well as overall premium differences. United mentioned that it more often sees benefits being bought down to reduce cost, so are conscious about premium rates when mapping plans.

	Total		UHCNE		UHIC	
Renewal Quarter and Year	Proposed Average Rate Change	Renewal Membership	Proposed Average Rate Change	Renewal Membership	Proposed Average Rate Change	Renewal Membership
	CPAIR		CPAIR		CPAIR	
1Q 25 Renewals	19.9%	569	6.5%	91	22.5%	478
2Q 25 Renewals	20.0%	454	6.8%	89	23.3%	365
3Q 25 Renewals	20.3%	451	8.7%	70	22.4%	381
4Q 25 Renewals	19.7%	573	11.3%	153	22.6%	420
Total	20.0%	2,047	8.8%	403	22.7%	1,644

**Table 5: Average Rate Changes by Renewal Quarter**

The 2025 average rate change of 20.0%, combined across both companies, is driven by these key factors as reported by United in Tab V of the RIOHIC rate template:

- 7.2% due to trend
- 13.1% due to claims cost experience above trend
- 2.4% due to increases in the administrative charges
- -1.8% due to changes in risk adjustment

#### IV. Experience & Trend Assumptions

A review of claims experience shows that actual trends for UHIC and UHCNE's small group market increased 5.6% in 2022 and 24.5% in 2023. The table below shows a three-year history of allowed claims PMPMs. Membership for UHIC and UHCNE decreased 17.3% in 2022 and an additional 15.7% in 2023.

Capitation amounts increased 14.1% in 2022 and 25.2% in 2023. The capitation amount includes behavioral health (which has experienced sustained higher utilization as a result of COVID), chiropractor services, payments to providers from gain share arrangements, and some Rhode Island assessments.<sup>6</sup> UHIC and UHCNE provided data to show that all categories within the capitation amount contributed to the increase in 2022, while the increase in 2023 is primarily driven by increases to primary care and behavioral health. United is projecting an increase in its Primary Care spending obligation from \$22.05 PMPM to \$27.58 PMPM, or approximately 1% of projected medical claims. The small size of the segment and changes in membership lead to volatility in claim costs and trends. Due to credibility, UHIC and UHCNE does not rely solely on their Rhode Island data for trend projections.

<sup>6</sup> The Rhode Island assessments identified by United as being included in their medical claims rather than administrative charge are Care Transformation Collaborative of Rhode Island, Primary Care, Children's Immunization Assessment, Adult Immunization Assessment and the Children's Health Account Assessment.

Allowed Claims PMPM (UHCNE + UHIC)			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$82.87	\$56.65	\$126.29
Outpatient Hospital	\$161.21	\$201.67	\$236.33
Professional	\$117.94	\$114.49	\$123.90
Other Medical	\$1.55	\$1.52	\$1.41
Capitation	\$52.81	\$60.27	\$75.47
Prescription Drug	<u>\$81.33</u>	<u>\$90.97</u>	<u>\$90.79</u>
Total	\$497.71	\$525.57	\$654.19
Member Months	36,837	30,480	25,694

Allowed Claims PMPM Trend (UHCNE + UHIC)		
	CY 2022	CY 2023
Inpatient Hospital	-31.6%	122.9%
Outpatient Hospital	25.1%	17.2%
Professional	-2.9%	8.2%
Other Medical	-2.1%	-6.7%
Capitation	14.1%	25.2%
Prescription Drug	<u>11.8%</u>	<u>-0.2%</u>
Total	5.6%	24.5%
Member Months Trend	-17.3%	-15.7%

**Table 6: Allowable Claims PMPM and Trend CY 2021 – CY 2023**

Due to the small size of UHIC and UHCNE's Rhode Island experience, UHIC and UHCNE developed 2025 rates by blending experience from Rhode Island with adjusted Massachusetts experience. These adjustments include differences in state mandates, differences in provider contracts and differences in morbidity. The morbidity adjustments are based on the plan liability risk scores (PLRS) from the CMS risk adjustment reports. United is assigning 33% credibility to the Rhode Island experience.

UHIC and UHCNE are assuming an average annual trend assumption of 7.7%.<sup>7</sup> This is a decrease from last year's trend assumption of 8.1%. The table below shows UHIC and UHCNE's trend assumptions by service category. The average medical cost trend is 3.9% consistent with last year. The average medical utilization & severity trend is 3.3%, compared to 3.7% last year. The average medical fee-for-service (FFS) utilization & severity trend is 3.8%.<sup>8</sup>

<sup>7</sup> Trends by service category are the same for both UHIC and UHCNE, but the total trend differs slightly by company due to different weights by service category.

<sup>8</sup> This excludes capitation.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization & Severity	2 Year Avg Total
Inpatient Hospital	4.6%	3.3%	8.1%
Outpatient Hospital	3.9%	3.5%	7.5%
Professional	1.8%	4.9%	6.8%
Other Medical	1.9%	5.0%	7.0%
Capitation	6.0%	0.0%	6.0%
<b>Total Medical</b>	<b>3.9%</b>	<b>3.3%</b>	<b>7.3%</b>
<b>Prescription Drug</b>	<b><u>4.7%</u></b>	<b><u>5.2%</u></b>	<b><u>10.1%</u></b>
<b>Total</b>			<b>7.8%</b>

**Table 7: Proposed Trend Assumptions**

As they have done in prior rate filings, UHIC and UHCNE provided a significant amount of detail related to their trend development and the data and methodology is the same for the large group filing as the small group filing.

Unit cost trends are developed at the service category level by year and blended together to determine the two-year average cost trends. Unit cost trends are shown to be slightly higher in Rhode Island compared to United's overall national company-wide assumption. The overall annual cost trend is 4.0%, split between medical cost trend of 3.9% and pharmacy cost trend of 4.7%.

Given that United Rhode Island specific data is not credible for trend analysis purposes, utilization and severity trends are developed at the nationwide level based on actual experience and adjusted for items such as the impact of technology, environmental, network contracting, administrative initiatives, and the number of workdays. These adjustments are primarily developed on a national company-wide level. United provided information to show that the nationwide 2023 medical utilization & severity trend is 4.6% (prior to adjustments) and it is the adjustments that lead to the overall FFS 3.8% medical utilization & severity trend and total medical utilization & severity trend of 3.3%. The largest adjustment is for "economic", valued at -1.5%, and is described as "utilization changes due to changes in economic conditions".

OWA is not able to validate these adjustments, or the overall medical utilization & severity trend based on the information provided by United.

Given United's reliance on national data to develop trends and the lack of credibility with United's Rhode Island specific data, it is not reasonable to develop Rhode Island trend assumptions specific to United's own Rhode Island data. It is not unreasonable to assume that United should have medical utilization & severity trends in line with other major Rhode Island insurers and that Rhode Island specific utilization & severity trend assumptions would be more appropriate than national trend assumptions given the differences in utilization patterns. For the other primary insurers in Rhode Island, medical utilization & severity trend assumptions are an average of approximately 2.2%.

**Assumption #1:** Revise the overall medical FFS utilization & severity trend assumptions from 3.8% to 2.2%. These assumption changes would decrease the rates by approximately 2.4%.<sup>9</sup>

In addition to the trend assumptions above, UHIC and UHCNE adds a 0.8% leverage adjustment into their rates to account for cost sharing leveraging<sup>10</sup>.

## V. Assessments

UHIC and UHCNE include the cost of assessments for Childhood Immunizations, Adult Immunizations and the Children's Health Account in their medical claims projection. The cost for the Care Transformation Collaborative of RI is split between medical claims and retention.<sup>11</sup> The cost for Current Care is included in retention. United's approach to projecting the assessments included in the medical claim projection is to start with CY 2023 actuals and then apply two years of the capitation pricing trend.

This rate filing starts with the FY 2024 assessment costs for Childhood Immunizations, Adult Immunizations and the Children's Health Account, applies the mix of United's children and adults, applies and adjustment for proportion of members that are Rhode Island residents, and trends forward. This equates to approximately \$7.53 PMPM. United did not reflect the FY 2025 assessments costs in their initial rate filing and the assessment costs decreased slightly compared to what was assumed<sup>12</sup>. Updating the assessments for the final FY 2025 costs, the projected assessment costs decrease to approximately \$6.62 PMPM.

**Assumption #2:** Revise the assumptions for RI assessments to reflect the updated Adult Immunization, Child Immunization, and Children's Health Account costs for FY 2025. This would lower rates by approximately 0.1%.

## VI. Risk Adjustment

UHIC and UHCNE have assumed a 0.4% risk adjustment receivable in its 2025 rate filing. This is a change in their assumption from the 2024 rate filing of 1.1% payable. Risk adjustment impacts the average rate change by -1.8%. UHCNE and UHIC did not participate in Wakely's Rhode Island risk adjustment study for 2023. United stated that instead, the Rhode Island risk adjustment was estimated using internally developed risk adjustment analysis.

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<sup>9</sup> If UHIC & UHCNE were to use a 2.2% FFS medical utilization & severity trend in 2023 and 2024 rather than 3.8%, this would decrease trends by approximately 1.0% each year. This is worth 2.0% over the entire projection period. The estimated impact to overall rates is determined assuming FFS medical represents approximately 75% of total claims and that total claims spending represents 84% of total premium.

<sup>10</sup> Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, UHIC and UHCNE started with their trended allowed claims and subtracted out projected cost sharing to simulate a projected net claims trend. Copay dollars were trended by the utilization trend, coinsurance dollars were trended by the PMPM trend (reflecting both utilization and cost trends) and deductible dollars were not trended at all. The result is a 0.8% leverage impact.

<sup>11</sup> Approximately 13% of the costs for the Care Transformation Collaborative of RI is included in the medical claims projections and the remaining 87% in retention.

<sup>12</sup> Assessments for vaccinations FY 2024 (July 1, 2023 – July 1, 2024) were \$24.83 per child and \$6.24 per adult. Assessments for vaccinations FY 2025 (July 1, 2024 – July 1, 2025) are \$23.16 per child and \$5.04 per adult. The Children's Health Account assessment changed from \$9.52 in FY 2024 to \$9.20 in FY 2025.



CMS posted the final 2023 risk adjustment results on July 23<sup>rd</sup>. The results showed that United is receiving \$443k in risk adjustment. This translates into a 2.9% reduction to premiums. This change in assumption decreased the rates by approximately 2.8%.

As described previously, United relies on blending Rhode Island with adjusted Massachusetts experience in their rate development. One of the adjustments is a morbidity adjustment which compares risk scores of the two states using the PLRS scores from the federal risk adjustment reports. In the initial rate filing the adjustment to Massachusetts experience was 1.279. Based on the final PLRS scores from CMS, the adjustment would decrease to approximately 1.267. This would decrease rates by approximately 0.6%.

If United updates their rate filing to reflect both the change in the final Rhode Island CY 2023 risk adjustment results and the morbidity adjustment to the Massachusetts experience, the total impact is an approximately 3.4% decrease to rates.

**Assumption #3:** Revise the rate filing assumptions to reflect the final 2023 risk adjustment results. This results in an approximate 3.4% net decrease to rates, which is a combination of a 2.8% decrease due to the risk adjustment assumption change and a 0.6% decrease due to the change in the morbidity adjustment to the Massachusetts experience.

## VII. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, United projects an MLR for 2025 of 89.5% for the 2025 rating period which includes a 0.0% contribution to reserve. United assumed a 0.0% contribution to reserve in the 2024 rate filing. United reports an MLR of 86.1% for CY 2021, 83.7% MLR for 2022, and 86.1% MLR for 2023.<sup>13</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. United is proposing an average retention charge of 15.1% for 2025. This is the same as the retention charge from 2024 of 15.1%.

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<sup>13</sup> United stated that the reported MLR for 2022 reflects the 2018-2021 risk adjustment data validation (RADV) results as requested in the MLR reporting guidance provided by CMS. There may be other updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

Proposed Retention Charge (UHCNE + UHIC)	2025	2024	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.6%	0.6%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>12.5%</u>	<u>12.5%</u>	<u>0.0%</u>
Total Retention Charge	15.1%	15.1%	0.0%

**Table 8: Proposed Retention Charge<sup>14</sup>**

The table below shows the administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 20.6% from 2024 to 2025.<sup>15</sup>

UHCNE + UHIC			
Admin Charges	2025	2024	Admin Charge Trend
Admin PMPM	\$94.67	\$78.53	20.6%

**Table 9: Administrative PMPM Charge<sup>16</sup>**

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$94.67 PMPM to \$81.12. This would lower rates by approximately 1.4%.

## VIII. Financial Position

A review of UHIC's and UHCNE's financial measures show that UHIC's RBC position has remained healthy for the past four years, ranging from 644.2% to 813.6%. The underwriting gain/loss and SAPOR<sup>17</sup> have also remained fairly consistent for UHIC. UHCNE's RBC, SAPOR and underwriting gain/loss is consistently lower than UHIC through 2021. In 2022, UHCNE experienced a significant increase in their SAPOR, RBC and underwriting gain/loss. This was explained to OWA by RIOHIC to be due to the transfer of Medicare Advantage business from UHCNE to another United entity.

<sup>14</sup> United includes most of the cost for the Care Transformation Collaborative of RI and the total the cost for Current Care in retention. The cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account are included in their medical claims projection.

<sup>15</sup> From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (line 7) excluding the assessments of \$2.78 PMPM in 2025 and 2024 shown as part of the amount in row 30 (line 7i "Other Admin Expenses"). This includes commissions.

<sup>16</sup>The administrative charge shown here include commissions but exclude assessments.

<sup>17</sup> SAPOR is surplus as a percentage of revenue.

UHC				
	2020	2021	2022	2023
Total Revenues	\$55,111,543,011	\$53,114,149,629	\$43,772,644,000	\$47,235,287,781
Net Underwriting G/L	\$4,008,681,977	\$2,638,502,846	\$3,123,376,617	\$3,414,771,794
<b>Underwriting G/L</b>	<b>7.3%</b>	<b>5.0%</b>	<b>7.1%</b>	<b>7.2%</b>
Capital and Surplus end of reporting year	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
<b>SAPOR</b>	<b>14.9%</b>	<b>15.3%</b>	<b>16.4%</b>	<b>14.8%</b>
Total Adjusted Capital	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
Authorized control level risk-based capital	\$1,275,995,904	\$1,224,069,942	\$885,025,263	\$1,009,793,872
<b>RBC</b>	<b>644.2%</b>	<b>665.5%</b>	<b>813.6%</b>	<b>693.7%</b>

**Table 10: Summary of UHC Financials**

UHCNE				
	2020	2021	2022	2023
Total Revenues	\$1,433,651,095	\$1,584,388,273	\$656,561,973	\$703,323,670
Net Underwriting G/L	\$64,140,390	\$78,681,058	\$41,619,966	\$23,606,329
<b>Underwriting G/L</b>	<b>4.5%</b>	<b>5.0%</b>	<b>6.3%</b>	<b>3.4%</b>
Capital and Surplus end of reporting year	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
<b>SAPOR</b>	<b>14.3%</b>	<b>13.0%</b>	<b>34.1%</b>	<b>32.8%</b>
Total Adjusted Capital	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
Authorized control level risk-based capital	\$39,155,808	\$33,402,863	\$3,309,866	\$3,383,825
<b>RBC</b>	<b>522.0%</b>	<b>617.3%</b>	<b>6756.0%</b>	<b>6812.0%</b>

**Table 11: Summary of UHCNE Financials**

## IX. URRT

I have reviewed the URRT for consistency with the RIOHIC rate template. The CPAIR rates in the URRT match the rates in the RIOHIC rate template for all plans.

I also reviewed the CPAIRs in the OHIC template to United's actuarial memorandum attachments. The CPAIRs in the RIOHIC template are approximately 0.00% to 0.02% higher for each of the UHC and UHCNE plans compared to the rates in the actuarial memorandum. When asked about the discrepancy, United

mentioned that the rates in the OHIC template are slightly higher than the final rates to be charged to customers due to limitations in the rating system used to populate the templates.

## X. Requested and Final Approved Rate Change

The table below shows UHIC and UHCNE's requested rates and OWA's alternative assumptions along with the impact to rates. OWA's rates are estimated and are subject to verification by United. After incorporating the assumption changes, the corresponding rate change may differ slightly.

	UHIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$539.86	\$501.60	-7.1%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>22.7%</b>	<b>14.0%</b>	

**Table 12: UHIC Requested and Final Approved Rate Change**

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$475.27	\$441.26	-7.2%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>8.8%</b>	<b>1.0%</b>	

**Table 13: UHCNE Requested and Final Approved Rate Change**

## **XI. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of UHIC's and UHCNE's small group rate filings (SERFF tracking numbers **UHLC-134066736 & UHLC-134066729**.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by UHIC and UHCNE. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Gregory Bruce who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jennifer Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in cursive script that reads "Gregory Bruce".

Gregory Bruce FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Small Group Market Rate Filings for UnitedHealthcare Insurance Company (UHC) and UnitedHealthcare of New England (UHCNE) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing # UHLC-134066736 & UHLC-134066729**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of UHC's and UHCNE's (United's) small group market rate filings. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted on May 13, 2024<sup>1</sup>.

Throughout the filing process, OWA corresponded with UHC and UHCNE assistant pricing director Elvira Tananykin and pricing director Michael Duberowski. An actuarial memorandum and actuarial certification is included in the filing signed by Michael Duberowski, FSA, MAAA. OWA submitted questions through SERFF on May 29<sup>th</sup>, June 28<sup>th</sup>, August 2<sup>nd</sup>, and August 9<sup>th</sup>. OWA also conducted a phone call with Ms. Tananykin and Mr. Duberowski on June 3<sup>rd</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the UHC & UHCNE large group filing that pertain to UHC & UHCNE small group filings.

OWA provided considerations for alternative assumptions to RIOHIC on August 20, 2024. The RI Health Insurance Commissioner provided preliminary decisions to United on August 20, 2024. United submitted

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<sup>1</sup> Updated RIOHIC rate templates were submitted on June 4<sup>th</sup> (to revise how the 'RI Assessment & Fees PMPM' line on tab V is displayed) and July 10<sup>th</sup> (to revise the Primary Care Spend Obligation value and category on tab V). Neither template revision adjusted the requested rate change.

revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the overall medical FFS utilization & severity trend assumptions from 3.8% to 2.2%. These assumption changes would decrease the rates by approximately 2.4%.

**Assumption #2:** Revise the assumptions for RI assessments to reflect the updated Adult Immunization, Child Immunization, and Children’s Health Account costs for FY 2025. This would lower rates by approximately 0.1%.

**Assumption #3:** Revise the rate filing assumptions to reflect the final 2023 risk adjustment results. This results in an approximate 3.4% net decrease to rates, which is a combination of a 2.8% decrease due to the risk adjustment assumption change and a 0.6% decrease due to the change in the morbidity adjustment to the Massachusetts experience.

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$94.67 PMPM to \$81.12. This would lower rates by approximately 1.4%.

The table below shows United’s requested rate change and final approved rate change. Note, OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer’s own pricing models. However, final rate change is not an estimate.

	UHIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$539.86	\$501.60	-7.1%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>Annual 2024 CPAIR Rate Change</b>	<b>22.7%</b>	<b>14.0%</b>	

**Table 1: UHIC Requested and Final Approved Rate Change**

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$475.27	\$441.26	-7.2%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>Annual 2024 CPAIR Rate Change</b>	<b>8.8%</b>	<b>1.0%</b>	

**Table 2: UHCNE Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

There are many definitions of rate changes shown in the rate filing. The changes we focus our review on are the calibrated plan adjusted index rate (CPAIR) average change.<sup>2</sup> The CPAIR reflects the average base rate used prior to the adjustments for age. The average is calculated using the most recent membership enrollment by plan offering. This rate change reflects the insurer's assumptions on member migration from terminated plan offerings to existing plan offerings.

United submitted two filings, one for UHCNE and one for UHIC. The information is the same in both filings as both filings include information for UHCNE and UHIC. Some of the information is presented as combined across both companies and other information is separated by company.<sup>3</sup> The rates are developed using the same starting claims PMPM and then adjustments are applied which vary based on each company's specific plan designs.

In the submitted filing, the proposed full year weighted average rate change for UHIC is 22.7% and for 1Q renewals it is 22.5%. For UHCNE the proposed full year weighted average rate change is 8.8% and for 1Q renewals it was 6.5%. When combined across both companies, the full year weighted average rate change is 20.0% and for 1Q renewals it is 19.9%.

As of March 2024, there were 1,644 UHIC members and 403 UHCNE members enrolled throughout the year and 478 UHIC members and 91 UHCNE members renewing in the first quarter. For January 1, 2025, UHIC

<sup>2</sup> We also review the PAIR and the PAIR increases. Generally, the increases for the CPAIR and PAIR are similar. The PAIR increases reflect demographic changes in the rating pool from one year to the next.

<sup>3</sup> Tab I- Data and Rate Change, Tab IV- Retention Charge, Tab V-Components of Premium Change and Tab VI- MLR Exhibit is presented on a combined basis. Tab II-Rate Development is presented on a company specific basis. Tab III- Plan Rates is presented as one exhibit, but information is presented in a way that average rate changes by company can be determined.



includes 16 plans and UHCNE includes four plans, all new. UHIC is terminating 58 plans while UHCNE is terminating six plans<sup>4</sup>.

Proposed Rate Increases (UHIC)					
Category	Number of Plans	Number of Members	1Q 2024 CPAIR PMPM	1Q 2025 CPAIR PMPM	Rate Change
New	16	0	\$0.00	\$0.00	0.0%
Renewal	0	0	\$0.00	\$0.00	0.0%
Terminated	<u>58</u>	<u>478</u>	<u>\$422.20</u>	<u>\$517.25</u>	<u>22.5%</u>
Total	74	478	\$422.20	\$517.25	22.5%

**Table 3: UHIC Summary of Rate Changes for 1Q 2025**

Proposed Rate Increases (UHCNE)					
Category	Number of Plans	Number of Members	1Q 2024 CPAIR PMPM	1Q 2025 CPAIR PMPM	Rate Change
New	4	0	\$0.00	\$0.00	0.0%
Renewal	0	0	\$0.00	\$0.00	0.0%
Terminated	<u>6</u>	<u>91</u>	<u>\$432.20</u>	<u>\$460.50</u>	<u>6.5%</u>
Total	10	91	\$432.20	\$460.50	6.5%

**Table 4: UHCNE Summary of Rate Changes for 1Q 2025**

The overall rate change due to plan design changes was -1.25% for UHIC and -12.9% for UHCNE. For UHIC plans, the rate change due to plan design changes ranges from -21.10% to +9.53%. For UHCNE plans, the rate change due to plan design changes ranges from -14.18% to +3.52%. The plan design changes driving these rate changes are mainly changes due to differences in plan design when United is mapping terminated plans to the new plan offerings for 2025<sup>5</sup>. UHIC and UHCNE update their pricing model each year so some of the variation in rate changes may be due the pricing model changes.

United uses the same quarterly trend factor of 1.021 to develop rates in subsequent quarters. Rate changes vary by plan so the rate changes by quarter will vary due to the distribution of members by plan renewing each quarter. Average proposed rate changes by quarter are shown below for both UHIC and UHCNE.

<sup>4</sup> When asked about the reasoning why all plans were being terminated, United stated the bulk of the removed plans required PCP Selection and Referrals, and that it is choosing to only offer plans that are open access and do not require referrals in order to give members more flexibility. Additionally, brokers have told United that it offers too many plan designs, and it hopes to make the portfolio more manageable by simplifying and streamlining plan offerings.

<sup>5</sup> When asked about how United determines how terminated plans map to new plans, United stated that it focuses on benefit relativity factors between plans as well as overall premium differences. United mentioned that it more often sees benefits being bought down to reduce cost, so are conscious about premium rates when mapping plans.

	Total		UHCNE		UHIC	
Renewal Quarter and Year	Proposed Average Rate Change	Renewal Membership	Proposed Average Rate Change	Renewal Membership	Proposed Average Rate Change	Renewal Membership
	CPAIR		CPAIR		CPAIR	
1Q 25 Renewals	19.9%	569	6.5%	91	22.5%	478
2Q 25 Renewals	20.0%	454	6.8%	89	23.3%	365
3Q 25 Renewals	20.3%	451	8.7%	70	22.4%	381
4Q 25 Renewals	19.7%	573	11.3%	153	22.6%	420
Total	20.0%	2,047	8.8%	403	22.7%	1,644

**Table 5: Average Rate Changes by Renewal Quarter**

The 2025 average rate change of 20.0%, combined across both companies, is driven by these key factors as reported by United in Tab V of the RIOHIC rate template:

- 7.2% due to trend
- 13.1% due to claims cost experience above trend
- 2.4% due to increases in the administrative charges
- -1.8% due to changes in risk adjustment

#### IV. Experience & Trend Assumptions

A review of claims experience shows that actual trends for UHIC and UHCNE's small group market increased 5.6% in 2022 and 24.5% in 2023. The table below shows a three-year history of allowed claims PMPMs. Membership for UHIC and UHCNE decreased 17.3% in 2022 and an additional 15.7% in 2023.

Capitation amounts increased 14.1% in 2022 and 25.2% in 2023. The capitation amount includes behavioral health (which has experienced sustained higher utilization as a result of COVID), chiropractor services, payments to providers from gain share arrangements, and some Rhode Island assessments.<sup>6</sup> UHIC and UHCNE provided data to show that all categories within the capitation amount contributed to the increase in 2022, while the increase in 2023 is primarily driven by increases to primary care and behavioral health. United is projecting an increase in its Primary Care spending obligation from \$22.05 PMPM to \$27.58 PMPM, or approximately 1% of projected medical claims. The small size of the segment and changes in membership lead to volatility in claim costs and trends. Due to credibility, UHIC and UHCNE does not rely solely on their Rhode Island data for trend projections.

<sup>6</sup> The Rhode Island assessments identified by United as being included in their medical claims rather than administrative charge are Care Transformation Collaborative of Rhode Island, Primary Care, Children's Immunization Assessment, Adult Immunization Assessment and the Children's Health Account Assessment.

Allowed Claims PMPM (UHCNE + UHIC)			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$82.87	\$56.65	\$126.29
Outpatient Hospital	\$161.21	\$201.67	\$236.33
Professional	\$117.94	\$114.49	\$123.90
Other Medical	\$1.55	\$1.52	\$1.41
Capitation	\$52.81	\$60.27	\$75.47
Prescription Drug	<u>\$81.33</u>	<u>\$90.97</u>	<u>\$90.79</u>
Total	\$497.71	\$525.57	\$654.19
Member Months	36,837	30,480	25,694

Allowed Claims PMPM Trend (UHCNE + UHIC)		
	CY 2022	CY 2023
Inpatient Hospital	-31.6%	122.9%
Outpatient Hospital	25.1%	17.2%
Professional	-2.9%	8.2%
Other Medical	-2.1%	-6.7%
Capitation	14.1%	25.2%
Prescription Drug	<u>11.8%</u>	<u>-0.2%</u>
Total	5.6%	24.5%
Member Months Trend	-17.3%	-15.7%

**Table 6: Allowable Claims PMPM and Trend CY 2021 – CY 2023**

Due to the small size of UHIC and UHCNE's Rhode Island experience, UHIC and UHCNE developed 2025 rates by blending experience from Rhode Island with adjusted Massachusetts experience. These adjustments include differences in state mandates, differences in provider contracts and differences in morbidity. The morbidity adjustments are based on the plan liability risk scores (PLRS) from the CMS risk adjustment reports. United is assigning 33% credibility to the Rhode Island experience.

UHIC and UHCNE are assuming an average annual trend assumption of 7.7%.<sup>7</sup> This is a decrease from last year's trend assumption of 8.1%. The table below shows UHIC and UHCNE's trend assumptions by service category. The average medical cost trend is 3.9% consistent with last year. The average medical utilization & severity trend is 3.3%, compared to 3.7% last year. The average medical fee-for-service (FFS) utilization & severity trend is 3.8%.<sup>8</sup>

<sup>7</sup> Trends by service category are the same for both UHIC and UHCNE, but the total trend differs slightly by company due to different weights by service category.

<sup>8</sup> This excludes capitation.

Trend Assumptions			
	2 Year Avg Cost	2 Year Avg Utilization & Severity	2 Year Avg Total
Inpatient Hospital	4.6%	3.3%	8.1%
Outpatient Hospital	3.9%	3.5%	7.5%
Professional	1.8%	4.9%	6.8%
Other Medical	1.9%	5.0%	7.0%
Capitation	6.0%	0.0%	6.0%
<b>Total Medical</b>	<b>3.9%</b>	<b>3.3%</b>	<b>7.3%</b>
<b>Prescription Drug</b>	<b><u>4.7%</u></b>	<b><u>5.2%</u></b>	<b><u>10.1%</u></b>
<b>Total</b>			<b>7.8%</b>

**Table 7: Proposed Trend Assumptions**

As they have done in prior rate filings, UHIC and UHCNE provided a significant amount of detail related to their trend development and the data and methodology is the same for the large group filing as the small group filing.

Unit cost trends are developed at the service category level by year and blended together to determine the two-year average cost trends. Unit cost trends are shown to be slightly higher in Rhode Island compared to United's overall national company-wide assumption. The overall annual cost trend is 4.0%, split between medical cost trend of 3.9% and pharmacy cost trend of 4.7%.

Given that United Rhode Island specific data is not credible for trend analysis purposes, utilization and severity trends are developed at the nationwide level based on actual experience and adjusted for items such as the impact of technology, environmental, network contracting, administrative initiatives, and the number of workdays. These adjustments are primarily developed on a national company-wide level. United provided information to show that the nationwide 2023 medical utilization & severity trend is 4.6% (prior to adjustments) and it is the adjustments that lead to the overall FFS 3.8% medical utilization & severity trend and total medical utilization & severity trend of 3.3%. The largest adjustment is for "economic", valued at -1.5%, and is described as "utilization changes due to changes in economic conditions".

OWA is not able to validate these adjustments, or the overall medical utilization & severity trend based on the information provided by United.

Given United's reliance on national data to develop trends and the lack of credibility with United's Rhode Island specific data, it is not reasonable to develop Rhode Island trend assumptions specific to United's own Rhode Island data. It is not unreasonable to assume that United should have medical utilization & severity trends in line with other major Rhode Island insurers and that Rhode Island specific utilization & severity trend assumptions would be more appropriate than national trend assumptions given the differences in utilization patterns. For the other primary insurers in Rhode Island, medical utilization & severity trend assumptions are an average of approximately 2.2%.

**Assumption #1:** Revise the overall medical FFS utilization & severity trend assumptions from 3.8% to 2.2%. These assumption changes would decrease the rates by approximately 2.4%.<sup>9</sup>

In addition to the trend assumptions above, UHIC and UHCNE adds a 0.8% leverage adjustment into their rates to account for cost sharing leveraging<sup>10</sup>.

## V. Assessments

UHIC and UHCNE include the cost of assessments for Childhood Immunizations, Adult Immunizations and the Children's Health Account in their medical claims projection. The cost for the Care Transformation Collaborative of RI is split between medical claims and retention.<sup>11</sup> The cost for Current Care is included in retention. United's approach to projecting the assessments included in the medical claim projection is to start with CY 2023 actuals and then apply two years of the capitation pricing trend.

This rate filing starts with the FY 2024 assessment costs for Childhood Immunizations, Adult Immunizations and the Children's Health Account, applies the mix of United's children and adults, applies and adjustment for proportion of members that are Rhode Island residents, and trends forward. This equates to approximately \$7.53 PMPM. United did not reflect the FY 2025 assessments costs in their initial rate filing and the assessment costs decreased slightly compared to what was assumed<sup>12</sup>. Updating the assessments for the final FY 2025 costs, the projected assessment costs decrease to approximately \$6.62 PMPM.

**Assumption #2:** Revise the assumptions for RI assessments to reflect the updated Adult Immunization, Child Immunization, and Children's Health Account costs for FY 2025. This would lower rates by approximately 0.1%.

## VI. Risk Adjustment

UHIC and UHCNE have assumed a 0.4% risk adjustment receivable in its 2025 rate filing. This is a change in their assumption from the 2024 rate filing of 1.1% payable. Risk adjustment impacts the average rate change by -1.8%. UHCNE and UHIC did not participate in Wakely's Rhode Island risk adjustment study for 2023. United stated that instead, the Rhode Island risk adjustment was estimated using internally developed risk adjustment analysis.

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<sup>9</sup> If UHIC & UHCNE were to use a 2.2% FFS medical utilization & severity trend in 2023 and 2024 rather than 3.8%, this would decrease trends by approximately 1.0% each year. This is worth 2.0% over the entire projection period. The estimated impact to overall rates is determined assuming FFS medical represents approximately 75% of total claims and that total claims spending represents 84% of total premium.

<sup>10</sup> Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, UHIC and UHCNE started with their trended allowed claims and subtracted out projected cost sharing to simulate a projected net claims trend. Copay dollars were trended by the utilization trend, coinsurance dollars were trended by the PMPM trend (reflecting both utilization and cost trends) and deductible dollars were not trended at all. The result is a 0.8% leverage impact.

<sup>11</sup> Approximately 13% of the costs for the Care Transformation Collaborative of RI is included in the medical claims projections and the remaining 87% in retention.

<sup>12</sup> Assessments for vaccinations FY 2024 (July 1, 2023 – July 1, 2024) were \$24.83 per child and \$6.24 per adult. Assessments for vaccinations FY 2025 (July 1, 2024 – July 1, 2025) are \$23.16 per child and \$5.04 per adult. The Children's Health Account assessment changed from \$9.52 in FY 2024 to \$9.20 in FY 2025.

CMS posted the final 2023 risk adjustment results on July 23<sup>rd</sup>. The results showed that United is receiving \$443k in risk adjustment. This translates into a 2.9% reduction to premiums. This change in assumption decreased the rates by approximately 2.8%.

As described previously, United relies on blending Rhode Island with adjusted Massachusetts experience in their rate development. One of the adjustments is a morbidity adjustment which compares risk scores of the two states using the PLRS scores from the federal risk adjustment reports. In the initial rate filing the adjustment to Massachusetts experience was 1.279. Based on the final PLRS scores from CMS, the adjustment would decrease to approximately 1.267. This would decrease rates by approximately 0.6%.

If United updates their rate filing to reflect both the change in the final Rhode Island CY 2023 risk adjustment results and the morbidity adjustment to the Massachusetts experience, the total impact is an approximately 3.4% decrease to rates.

**Assumption #3:** Revise the rate filing assumptions to reflect the final 2023 risk adjustment results. This results in an approximate 3.4% net decrease to rates, which is a combination of a 2.8% decrease due to the risk adjustment assumption change and a 0.6% decrease due to the change in the morbidity adjustment to the Massachusetts experience.

## VII. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, United projects an MLR for 2025 of 89.5% for the 2025 rating period which includes a 0.0% contribution to reserve. United assumed a 0.0% contribution to reserve in the 2024 rate filing. United reports an MLR of 86.1% for CY 2021, 83.7% MLR for 2022, and 86.1% MLR for 2023.<sup>13</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. United is proposing an average retention charge of 15.1% for 2025. This is the same as the retention charge from 2024 of 15.1%.

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<sup>13</sup> United stated that the reported MLR for 2022 reflects the 2018-2021 risk adjustment data validation (RADV) results as requested in the MLR reporting guidance provided by CMS. There may be other updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

Proposed Retention Charge (UHCNE + UHIC)	2025	2024	Change
ACA Taxes and Fees	0.1%	0.1%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.6%	0.6%	0.0%
Contribution to Reserve (Profit/Risk Load)	0.0%	0.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>12.5%</u>	<u>12.5%</u>	<u>0.0%</u>
Total Retention Charge	15.1%	15.1%	0.0%

**Table 8: Proposed Retention Charge<sup>14</sup>**

The table below shows the administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 20.6% from 2024 to 2025.<sup>15</sup>

UHCNE + UHIC			
Admin Charges	2025	2024	Admin Charge Trend
Admin PMPM	\$94.67	\$78.53	20.6%

**Table 9: Administrative PMPM Charge<sup>16</sup>**

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$94.67 PMPM to \$81.12. This would lower rates by approximately 1.4%.

## VIII. Financial Position

A review of UHIC's and UHCNE's financial measures show that UHIC's RBC position has remained healthy for the past four years, ranging from 644.2% to 813.6%. The underwriting gain/loss and SAPOR<sup>17</sup> have also remained fairly consistent for UHIC. UHCNE's RBC, SAPOR and underwriting gain/loss is consistently lower than UHIC through 2021. In 2022, UHCNE experienced a significant increase in their SAPOR, RBC and underwriting gain/loss. This was explained to OWA by RIOHIC to be due to the transfer of Medicare Advantage business from UHCNE to another United entity.

<sup>14</sup> United includes most of the cost for the Care Transformation Collaborative of RI and the total the cost for Current Care in retention. The cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account are included in their medical claims projection.

<sup>15</sup> From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (line 7) excluding the assessments of \$2.78 PMPM in 2025 and 2024 shown as part of the amount in row 30 (line 7i "Other Admin Expenses"). This includes commissions.

<sup>16</sup>The administrative charge shown here include commissions but exclude assessments.

<sup>17</sup> SAPOR is surplus as a percentage of revenue.

UHIC				
	2020	2021	2022	2023
Total Revenues	\$55,111,543,011	\$53,114,149,629	\$43,772,644,000	\$47,235,287,781
Net Underwriting G/L	\$4,008,681,977	\$2,638,502,846	\$3,123,376,617	\$3,414,771,794
<b>Underwriting G/L</b>	<b>7.3%</b>	<b>5.0%</b>	<b>7.1%</b>	<b>7.2%</b>
Capital and Surplus end of reporting year	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
<b>SAPOR</b>	<b>14.9%</b>	<b>15.3%</b>	<b>16.4%</b>	<b>14.8%</b>
Total Adjusted Capital	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
Authorized control level risk-based capital	\$1,275,995,904	\$1,224,069,942	\$885,025,263	\$1,009,793,872
<b>RBC</b>	<b>644.2%</b>	<b>665.5%</b>	<b>813.6%</b>	<b>693.7%</b>

**Table 10: Summary of UHIC Financials**

UHCNE				
	2020	2021	2022	2023
Total Revenues	\$1,433,651,095	\$1,584,388,273	\$656,561,973	\$703,323,670
Net Underwriting G/L	\$64,140,390	\$78,681,058	\$41,619,966	\$23,606,329
<b>Underwriting G/L</b>	<b>4.5%</b>	<b>5.0%</b>	<b>6.3%</b>	<b>3.4%</b>
Capital and Surplus end of reporting year	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
<b>SAPOR</b>	<b>14.3%</b>	<b>13.0%</b>	<b>34.1%</b>	<b>32.8%</b>
Total Adjusted Capital	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
Authorized control level risk-based capital	\$39,155,808	\$33,402,863	\$3,309,866	\$3,383,825
<b>RBC</b>	<b>522.0%</b>	<b>617.3%</b>	<b>6756.0%</b>	<b>6812.0%</b>

**Table 11: Summary of UHCNE Financials**

## IX. URRT

I have reviewed the URRT for consistency with the RIOHIC rate template. The CPAIR rates in the URRT match the rates in the RIOHIC rate template for all plans.

I also reviewed the CPAIRs in the OHIC template to United's actuarial memorandum attachments. The CPAIRs in the RIOHIC template are approximately 0.00% to 0.02% higher for each of the UHIC and UHCNE plans compared to the rates in the actuarial memorandum. When asked about the discrepancy, United



mentioned that the rates in the OHIC template are slightly higher than the final rates to be charged to customers due to limitations in the rating system used to populate the templates.

## X. Requested and Final Approved Rate Change

The table below shows UHIC and UHCNE's requested rates and OWA's alternative assumptions along with the impact to rates. OWA's rates are estimated and are subject to verification by United. After incorporating the assumption changes, the corresponding rate change may differ slightly.

	UHIC SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$539.86	\$501.60	-7.1%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>22.7%</b>	<b>14.0%</b>	

**Table 12: UHIC Requested and Final Approved Rate Change**

	UHCNE SG		
	Requested	Final Approved	Impact to Rate
2025 Calibrated Plan Adjusted Index Rate (CPAIR)	\$475.27	\$441.26	-7.2%
FFS Medical Utilization & Severity Trend	3.8%	2.2%	-2.4%
Updated FY2025 Assessment Charge	\$7.53	\$6.62	-0.1%
Revised 2025 Risk Adjustment (Receivable)	0.4%	2.9%	-2.8%
Morbidity Adjustment to MA Experience	1.279	1.267	-0.6%
Administrative PMPM Charge	\$94.67	\$81.12	-1.4%
Contribution to Reserves/Profit	0.0%	0.0%	0.0%
<b>CPAIR Change from 2024</b>	<b>8.8%</b>	<b>1.0%</b>	

**Table 13: UHCNE Requested and Final Approved Rate Change**

## **XI. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of UHIC's and UHCNE's small group rate filings (SERFF tracking numbers **UHLC-134066736 & UHLC-134066729**.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by UHIC and UHCNE. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Gregory Bruce who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jennifer Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in cursive script that reads "Gregory Bruce".

Gregory Bruce FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Large Group Market Rate Filings for Aetna Life Insurance Company (Aetna) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #AETN-134081209**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of Aetna's large group market rate filing. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filing that were submitted on May 13<sup>th</sup> and June 13<sup>th</sup>.<sup>1</sup> In the original filing, Aetna requested a 7.9% rate increase. The filing on June 13<sup>th</sup> included an updated rate change reflecting the impact of reduced trend due to an error in the mix component; this resulted in a revised requested increase of 7.5%.

Throughout the filing process, OWA corresponded with Robert F. McKinney, a manager of Aetna's actuarial team. An actuarial certification is included in the filing signed by Scott Cremens, FSA, MAAA, a senior manager of Aetna Life Insurance Company. OWA submitted questions through SERFF on June 6<sup>th</sup> and July 16<sup>th</sup> and received responses to questions through SERFF.

The RI Health Insurance Commissions provided preliminary decisions to Aetna on August 20, 2024.

## **II. Requested and Final Approved Rate Change**

The table below shows Aetna's requested rates and final approved rate change. There is no consideration for alternative assumptions for this rate filing.

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<sup>1</sup> An updated RIOHIC template was also submitted on July 23<sup>rd</sup> for purposes of separating out the premium tax line item in the retention tab.

	Aetna LG		
	Requested	Final Approved	Impact to Rate Change
Contribution to Reserves/Profit	1.0%	1.0%	
<b>Expected Overall Rate Change from 2024</b>	<b>7.5%</b>	<b>7.5%</b>	

**Table 1: Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

The large group Rhode Island rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2024, there are 74 Rhode Island members enrolled.<sup>2</sup> In the rate filing submitted on May 13<sup>th</sup>, Aetna requested a 7.9% annual rate change. Subsequently, Aetna submitted a revised rate filing on June 13<sup>th</sup> to correct an error in the mix component of trend; the resulting revised rate increase is 7.5%. The rate cap for large group insurers only applies to insurers with greater than one percent of the fully insured Rhode Island market, therefore it does not apply to Aetna.

The 2025 average rate change of 7.5% is driven by these key factors as reported by Aetna in Tab V of the Rhode Island OHIC rate template:

- 7.3% due to trend
- 0.1% administrative charge
- 0.1% RI assessment and fees

### IV. Experience & Trend Assumptions

Aetna sold its first Rhode Island large group account in April 2021 and currently has 74 members in Rhode Island, therefore there is limited data. Aetna submitted Tab I of the RIOHIC template with Rhode Island-specific experience; in prior years, Aetna completed Tab I of the RIOHIC template with its Connecticut experience. A review of actual claims experience shows that actual trends for Aetna's Rhode Island large group market are -42.4% in CY 2022 and 379.5% in CY 2023. The table below shows a three-year history of allowed claims PMPMs. Trends fluctuate by service category. Aetna's Rhode Island enrollment increased 24.8% in 2022 and decreased 8.2% in 2023; enrollment has been under 1,000 member months the past three years.

<sup>2</sup> Aetna sold its first account in Rhode Island in April 2021.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$0.00	\$0.00	\$360.82
Outpatient Hospital	\$99.72	\$39.98	\$96.28
Professional	\$92.11	\$59.58	\$140.88
Other Medical	\$27.63	\$10.40	\$42.22
Capitation	\$0.00	\$0.00	\$0.00
Prescription Drug	<u>\$18.35</u>	<u>\$27.12</u>	<u>\$17.07</u>
Total	\$237.82	\$137.08	\$657.28
Member Months	677	845	776

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	0.0%	0.0%
Outpatient Hospital	-59.9%	140.9%
Professional	-35.3%	136.4%
Other Medical	-62.4%	305.9%
Capitation	0.0%	0.0%
Prescription Drug	<u>47.8%</u>	<u>-37.0%</u>
Total	-42.4%	379.5%
Member Months Trend	24.8%	-8.2%

**Table 2: Allowed Claims PMPM and Trend CY 2021 – CY 2023**

Aetna is assuming an average annual trend assumption of 7.2% excluding leverage and 8.1% including leverage. This is higher than the trend assumption of 5.1% excluding leverage and 6.2% including leverage from last year's final filing.<sup>3</sup> Aetna is continuing to use the same utilization and mix assumptions as the previously approved rates, therefore the increase in trend assumption compared to last year is due to increased unit cost assumptions.

<sup>3</sup> For the 2024 rate filing, Aetna originally submitted trends of 9.0% excluding leverage and 10.1% including leverage. The final filing reduced the utilization and mix assumptions such that the overall trends were 5.1% excluding leverage and 6.2% including leverage.

Trend Assumptions			
	Cost Trend	Utilization & Severity Trend	Total Trend
Inpatient Hospital	7.0%	2.2%	9.3%
Outpatient Hospital	5.6%	1.7%	7.5%
Professional	1.5%	1.6%	3.1%
Other Medical	5.6%	1.7%	7.5%
Capitation	0.0%	0.0%	0.0%
<b>Total Medical</b>	<b>4.9%</b>	<b>1.8%</b>	<b>6.8%</b>
<b>Prescription Drug</b>	<b><u>5.0%</u></b>	<b><u>3.7%</u></b>	<b><u>8.8%</u></b>
<b>Subtotal Excluding Leverage:</b>	<b>4.9%</b>	<b>2.2%</b>	<b>7.2%</b>
Leverage			0.8%
<b>Total Incl. Leverage:</b>			<b>8.1%</b>

Table 3: Proposed Trend Assumptions

Due to lack of credible experience in the Rhode Island market, Aetna is leaving the utilization and severity trend unchanged from the previously approved amount from the 2024 rate filing. With this assumption, Aetna's overall trends are in line with the trends assumed for other large group carriers within the state.

In addition to the trend assumptions above, Aetna adds a leverage adjustment into their rates to account for cost share leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by insurers increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. Aetna's overall leverage assumption is 0.8% which is consistent with last year. Aetna stated that this is based on information provided in Milliman Health Cost Guidelines; Aetna also provided support for the development of this assumption.

## V. Assessments

Aetna includes the cost of assessments for Childhood Immunizations, Adult Immunizations, and Children's Health Account in their retention. Tab IV of the RIOHIC template shows that Aetna includes 0.8%<sup>4</sup> of premium for these Rhode Island assessments. This represents an assumption consistent with the 2024 rates where 0.8% was also included for these assessments. Aetna did not indicate an amount for Care Transformation Collaborative of RI and Current Care in Tab IV of the RIOHIC template. When determining the amount of assessment expenditures and applicable member months attributable to each assessment, Aetna considers all Rhode Island residents regardless of the contract or situs state of the group.

<sup>4</sup> For 2025 pricing, Aetna is phasing-in the methodology change regarding Medicare and Medicare Supplement populations in the assessment calculation, resulting in the 0.8% of premium charge; the unadjusted charge would have been 1.2%.

## VI. Projected MLR and Retention Charge

Using the federal definition and the current proposed rates, Aetna projects an 99.7% MLR for 2024 and 97.1% for 2025.<sup>5</sup> Aetna reports an MLR of 59.8% for CY 2021, 77.5% MLR for 2025, and 110.5% MLR for 2023.<sup>6</sup> The historical experience is based on Rhode Island experience, whereas previous rate filings showed Connecticut business.

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. Aetna is proposing an average retention charge of 8.6% for 2025.<sup>7</sup> This is slightly lower than the retention charge from 2024 of 8.7% and the decrease is mainly due to a reduction in administrative expenses.

Proposed Retention Charge	2025	2024	Change
ACA Taxes and Fees	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	1.2%	1.1%	0.1%
Contribution to Reserve (Profit/Risk Load)	1.0%	1.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
<u>Administrative Expense Load</u>	<u>4.4%</u>	<u>4.6%</u>	<u>-0.2%</u>
Total Retention Charge	8.6%	8.7%	-0.1%

Table 4: Proposed Retention Charges<sup>8</sup>

## VII. Requested and Final Approved Rate Change

The table below shows Aetna's requested rate changes and final approved rate change. There is no consideration for alternative assumptions for this rate filing.

	Aetna LG		
	Requested	Final Approved	Impact to Rate Change
Contribution to Reserves/Profit	1.0%	1.0%	
<b>Expected Overall Rate Change from 2024</b>	<b>7.5%</b>	<b>7.5%</b>	

Table 5: Requested and Final Approved Rate Change

<sup>5</sup> This is obtained from Tab VI MLR Exhibit in the RI rate template and is prior to the credibility adjustment factor.

<sup>6</sup> There may be updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

<sup>7</sup> The item "Premium Tax" line originally included a 2.0% charge for premium tax, 0.8% for assessments and 0.4% for insolvency risk. The assessments and insolvency risk has been included in the "Other Retention Charge" line for purposes of this memo.

<sup>8</sup> Aetna has indicated that the retention charge includes the cost for Childhood Immunizations, Adult Immunizations, and Children's Health Account.

## **VIII. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of Aetna's large group rate filing (SERFF tracking numbers AETN-134081209). Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by Aetna. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Gregory Bruce who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in black ink that reads "Gregory Bruce". The signature is written in a cursive, flowing style.

Gregory Bruce FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, Rhode Island OHIC



Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Large Group Market Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #BCBS-134035588**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of BCBSRI's large group market rate filing. This letter documents our review and the final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted May 13<sup>th</sup> and June 19<sup>th</sup>.<sup>1</sup>

Throughout the filing process, OWA corresponded with Michael Bodenrader, Whitney Campion, and Sarah Bewick of BCBSRI. An actuarial memorandum and certification are included in the filing signed by Sarah Bewick, ASA, MAAA. OWA submitted questions through SERFF on June 12<sup>th</sup>, July 17<sup>th</sup>, July 24<sup>th</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the BCBSRI individual and small group filings that pertain to the BCBSRI large group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 16, 2024. The RI Health Insurance Commissioner provided preliminary decisions to BCBSRI on August 20, 2024. BCBSRI submitted revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

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<sup>1</sup>A revised rate filing was submitted on June 19<sup>th</sup> which updated information on Tab V Components of Premium tab. The average rate change in the June 19<sup>th</sup> filing did not change.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Update the experience period to reflect claims-runout through May 2024 rather than February 2024. This assumption change would decrease the rates by approximately 0.2%.

**Assumption #2:** Revise the Year 2 hospital unit cost trends to reflect the CPI-U inflation of 3.2% plus 1%. This assumption change would decrease the rates by approximately 0.4%.

**Assumption #3:** Revise the annual medical utilization & severity trend assumptions from 2.9% to 2.4%. These assumption changes would decrease the rates by approximately 0.8%.

**Assumption #4:** Revise the trend used in the 2025 pharmacy rebate PMPM projection from 10.6% to 19.8%. This assumption change would decrease rates by approximately 0.7%.

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

	BCBSRI LG		
	Requested	Final Approved	Impact to Rate Change
Base Period Experience (Incurred Claims PMPM)	\$513.48	\$512.25	-0.2%
Hospital Unit Cost Trend Year 2	4.6%	4.2%	-0.4%
Annual Medical Utilization & Severity Trend	2.9%	2.4%	-0.8%
Pharmacy Rebate Trend	10.6%	19.8%	-0.7%
Contribution to Reserves/Profit	2.0%	2.0%	0.0%
Expected Overall Rate Change from 2024	13.5%	11.3%	

**Table 1: Requested and Final Approved Rate Change**

## III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2024, there were 59,990 members. BCBSRI has requested an overall 13.5% annual rate increase. The table below shows the rate change by quarter. BCBSRI projects this rate change by projecting claims and premium for their groups for each renewal month and then aggregates their projections to calculate a projected annual rate change. There is variation by quarter due to the diversity of the groups that renew each quarter. Since the large group rating formula is an experience rating formula, each group's own experience will influence the overall rate increase.

<b>Renewal Quarter and Year</b>	<b>Proposed Average Rate Change</b>	<b>% of Renewals (Membership)</b>
1Q 25 Renewals	13.2%	52%
2Q 25 Renewals	14.9%	20%
3Q 25 Renewals	11.1%	17%
4Q 25 Renewals	15.2%	12%
Total	13.5%	100%

**Table 2: Average Rate Changes by Quarter**

The 2025 average rate change of 13.5% is driven by these key factors as reported by BCBSRI in Tab V of the RIOHIC rate template:

- 9.0% due to trend
- 2.7% due to understatement of prior year fee-for-service claims<sup>2</sup>
- 1.3% due to increase in contribution to reserve

#### **IV. Experience & Trend Assumptions**

A review of actual allowed claims experience shows that actual trends for BCBSRI's large group market was 3.3% from 2021 to 2022 and 9.0% from 2022 to 2023. BCBSRI's membership decreased from 2021 to 2022 but was stable into 2023.

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<sup>2</sup> This only includes the impact of fee-for-service claims and does not include the impact from pharmacy rebates or out-of-system claims.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$112.56	\$109.13	\$120.75
Outpatient Hospital	\$146.87	\$155.15	\$175.29
Professional	\$174.14	\$175.62	\$184.84
Other Medical	\$14.67	\$16.38	\$13.67
Capitation	\$0.75	\$0.68	\$3.59
Prescription Drug	<u>\$89.59</u>	<u>\$99.47</u>	<u>\$108.14</u>
Total	\$538.58	\$556.42	\$606.27
Member Months	815,879	762,822	765,001

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	-3.0%	10.7%
Outpatient Hospital	5.6%	13.0%
Professional	0.8%	5.3%
Other Medical	11.7%	-16.6%
Capitation	-10.0%	430.9%
Prescription Drug	<u>11.0%</u>	<u>8.7%</u>
Total	3.3%	9.0%
Member Months Trend	-6.5%	0.3%

**Table 3: Allowed Claims PMPM and Trend CY 2021 – CY 2023**

BCBSRI was asked to provide an updated CY 2023 base period estimate with claims paid through May 2024 which showed the CY 2023 incurred and paid PMPM has restated lower by 0.2%.

**Assumption #1:** Update the experience period to reflect claims-runout through May 2024 rather than February 2024. This assumption change would decrease the rates by approximately 0.2%.

BCBSRI is assuming an average annual trend assumption of 7.9% excluding leverage and 8.9% including leverage. This is an increase from last year's trend assumptions of 6.5% excluding leverage and 7.5% including leverage. The table below shows BCBSRI's trend assumptions by service category. The average medical cost trend is 4.2%, compared to 4.3% last year. The average medical utilization & severity trend is 2.9%<sup>3</sup>, compared to 1.4% last year. BCBSRI's trend assumption is driven by the unit cost trend component and the pharmacy trend component as shown in the table below.

<sup>3</sup> BCBSRI individual, small group, and large group all use the same trend assumptions by service category, but the weights by service category are different which causes total trends to differ slightly. In addition, the small group rate filing Year 2 trend includes an additional month of trend to project to 1Q.

Trend Assumptions			
	2 Year Average Cost Trend	2 Year Average Util & Severity Trend	2 Year Average Total Trend
Inpatient Hospital	5.1%	0.0%	5.1%
Outpatient Hospital	4.1%	4.5%	8.8%
Professional	3.8%	3.2%	7.2%
Other Medical	3.8%	3.2%	7.2%
Capitation	3.8%	3.2%	7.1%
<b>Total Medical</b>	<b>4.2%</b>	<b>2.9%</b>	<b>7.2%</b>
<b>Prescription Drug<sup>4</sup></b>	<b><u>0.3%</u></b>	<b><u>10.6%</u></b>	<b><u>10.9%</u></b>
<b>Subtotal Excl. Leverage</b>			<b>7.9%</b>
Leverage		-	0.9%
<b>Total Incl. Leverage</b>			<b>8.9%</b>

**Table 4: Proposed Trend Assumptions**

The table below shows BCBSRI's inpatient hospital outpatient hospital and professional unit cost trend assumptions for 2024 and 2025. On combined inpatient and outpatient basis, the annualized unit cost trend is 4.5% for 2024 and 4.6% for 2025.<sup>5</sup> BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing. BCBSRI has provided a detailed unit cost increase schedule for hospital and the numbers align with the rate filing.

Unit Cost Trend	Year 1 2024	Year 2 2025
Hospital Inpatient	5.1%	5.1%
Outpatient Hospital	4.0%	4.2%
Professional	4.1%	3.6%

**Table 5: Unit Cost Trends**

RIOHIC sets the maximum hospital unit cost increase each October for the following year based on the Consumer Price Index for All Urban Consumers (CPI-U): Less Food and Energy as of September plus 1%. For 2024, the maximum hospital unit cost increase is 5.3%.<sup>6</sup> BCBSRI's 2024 hospital unit cost increase is 4.5% and therefore below this maximum. As of July 2024, the CPI-U: Less Food and Energy is 3.2%.<sup>7</sup> If the 2025 maximum hospital unit cost increase was determined based on information as of July 2024, this would lead

<sup>4</sup> The pharmacy cost trend in this table represents changes to trend outside of BCBSRI's regression analysis and therefore does not represent true cost trend assumptions.

<sup>5</sup> The unit cost trends were weighted by the CY 2023 experience period allowed claims PMPM.

<sup>6</sup> [OHIC Bulletin 2023-4 Final.pdf \(ri.gov\)](#)

<sup>7</sup> [12-month percentage change, Consumer Price Index, selected categories \(bls.gov\)](#)

to a maximum of 4.2%. BCBSRI is currently assuming a 4.6% combined inpatient and outpatient unit cost increase. Therefore, with the CPI-U information as of July 2024, BCBSRI's combined hospital inpatient and outpatient unit cost trends are 0.4% higher than what the maximum would be.

**Assumption #2:** Revise the Year 2 hospital unit cost trends to reflect the CPI-U inflation of 3.2% plus 1%. This assumption change would decrease the rates by approximately 0.4%.

BCBSRI performs linear regression analyses combining their data across their individual, small group, and large group insured markets. They have provided their results with regression charts by major service category: inpatient hospital, outpatient hospital, professional, and pharmacy. For inpatient utilization, regressions are performed on both admissions per 1,000 and inpatient PMPMs.<sup>8</sup> BCBSRI adjusts allowed claims PMPMs for price and then performs regression analysis; therefore, the data represents the utilization and severity (or mix) of services. These are also referred to de-priced PMPMs. BCBSRI relied on data from January 2021 through December 2023 and data was rolled up to reflect twelve-month averages. BCBSRI excluded COVID-19 vaccines and testing claims from the data when analyzing historical outpatient hospital and professional utilization and mix trends. Their data has also been adjusted for age. Then BCBSRI uses the predicted data points for 2024 and 2025 to determine the utilization and severity trend assumptions. The assumption used for professional services was also used for "other" medical.

BCBSRI developed regression lines with varying amounts of data. The best fit regression line for outpatient hospital and professional (i.e. the lines with the highest r-squared values of 0.98 or 0.99) relied on more recent data which resulted in historically high utilization and severity trend assumptions. The regression lines using three years of data (25 data points) resulted in a lower r-squared fit of 0.91 and 0.83 for outpatient hospital and professional, respectively. However, BCBSRI stated that they decided to use the regression results with three years of data rather than the results with more recent data to incorporate a more longitudinal view of utilization and severity trends, especially knowing that post-Covid trends have been more volatile.

For inpatient hospital, BCBSRI stated that they relied on actuarial judgment to arrive at a 0% utilization trend assumption. The results from the different methods varied considerably and there was a clear inflection point at the end of 2022 resulting in a poor fit for the three-year trend line. Additionally for inpatient, BCBSRI observed a higher trend in the de-priced PMPMs when compared to admissions per 1,000 data points which they stated is due to an increase in high-cost cases in 2023.

BCBSRI's pharmacy regression analysis starts with pharmacy PMPMs and then adjusts for expected changes in pharmacy discounts, dispensing fees, new drugs, new generics, the removal of high-cost members, and GLP-1 drugs. The result is a total pharmacy trend including utilization, severity changes, and manufacturer price changes. BCBSRI then separately develops a trend factor to represent changes to trend outside of the regression analysis. Unlike for the outpatient hospital and professional service categories, BCBSRI used the best fit regression line with more recent data (22 data points) rather than 25 data points citing that pharmacy has shown very little variability over time unlike medical.

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<sup>8</sup> BCBSRI stated that while they typically rely on admission data as this minimizes the impact of high-cost claimants, they also analyze inpatient PMPM data which will capture the impact of severity. They use results from both analyses to inform the inpatient trend projection assumption.

OWA performed our own trend analysis by combining data across the three fully insured market segments for medical and pharmacy allowed claims PMPMs. We requested and received monthly data for each market segment and for medical and pharmacy services incurred from January 2019 through January 2024.<sup>9</sup> We also requested and received monthly data for COVID-19 vaccine and testing expenses and used this data to exclude COVID-19 expenses from the trend analysis. Finally, we adjusted for age and de-priced the claims data to focus on historical utilization and severity trends, consistent with the adjustments made by BCBSRI.

OWA first calculated unadjusted allowed PMPM trends (which include cost, utilization, and severity) through January 2024 analyzing rolling six-month and rolling twelve-month trends. The unadjusted trends do not adjust for COVID-19 costs, aging, or de-pricing. The table below shows a summary of these results. As shown, the total rolling six-month trend for January 2024 of 9.8% represents August 2023 through January 2024 compared to August 2022 through January 2023. The total rolling twelve-month trend for January 2024 of 10.0% represents February 2023 through January 2024 compared to February 2022 through January 2023. The rolling six-month trends indicate the more recent emerging trends while the rolling twelve-month trends reflect more historical data. As shown in Table 6, the rolling twelve-month trends change from 3.7% for the twelve months ending December 2022 increasing to 10.0% for the twelve months ending January 2024.

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	4.4%	3.7%
Jan-23	7.3%	5.2%
Feb-23	9.0%	6.2%
Mar-23	8.8%	6.2%
Apr-23	8.9%	6.6%
May-23	10.0%	7.1%
Jun-23	12.2%	8.3%
Jul-23	10.2%	8.8%
Aug-23	9.5%	9.2%
Sep-23	9.4%	9.1%
Oct-23	11.3%	10.1%
Nov-23	10.5%	10.2%
Dec-23	9.7%	10.9%
Jan-24	9.8%	10.0%

**Table 6: Medical & Pharmacy Unadjusted Allowed Claims Trend Assumptions (Fully Insured)<sup>10</sup>**

<sup>9</sup> Incurred data and paid data was provided through March 2024. Since the data is only paid through March 2024, we only relied on data through January 2024 such that all data points contained at least two months of claims run-out. The data provided is gross of pharmacy rebates and does not include out of system payments. I

<sup>10</sup> Trends reflect the total fully insured market which includes individual, small group, and large group fully insured products.

We then calculated unadjusted allowed PMPM trends for pharmacy and medical claims separately for the same time period analyzing rolling six-month and rolling twelve-month trends. The two tables below show a summary of these results. As shown, the unadjusted medical trends are volatile, showing a large increase in trends from December 2022 through January 2024. The unadjusted pharmacy trends are more stable and show a decrease in recent time periods.

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	2.6%	1.4%
Jan-23	5.5%	3.1%
Feb-23	8.3%	4.6%
Mar-23	8.0%	4.4%
Apr-23	8.3%	4.8%
May-23	9.3%	5.5%
Jun-23	12.2%	7.4%
Jul-23	10.1%	7.8%
Aug-23	8.7%	8.5%
Sep-23	9.3%	8.6%
Oct-23	11.6%	10.0%
Nov-23	11.0%	10.1%
Dec-23	10.1%	11.1%
Jan-24	10.4%	10.3%

**Table 7: Medical Unadjusted Allowed Claims Trend Assumptions (Fully Insured)**

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	10.1%	10.9%
Jan-23	12.6%	11.9%
Feb-23	11.0%	11.3%
Mar-23	11.4%	11.8%
Apr-23	10.5%	12.0%
May-23	12.0%	12.0%
Jun-23	12.0%	11.1%
Jul-23	10.6%	11.6%
Aug-23	11.7%	11.4%
Sep-23	9.6%	10.5%
Oct-23	10.5%	10.5%
Nov-23	9.3%	10.6%
Dec-23	8.9%	10.4%
Jan-24	8.1%	9.3%



**Table 8: Pharmacy Unadjusted Allowed Claims Trend Assumptions (Fully Insured)**

The trends shown in the previous three tables are all on an unadjusted basis. BCBSRI provided monthly unit price increases for the inpatient hospital, outpatient hospital, and professional service categories. I composited the unit price increases by service category into one medical unit price increase number.<sup>11</sup> I then adjusted medical allowed claims data for unit cost increases for all market segments. This allowed me to analyze medical utilization and severity trends. Examining medical trends in total rather than by service category eliminates some of the variation that can occur at a more granular level and it better accounts for shifting that may occur among service categories. BCBSRI also provided COVID-19 testing and vaccine costs by month which were removed from the data. Monthly age factors were also provided which allowed me to adjust for the impact of aging. The resulting adjusted medical trends are shown in Table 9 below. Even on an adjusted basis, the medical trends are volatile from December 2022 to January 2024. The rolling-twelve trend is -1.4% for the period ending December 2022, increases to 5.0% for the period ending July 2023, peaks at 8.0% for the period ending December 2023, and finally decreases to 7.2% for the period ending January 2024.

Period Ending	Rolling 6 Month	Rolling 12 Month
Dec-22	-0.1%	-1.4%
Jan-23	3.0%	0.3%
Feb-23	5.6%	1.6%
Mar-23	5.2%	1.4%
Apr-23	5.6%	1.8%
May-23	6.5%	2.5%
Jun-23	9.2%	4.5%
Jul-23	7.1%	5.0%
Aug-23	6.0%	5.8%
Sep-23	6.5%	5.8%
Oct-23	8.5%	7.0%
Nov-23	7.7%	7.1%
Dec-23	6.8%	8.0%
Jan-24	7.2%	7.2%

**Table 9: Medical Adjusted Allowed Claims Trend Assumptions (Fully Insured)**

Based on data provided by BCBSRI, it was found that the impact of high-cost claimants was significantly higher in 2023 compared to 2022 which can lead to volatile trend patterns. The impact of high-cost claimants can greatly impact trend analysis. Given the concerns with recent volatility and the impact of

<sup>11</sup> The unit price increases by service category were composited using distributions by service category calculated from current and historical rate filings. It was assumed that Other Medical and Capitation had the same unit price increases as the composite.

high-cost claimants, OWA examined the trend data by comparing data from January 2019 through January 2020 to January 2023 through January 2024 and then annualized the results. The impact of high-cost claimants in 2019 is more similar to 2023 and this approach looks at data over a longer time period, excluding the years most likely impacted by COVID-19. As shown in the table below, the results are more stable using this approach with the overall average of all data points at 2.4%. BCBSRI is currently using a 2.9% annualized medical utilization and severity trend in both Year 1 and Year 2. The Year 2 medical utilization & severity trend assumption is 3.2% because it includes an additional month of trend.

Period Ending	Rolling 6 Month	Rolling 12 Month
Jun-23	2.1%	
Jul-23	2.1%	
Aug-23	2.2%	
Sep-23	2.0%	
Oct-23	2.4%	
Nov-23	3.0%	
Dec-23	2.7%	2.4%
Jan-24	2.9%	2.5%
<b>Average of Data Points</b>	<b>2.4%</b>	<b>2.4%</b>

**Table 10: Medical Adjusted Allowed Claims Trend Assumptions (Fully Insured)**  
**4 Year Annualized**

**Assumption #3:** Revise the annual medical utilization & severity trend assumptions from 2.9% to 2.4%. These assumption changes would decrease the rates by approximately 0.8%.

BCBSRI provided updated trend data incurred through April 2024 and paid through June 2024 during the course of the rate filing review. The new data did not provide any information that would cause us to change the alternative assumptions described above.

BCBSRI provided information related to pharmacy rebates including a description of how they are projected and how they are reflected in the rate development. BCBSRI stated that since the 2025 contract for pharmacy rebates is not yet finalized, they used the 2024 rebate estimates projected forward with a 10.6% pharmacy trend. Based on historical information provided by BCBSRI, pharmacy rebate PMPMs have increased at an average rate of 19.8% per year between 2020 and 2023. If BCBSRI were to assume that 2025 pharmacy rebates will increase 19.8% from 2024 to 2025, that change would increase the 2025 pharmacy rebate projection by approximately \$5 PMPM and reduce rates by an estimated 0.7%. Pharmacy rebates as a percentage of gross pharmacy costs have increased each year from 26% in CY 2020 to 33% in

CY 2023. Using the revised trend assumption of 19.8% would lead to a pharmacy rebate as a percentage of gross pharmacy costs of 33%.

**Assumption #4:** Revise the trend used in the 2025 pharmacy rebate PMPM projection from 10.6% to 19.8%. This assumption change would decrease rates by approximately 0.7%.

## V. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, BCBSRI projects an MLR for 2025 of 89.3% which includes a 2.0% contribution to reserve. BCBSRI reports an MLR of 87.0% for CY 2021, 87.1% MLR for 2022, and 90.8% MLR for 2023.<sup>12</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. BCBSRI is proposing an average retention charge of 13.9% for 2025. This is lower than the retention charge from 2024 of 14.3%. The administrative expense load has decreased from 10.5% to 9.4%, while the contribution to reserve increased to 2% from 1% in 2024. BCBSRI includes 0.9% in their rates for RI assessments and fees, and last year this amount was 1.4%.

Proposed Retention Charge	2025	2024	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.9%	1.1%	-0.3%
Contribution to Reserve (Profit/Risk Load)	2.0%	1.0%	1.0%
Investment Income Credit	-0.4%	-0.3%	-0.1%
Administrative Expense Load	<u>9.4%</u>	<u>10.5%</u>	<u>-1.1%</u>
Total Retention Charge	13.9%	14.3%	-0.4%

**Table 11: Proposed Retention Charge<sup>13</sup>**

<sup>12</sup> There may be updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

<sup>13</sup> The Other Retention Charge Line includes the amount for assessments included in retention (Childhood Immunization Account, Adult Immunization Account, and Children's Health Account.) The charges for the Care Transformation Collaborative of RI and Current Care are included in the medical claims portion of the rate.

	2025 BCBSRI Assumptions		2024 BCBSRI Assumptions	
Assessment	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$2.60	0.4%	\$2.88	0.4%
Adult Immunization Account	\$2.61	0.4%	\$3.23	0.5%
Children's Health Account	\$1.07	0.1%	\$1.11	0.2%
Care Transformation Collaborative of RI	\$0.52	0.1%	\$0.78	0.1%
CurrentCare <sup>14</sup>	<u>\$0.00</u>	<u>0.0%</u>	<u>\$1.00</u>	<u>0.2%</u>
Total	\$6.80	0.9%	\$9.00	1.4%

**Table 12: RI Assessments**

The table below shows the administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 1.7% from 2024 to 2025.<sup>15</sup>

Admin Charges	2025	2024	Admin Charge Trend
Admin PMPM	\$69.42	\$68.23	1.7%

**Table 13: Administrative PMPM Charge<sup>16</sup>**

<sup>14</sup> For CurrentCare, BCBSRI stated that they are projected to spend the same amount in 2025 as what was incurred in 2023, but that they have moved these expenses from the out of system category to administrative expenses. The CY 2023 CurrentCare fee was \$1.00 PMPM.

<sup>15</sup> From Tab IV Retention Charge, Administrative Expense Load PMPM reported in row 20 (7). This includes commissions.

<sup>16</sup> The administrative charge excludes assessments.

## VI. Financial Position

A review of BCBSRI's financial measures show that BCBSRI's RBC level in 2023 is 656.2%. This is higher than the RBC from 2022 at 637.0%, but lower than the RBC from 2020 and 2021.

	2020	2021	2022	2023
Total Revenues	\$1,707,243,198	\$1,795,520,104	\$1,883,598,404	\$2,045,132,082
Net Underwriting G/L	\$7,713,021	\$9,239,068	\$19,004,861	-\$25,956,122
<b>Underwriting G/L</b>	<b>0.5%</b>	<b>0.5%</b>	<b>1.0%</b>	<b>-1.3%</b>
Capital and Surplus end of reporting year	\$415,814,234	\$434,692,861	\$408,954,583	\$439,548,497
<b>SAPOR</b>	<b>24.4%</b>	<b>24.2%</b>	<b>21.7%</b>	<b>21.5%</b>
Total Adjusted Capital	\$415,814,234	\$434,692,861	\$408,954,583	\$439,548,497
Authorized control level risk-based capital	\$58,616,377	\$63,315,995	\$64,201,018	\$66,982,806
<b>RBC</b>	<b>709.4%</b>	<b>686.5%</b>	<b>637.0%</b>	<b>656.2%</b>

Table 13: Summary of Financials

## VII. Requested and Final Approved Rate Change

The table below shows BCBSRI's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	BCBSRI LG		
	Requested	Final Approved	Impact to Rate Change
Base Period Experience (Incurred Claims PMPM)	\$513.48	\$512.25	-0.2%
Hospital Unit Cost Trend Year 2	4.6%	4.2%	-0.4%
Annual Medical Utilization & Severity Trend	2.9%	2.4%	-0.8%
Pharmacy Rebate Trend	10.6%	19.8%	-0.7%
Contribution to Reserves/Profit	2.0%	2.0%	0.0%
Expected Overall Rate Change from 2024	13.5%	11.3%	

**Table 14: Requested and Final Approve Rate Change**

## **VIII. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of BCBSRI's large group rate filing (SERFF tracking number BCBS-134035588.) Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by BCBSRI. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Jenn Smagula', with a stylized loop and a long horizontal stroke extending to the right.

Jenn Smagula FSA, MAAA

Cc: Corryn Brown FSA, MAAA, OWA

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29 August 2024

**Large Group Market Rate Filings for Cigna Health and Life Insurance Company (CIGNA) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #CCGP-134098068**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of CIGNA's large group market rate filing. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted on May 13<sup>th</sup> and June 18<sup>th</sup>. The filing submitted on June 18<sup>th</sup> included an updated rate change reflecting the impact of the final FY 2025 assessment charges, reducing the requested rate change from the initially submitted 2.5% to the revised 2.3%.

An actuarial certification is included in the filing signed by Allison Behrens, FSA, MAAA, Actuarial Senior Director. OWA submitted questions through SERFF on June 6<sup>th</sup> and July 16<sup>th</sup> and received responses to questions through SERFF.

OWA provided considerations for alternative assumptions to RIOHIC on August 20, 2024. The RI Health Insurance Commissioner provided preliminary decisions to CIGNA on August 20, 2024. CIGNA submitted revised rates on August 29, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the overall medical utilization & severity trend assumptions from 4.1% to 2.2%. These assumption changes would decrease the rates by approximately 1.3%.

The table below shows CIGNA's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

	CIGNA LG		
	Requested	Final Approved	Impact to Rate
Medical Utilization & Severity Trend	4.1%	2.2%	-1.3%
Contribution to Reserves/Profit	1.0%	1.0%	
<b>Expected Overall Rate Change from 2024</b>	2.3%	0.9%	

**Table 1: Requested and Final Approved Rate Change**

## III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of March 2024, there are 383 Rhode Island members enrolled. In the rate filing submitted on June 18<sup>th</sup>, CIGNA requested a 2.3% annual rate change, which is 0.2% lower than the initially requested rate change. The decrease is attributed to CIGNA revising the pricing to incorporate the FY 2025 assessment charges. The rate cap for large group insurers only applies to insurers with greater than one percent of the fully insured Rhode Island market, therefore it does not apply to CIGNA.

The 2025 average rate change of 2.3% is driven by these key factors as reported by CIGNA in Tab V<sup>1</sup> of the Rhode Island OHIC rate template:

- 7.4% due to trend
- -4.1% due to revisions to pricing factors

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<sup>1</sup> This is based on the RIOHIC template received on June 18<sup>th</sup>.



- -0.5% due to assessments

Regarding the -4.1% change due to revisions to pricing factors, CIGNA listed several changes to the factors and methodology used for the 2025 rate filing across the medical and pharmacy service categories within the actuarial memorandum. As these changes are made within the CIGNA's pricing engine and compared to a version of the results without the updates, CIGNA is unable to provide specific impacts without a large administrative burden.

#### IV. Experience & Trend Assumptions

CIGNA provided their Rhode Island experience for CY 2021, CY 2022, and CY 2023. A review of actual claims experience shows that actual trends for CIGNA's large group market is 41.6% in CY 2022 and -43.4% in CY 2023. Trends fluctuate by service category and in total due to the low membership and changes in membership each year.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$94.40	\$285.10	\$68.56
Outpatient Hospital	\$244.52	\$271.70	\$164.27
Professional	\$136.77	\$157.21	\$125.75
Other Medical	\$25.47	\$14.99	\$12.55
Capitation	\$25.61	\$28.84	\$32.14
Prescription Drug	<u>\$84.75</u>	<u>\$108.25</u>	<u>\$87.11</u>
Total	\$611.52	\$866.10	\$490.37
Member Months	7,282	5,432	4,327

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	202.0%	-76.0%
Outpatient Hospital	11.1%	-39.5%
Professional	14.9%	-20.0%
Other Medical	-41.2%	-16.3%
Capitation	12.6%	11.5%
Prescription Drug	<u>27.7%</u>	<u>-19.5%</u>
Total	41.6%	-43.4%
Member Months Trend	-25.4%	-20.3%

**Table 2: Allowed Claims PMPM and Trend CY 2021 – CY 2023**

CIGNA is assuming an average annual trend assumption of 7.6% excluding leverage and 8.4% including leverage. These assumptions are slightly higher than CIGNA's trend assumptions from last year excluding leverage and including leverage at 6.5% and 7.3% respectively. The table below shows CIGNA's trend assumptions by service category. CIGNA stated that their utilization and mix trend is developed by looking at historical averages and then adjusting them for expected future impacts, such as changes in clinical guidelines. The unit cost trend is developed using CIGNA's knowledge in changes in provider and pharmacy contracted rates.

Trend Assumptions			
	Cost Trend	Utilization & Severity Trend	Total Trend
Inpatient Hospital	3.2%	4.1%	7.5%
Outpatient Hospital	2.9%	4.1%	7.2%
Professional	2.3%	4.1%	6.5%
Other Medical	0.0%	4.1%	4.1%
Capitation	0.0%	4.1%	4.1%
<b>Total Medical</b>	<b>2.4%</b>	<b>4.1%</b>	<b>6.7%</b>
<b>Prescription Drug</b>	<b><u>8.4%</u></b>	<b><u>3.3%</u></b>	<b><u>12.0%</u></b>
<b>Subtotal Excluding Leverage:</b>	<b>3.5%</b>	<b>4.0%</b>	<b>7.6%</b>
Leverage			0.7%
<b>Total Incl. Leverage:</b>			<b>8.4%</b>

**Table 3: Proposed Trend Assumptions**

In addition to the trend assumptions above, CIGNA adds a leverage adjustment into their rates to account for cost share leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. CIGNA's overall leverage assumption is 0.7% which is consistent with last year's assumption.

Given CIGNA's small block of business in the Rhode Island market, it may be reasonable to assume that CIGNA's utilization will not differ significantly from other carriers. For the other primary insurers in Rhode Island, OWA is projecting a medical utilization and severity trend of 2.2%.

**Assumption #1:** Revise the overall medical utilization & severity trend assumptions from 4.1% to 2.2%. These assumption changes would decrease the rates by approximately 1.3%.

## V. Assessments

CIGNA includes the cost of assessments for Childhood Immunizations<sup>2</sup>, Adult Immunizations, and Children's Health Account in their retention. Tab IV of the RIOHIC template shows that CIGNA includes 1.8% of premium for these RI assessments<sup>3</sup>. This represents a decrease from the 2024 rates where 2.1% was included for these assessments, and this decrease is attributed to CIGNA updating the assessments in the June 18<sup>th</sup> revised filing. CIGNA did not indicate an amount for Care Transformation Collaborative of RI and Current Care in Tab IV of the RIOHIC template.

## VI. Projected MLR and Retention Charge

Using the federal definition and the current proposed rates, CIGNA projects a 92.2% MLR for 2024 and 92.8% for 2025. CIGNA reports an MLR of 92.8% for CY 2021, 115.5% MLR for 2022, and 70.4% MLR for 2023.<sup>4</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. CIGNA is proposing an average retention charge of 10.7% for 2025. This is lower than the retention charge from 2024 of 11.3%. The primary driver of the decrease is due to the decrease in the administrative expense load.

Proposed Retention Charge	2025	2024	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	1.0%	1.0%	0.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>7.7%</u>	<u>8.3%</u>	<u>-0.6%</u>
Total Retention Charge	10.7%	11.3%	-0.6%

**Table 4: Proposed Retention Charges<sup>5</sup>**

## VII. Requested and Final Approved Rate Change

The table below shows CIGNA's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction

<sup>2</sup> CIGNA is providing a blended amount under Adult Immunization Account consisting of a 80.5% / 19.5% weighting between adult / child immunization charges.

<sup>3</sup> In the rate filing initially submitted on May 13<sup>th</sup>, CIGNA included 2.1% of premium for assessments.

<sup>4</sup> These values are obtained from Tab VI MLR Exhibit in the RIOHIC rate template submitted on June 18<sup>th</sup>. This is prior to the credibility adjustment factor. There may be updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

<sup>5</sup> CIGNA has indicated that the retention charge includes the cost for Children Immunizations, Adult Immunizations and Children's Health Account.

of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, the final rate change is not an estimate.

	CIGNA LG		
	Requested	Final Approved	Impact to Rate
Medical Utilization & Severity Trend	4.1%	2.2%	-1.3%
Contribution to Reserves/Profit	1.0%	1.0%	
<b>Expected Overall Rate Change from 2024</b>	2.3%	0.9%	

**Table 5: Requested and Final Approved Rate Change**

## **VIII. Data Reliance, Limitations and Qualifications**

This letter communicates our findings regarding our review of CIGNA's large group rate filing (SERFF tracking numbers CCGP-134098068). Distribution of this letter to parties other than RIOHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the RIOHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by CIGNA. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Gregory Bruce who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,



Gregory Bruce FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

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29 August 2024

**Large Group Market Rate Filing for Harvard Pilgrim Health Care of New England, Inc (HPHCNE) and HPHC Insurance Company, Inc. (HPIC) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing #HPHC-134083450**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of HPHCNE and HPIC's large group market rate filing. This letter documents our review and the final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filings that were submitted by HPHCNE and HPIC on May 13<sup>th</sup> of 2024.

Throughout the filing process, OWA corresponded with HPHCNE and HPIC's actuary Besart Stavileci FSA, MAAA. An actuarial certification is included in the filing signed by Besart Stavileci. OWA submitted questions through SERFF on May 30<sup>th</sup> and July 17<sup>th</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the Harvard Pilgrim Health Care of New England (HPHCNE) and HPHC Insurance Company, Inc. (HPIC) small group filings that pertain to this large group filing.

From 2009 to 2023, Point32Health has sold commercial health insurance policies in Rhode Island through Tufts Associated Health Maintenance Organization, Inc. (TAHMO) and Tufts Insurance Company, Inc. (TICO), jointly referred to as Tufts Health Plan (THP). Beginning on renewal in 2024, Point32Health is migrating all commercial policies issued in Rhode Island from TAHMO to HPHCNE, and from TICO to HPIC. HPHCNE and HPIC are submitting this 2025 filing as renewing blocks of business, populating various filing exhibits with historical TAHMO and TICO experience.

OWA provided considerations for alternative assumptions to RIOHIC on August 16, 2024. The RI Health Insurance Commissioner provided preliminary decisions to OWA on August 20, 2024. HPHC submitted

revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

## II. Request and Final Approved Rate Change

**Assumption #1:** Adjust the 2022 claims experience for COVID-19, assuming 1.0% of claims attributable to COVID-19 is the expected endemic level. This assumption change would decrease the rates by approximately 0.7%.

**Assumption #2:** Revise the utilization trend assumption from 2.5% in 2024 and 2.2% in 2025 to 1.4% in each year. This change would decrease the rates by approximately 1.3% for HPHCNE and HPIC.

**Assumption #3:** Revise the RI assessments to use the most recently published 2025 costs. This change would decrease the rates by approximately 0.2% for HPHCNE and HPIC.

**Administrative PMPM Charge:** The RI Health Insurance Commissioner has approved a 3.3% administrative charge trend.<sup>1</sup>

The table below shows HPHCNE and HPIC's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	HPHCNE LG		
	Requested	Final Approved	Impact to Rate Change
Adjust 2022 experience for COVID	N/A	N/A	-0.7%
Medical Utilization & Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$10.46	\$9.47	-0.2%
Administrative PMPM Charge	\$123.14	\$122.44	-0.1%
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
<b>Expected Overall Rate Change from 2024</b>	<b>13.6%</b>	<b>11.4%</b>	<b>-2.2%</b>

**Table 1: HPHCNE Requested and Final Approved Rate Change**

<sup>1</sup> The 3.3% is the average of the CPI for all items less food & energy for the months of May (3.4%), June (3.3%), and July (3.2%). 12-month percentage change, Consumer Price Index, selected categories (bls.gov)

	HPIC LG		
	Requested	Final Approved	Impact to Rate Change
Adjust 2022 experience for COVID	N/A	N/A	-0.7%
Medical Utilization & Severity Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$10.46	\$9.47	-0.2%
Administrative PMPM Charge	\$123.14	\$122.44	-0.1%
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
<b>Expected Overall Rate Change from 2024</b>	<b>13.3%</b>	<b>11.1%</b>	<b>-2.2%</b>

**Table 2: HPIC Requested and Final Approved Rate Change**

### III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template also requires the insurer to report the rate change by quarter and then an annual rate change.

As of March 2024, there were 6,606 members of which 2,898 are HPHCNE and 3,708 are HPIC. In the rate filing submitted on May 13<sup>th</sup>, HPHCNE and HPIC requested a combined 13.5% rate change. For 2025, HPHCNE and HPIC indicate that premium needs by quarter have been calculated for the combined HPHCNE and HPIC block for added credibility. The quarterly increases are the same for HPHCNE and HPIC. Because the distribution of enrollment varies by quarter for HPHCNE and HPIC, the aggregate annual rate increases vary. The average annual rate increases are 13.6% for HPHCNE and 13.3% for HPIC.

Renewal Quarter and Year	Proposed Average Rate Change	% of Renewals (Membership)
1Q 25 Renewals	12.7%	37.6%
2Q 25 Renewals	13.6%	28.2%
3Q 25 Renewals	14.0%	24.7%
4Q 25 Renewals	14.7%	9.5%
<b>Total</b>	<b>13.5%</b>	<b>100.0%</b>

**Table 3: HPHCNE and HPIC Large Group Average Rate Changes by Quarter**

The 2025 average rate change of 13.5% is driven by these key factors as reported by HPHCNE and HPIC in Tab V of the Rhode Island OHIC rate template:

- 7.8% for trend and leverage
- 1.7% for changes in impact of trend to calendar year rate and prior period restatement
- 1.2% for demographics
- 0.3% for increases in new Rhode Island mandates<sup>2</sup> and changes in non-FFS claim expenses
- 1.1% for change in contribution to reserve

#### IV. Rate Development Methodology Changes

For 2025, HPHCNE and HPIC indicate that premium needs by quarter have been calculated for the combined HPHCNE and HPIC block for added credibility. Groups may purchase HMO (HPHCNE) and PPO (HPIC) plans side-by-side.

The pricing methodology utilizes base period claims experience with adjustments, trending the base forward then adjusting for items such as pharmacy rebates, state assessments and mandates, payments associated with risk-share arrangements, and other benefit change impacts. This methodology was applied in the 2024 filing as well. Administrative expenses and taxes and fees are applied as a percentage of premium with a final adjustment for aging to arrive at the required premium.

HPHCNE and HPIC state that their Rhode Island large group TAHMO and TICO blocks remain partially credible and volatile. For added credibility in rate methodology, they combine the Rhode Island experience from both TAHMO and TICO and use claims experience for two years, 2022 and 2023, for their base period experience. HPHCNE and HPIC state that COVID-19 related costs have become endemic and are included in the base experience with no adjustment made for the projection period. HPHCNE and HPIC state that the COVID-19 related costs made up approximately 2.5% of claims in 2022 and 1.0% in 2023, which demonstrates a decline in claims attributable to COVID-19 in 2023 relative to 2022. If HPHCNE and HPIC were to adjust their 2022 claims to assume the same percentage level of COVID-19 as 2023, this would decrease rates by approximately 0.7%.

**Assumption #1:** Adjust the 2022 claims experience for COVID-19, assuming 1.0% of claims attributable to COVID-19 is the expected endemic level. This assumption change would decrease the rates by approximately 0.7%.

#### V. Experience & Trend Assumptions

The table below shows a three-year history of allowed claims PMPMs. A review of actual claims experience shows that actual trends for HPHCNE and HPIC's large group market are -3.2% in 2022 and 7.5% in 2023. Trends fluctuate by service category and membership decreased by -12.0% in 2022 but then increased by 4.6% in 2023. The small size of the segment and changes in membership lead to volatility in claim costs and trends.

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<sup>2</sup> The following mandates are effective prior to the projection period. Some mandates went into effect on 7/1/2022 or 1/1/2023; these services were prorated appropriately. Services include perinatal doula services, PANDA/PANS Coverage Mandate, Pregnancy Special Enrollment Period, Biomarker Testing Coverage, Pharmacists Contraceptives Prescribing, Prescription Epinephrine Cost share waiving, Specialty Drug Co-pay Cap.



Allowed Claims PMPM (HPHCNE & HPIC)			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$132.98	\$95.40	\$100.69
Outpatient Hospital	\$138.43	\$141.83	\$171.03
Professional	\$196.07	\$179.45	\$191.46
Other Medical	\$21.22	\$30.27	\$31.82
Capitation	\$0.54	\$0.48	\$0.25
Prescription Drug	\$80.77	\$104.29	\$97.79
<b>Total</b>	<b>\$570.02</b>	<b>\$551.73</b>	<b>\$593.05</b>
Member Months	80,044	70,470	73,729

Allowed Claims PMPM Trend (HPHCNE & HPIC)		
	CY 2022	CY 2023
Inpatient Hospital	-28.3%	5.5%
Outpatient Hospital	2.5%	20.6%
Professional	-8.5%	6.7%
Other Medical	42.6%	5.1%
Capitation	-11.6%	-48.2%
Prescription Drug	29.1%	-6.2%
<b>Total</b>	<b>-3.2%</b>	<b>7.5%</b>
Member Months Trend	-12.0%	4.6%

**Table 4: Allowed Claims PMPM and Trend CY 2021 – CY 2023**

The table below shows the trend assumptions being used by HPHC. With the exception of leveraging, the trends are consistent with the small group HPHCNE and HPIC trends.

Trend Assumptions	Year 1		Year 2	
	Medical	Rx	Medical	Rx
Unit Cost	2.7%	13.0%	3.6%	12.4%
Utilization & Mix	2.5%	1.5%	2.2%	1.5%
<b>Total Allowed Trend</b>	<b>5.2%</b>	<b>14.7%</b>	<b>5.9%</b>	<b>14.1%</b>
Leveraging	1.2%	1.2%	1.2%	1.2%
<b>Total Paid Trend</b>	<b>6.5%</b>	<b>16.1%</b>	<b>7.2%</b>	<b>15.5%</b>

**Table 5: HPHCNE and HPIC Trend Assumptions**

The combined total medical and pharmacy annualized two year trend for HPHCNE and HPICS is 7.0%.

HPHC stated that Rhode Island experience is not credible to use for trend analysis purposes. Medical utilization and severity trends are based on Harvard Pilgrim and Tufts Commercial fully insured Massachusetts data.

The medical cost trend is developed based on the provider contract arrangements in place for various provider groups.

Through our review of the small group filings and trend (which are consistent with the large group HPHCNE and HPIC filing) it was explained that medical utilization trends were developed by reviewing the fully insured Massachusetts claims data, normalizing for age, cost sharing, high-cost claimants above \$250K, and excluding COVID testing and vaccine costs. The annualized 2019-2023 utilization trend for the combined Massachusetts experience (HPHC and THP) was 1.2%, ranging by year from 0.5% to 2.3%. HPHC chose 2.0% for their utilization trend. For year 1 medical utilization trends an additional 0.25% was added for volatility and 0.24% was added for new medical drugs and gene therapy (based on information from the HPHC pharmacy department and their PBM). For year 2 medical utilization trends only the 0.24% was for new medical drugs and gene therapy was added.

If HPHC started with their normalized annualized trend of 1.2% and added in the adjustment for gene therapy drugs, but not the additional margin, this would result in 1.4% medical utilization trends for both Year 1 and Year 2.

**Assumption #2:** Revise the utilization trend assumption from 2.5% in 2024 and 2.2% in 2025 to 1.4% in each year. This change would decrease the rates by approximately 1.3% for HPHCNE and HPIC.

In addition to the allowed trend assumptions discussed above, HPHC adds a leverage adjustment into their rates to account for cost sharing leveraging. Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, HPHCNE and HPIC analyzed the historical differences in paid and allowed trends. The leverage assumption is 1.2%.

Pharmacy trends are based on historical utilization, AWP cost increases, changes to contractual AWP discount percentages, and the generic and brand/specialty drug pipeline. The trends reflect the most recent Massachusetts experience. OWA has performed our own trend analysis of the historical pharmacy trends.

Note that the trends used by HPHCNE and HPIC to project the 2022 base experience to 2023 were based on the same Massachusetts experience described above. The assumed trend was 5.8% medical trend and 14.8% pharmacy trend.

## **VI. Assessments**

HPHCNE and HPIC includes the cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account, Care Transformation Collaborative of RI and Current Care in their medical claims projection. Tab IV of the RIOHIC template shows that HPHCNE and HPIC includes \$10.46 PMPM for these RI assessments as shown in the table below.

Assessment	2025 Assumptions		2024 Assumptions	
	PMPM	Premium Impact	PMPM	Premium Impact
Childhood Immunization Account	\$2.95	0.4%	\$2.98	0.5%
Adult Immunization Account	\$3.91	0.5%	\$3.93	0.6%
Children's Health Account	\$1.13	0.2%	\$1.25	0.2%
Care Transformation Collaborative of RI	\$1.47	0.2%	\$1.64	0.2%
Current Care	\$1.00	0.1%	\$1.00	0.2%
<b>Total</b>	<b>\$10.46</b>	<b>1.5%</b>	<b>\$10.80</b>	<b>1.6%</b>

**Table 6: HPHCNE and HPIC Rhode Island Assessments**

HPHCNE and HPIC provided a detailed build-up of assessments which indicated that they were applying Rhode Island assessment rates to all Rhode Island residents. The filing was submitted prior to the final 2025 assessment costs being published. If HPHC was to update the assessment development the total 2025 cost PMPM would be \$9.47.

**Assumption #3:** Revise the Rhode Island assessments to use the most recently published 2025 costs. This change would decrease the rates by approximately 0.2% for HPHCNE and HPIC.

## VII. Projected Medical Cost Ratio and Retention Charge

Using the federal definition and under the proposed rates, HPHCNE projects an 91.1% MLR for 2024 and an 88.7% MLR for 2025.<sup>3</sup> HPIC projects a 100.1% MLR for 2024 and an 88.4% MLR for 2025.<sup>4</sup>

HPHCNE and HPIC also reported historical MLRs in Tab VI based on the federal definition.<sup>5</sup> For TAHMO, the MLR is 96.4% for 2021, 93.0% for 2022, and 89.9% for 2023. For TICO, the MLR is 109.0% for CY 2021, 91.1% for CY 2022 and 102.0% for CY 2023. For the combined TAHMO and TCIO entities, the MLR is 102.7% for 2021, 92.0% for 2022, and 96.0% for 2023.<sup>6</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. HPHCNE and HPIC proposed an average retention charge of 14.4%. For 2024, the retention charge was 13.9%. The table below shows the components of retention. HPHCNE and HPIC has proposed a contribution to reserve assumption of 1.0% in 2025 which is higher than the assumption of 0.0% from the 2024 rate filing.

<sup>3</sup> This is from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

<sup>4</sup> This is from Tab VI MLR Exhibit in the RI rate template. This is prior to the credibility adjustment factor.

<sup>5</sup> Historical MLR's are from Tab VI MLR Exhibit in the RI rate template. They are prior to the credibility adjustment factor.

<sup>6</sup> There may be updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

Proposed Retention Charge	2025	2024	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	1.0%	0.0%	1.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	11.4%	11.9%	-0.5%
<b>Total Retention Charge</b>	<b>14.4%</b>	<b>13.9%</b>	<b>0.5%</b>

**Table 7: HPHCNE and HPIC Retention Charges**

The table below shows the final approved administrative expense PMPM charge for 2024 and 2025. As shown, the PMPM charge increased 3.3% from 2024 to 2025.

HPHC LG			
Admin Charges	2025	2024	Admin Charge Trend
HPHC	\$122.44	\$114.36	3.3%

**Table 8: HPHC Retention Charges<sup>7</sup>**

## VIII. Financial Position

A review of TAHMO financial measures show that TAHMO's RBC position has increased to 719.1% in 2023 from 613.8% in 2022. The underwriting gain/loss was 3% in 2020 but decreased to -0.8% in 2021 and -1.0% in 2022; in 2023 the underwriting gain/loss increased slightly to -0.2%. The SAPOR has decreased from 30.7% in 2021 to 25.5% in 2023 (though this is slightly higher than 2022 SAPOR).

TAHMO Financials				
	2020	2021	2022	2023
Total Revenues	\$2,798,892,444	\$2,773,179,809	\$2,963,623,714	\$2,737,821,760
Net Underwriting G/L	\$76,576,206	-\$23,061,853	-\$30,526,018	-\$5,260,511
<b>Underwriting G/L</b>	<b>2.7%</b>	<b>-0.8%</b>	<b>-1.0%</b>	<b>-0.2%</b>
Capital and Surplus end of reporting year	\$738,870,321	\$852,681,676	\$711,733,566	\$697,579,289
<b>SAPOR</b>	<b>26.4%</b>	<b>30.7%</b>	<b>24.0%</b>	<b>25.5%</b>
Total Adjusted Capital	\$738,870,321	\$852,681,676	\$711,733,566	\$697,579,289
Authorized control level risk-based capital	\$121,103,639	\$119,693,706	\$115,954,780	\$97,008,789
<b>RBC</b>	<b>610.1%</b>	<b>712.4%</b>	<b>613.8%</b>	<b>719.1%</b>

**Table 9: TAHMO Financials<sup>8</sup>**

<sup>7</sup> From Tab IV Retention Charge, Section I row 20 item (7). Initial requested administrative expense PMPM was \$123.14.

<sup>8</sup> TAHMO financial data based on amended 2022 financial statement and includes a restatement of 2021 Capital and Surplus and the Authorized control level risk-based capital.

A review of TICO financial measures show that TICO's RBC position has fluctuated between 597.0% in 2020 and 521.7% in 2023. The underwriting gain/loss has also fluctuated and was -1.7% in 2023. The SAPOR has decreased from 22.3% in 2020 to 16.6% in 2023.

TICO Financials				
	2020	2021	2022	2023
Total Revenues	\$312,553,610	\$350,691,959	\$392,747,102	\$376,998,284
Net Underwriting G/L	-\$5,586,842	\$6,899,114	\$12,164,019	-\$6,292,241
<b>Underwriting G/L</b>	<b>-1.8%</b>	<b>2.0%</b>	<b>3.1%</b>	<b>-1.7%</b>
Capital and Surplus end of reporting year	\$69,677,169	\$76,838,407	\$86,058,475	\$62,504,019
<b>SAPOR</b>	<b>22.3%</b>	<b>21.9%</b>	<b>21.9%</b>	<b>16.6%</b>
Total Adjusted Capital	\$69,677,169	\$76,838,407	\$86,058,475	\$62,504,019
Authorized control level risk-based capital	\$11,670,898	\$14,387,007	\$14,411,792	\$11,980,119
<b>RBC</b>	<b>597.0%</b>	<b>534.1%</b>	<b>597.1%</b>	<b>521.7%</b>

Table 10: TICO Financials

## IX. Requested and Final Approved Rate Change

The table below shows HPHCNE and HPIC's requested rate change and final approved rate change. OWA has estimated the impact of each individual assumption change. Due to the interaction of assumptions and the carrier's proprietary pricing methodology, the actual impact may be slightly different. However, the final rate change is not an estimate.

	HPHCNE LG		
	Requested	Final Approved	Impact to Rate Change
Adjust 2022 experience for COVID	N/A	N/A	-0.7%
Medical Utilization & Severity Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$10.46	\$9.47	-0.2%
Administrative PMPM Charge	\$123.14	\$122.44	-0.1%
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
<b>Expected Overall Rate Change from 2024</b>	<b>13.6%</b>	<b>11.4%</b>	<b>-2.2%</b>

Table 11: HPHCNE Requested and Final Approved Rate Change

	HPIC LG		
	Requested	Final Approved	Impact to Rate Change
Adjust 2022 experience for COVID	N/A	N/A	-0.7%
Medical Utilization & Severity Trend Assumption			-1.3%
Year 1	2.5%	1.4%	
Year 2	2.2%	1.4%	
Assessments	\$10.46	\$9.47	-0.2%
Administrative PMPM Charge	\$123.14	\$122.44	-0.1%
Contribution to Reserves/Profit	1.0%	1.0%	0.0%
<b>Expected Overall Rate Change from 2024</b>	<b>13.3%</b>	<b>11.1%</b>	<b>-2.2%</b>

**Table 12: HPIC Requested and Final Approved Rate Change**

## **X. Conclusion**

This letter communicates our findings regarding our review of HPHCNE and HPIC's large group rate filing (SERFF tracking number HPHC-134083450). Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by HPHCNE and HPIC. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.

This letter includes work based on actuarial analysis conducted by Corryn Brown who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jenn Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Sincerely,

A handwritten signature in cursive script that reads "Corryn Brown". The signature is written in dark ink on a white background.

Corryn Brown FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA  
Emily Maranjian, Executive Legal Counsel, RIOHIC

Cory King  
Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Ave, Building 69-1  
Cranston, RI 02920

29 August 2024

**Large Group Market Rate Filings for UnitedHealthcare Insurance Company (UHC) and UnitedHealthcare of New England (UHCNE) for Rates Effective January 1, 2025: Actuarial Review Memo and Final RIOHIC Approved Decisions SERFF Filing # UHLC-134066731**

Dear Commissioner King,

At the request of the Rhode Island Office of the Health Insurance Commissioner (RIOHIC), Oliver Wyman Actuarial Consulting, Inc. (OWA) has performed an actuarial review of UHC's and UHCNE's (United's) large group market rate filing. This letter documents our review and final approved decisions by RIOHIC.

## **I. Rate Filing Process**

This actuarial review letter focuses on the review of the filing that were submitted on May 13<sup>th</sup>, 2024<sup>1</sup>.

Throughout the filing process, OWA corresponded with UHC and UHCNE's assistant pricing director Elvira Tananykin and pricing director Michael Duberowski. An actuarial memorandum and actuarial certification is included in the filing signed by Michael Duberowski FSA, MAAA. OWA submitted questions through SERFF on May 31<sup>st</sup>, June 28<sup>th</sup>, and July 17<sup>th</sup>. OWA also conducted a phone call with Ms. Tananykin and Mr. Duberowski on June 3<sup>rd</sup>. OWA received responses for questions through SERFF. OWA also relied on responses to questions for the UHC & UHCNE small group filings that pertain to UHC & UHCNE large group filing.

OWA provided considerations for alternative assumptions to RIOHIC on August 20, 2024. The RI Health Insurance Commissioner provided preliminary decisions to United on August 20, 2024. United submitted revised rates on August 28, 2024. This memo summarizes considerations for alternative assumptions as well as decisions approved by the RI Health Insurance Commissioner.

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<sup>1</sup> Updated RIOHIC rate templates were submitted on June 7<sup>th</sup> (to revise how the 'RI Assessment & Fees PMPM' line on tab V is displayed) and July 10<sup>th</sup> (to revise the Primary Care Spend Obligation value and category on tab V). Neither template revision adjusted the requested rate change.



## II. Requested and Final Approved Rate Change

**Assumption #1:** Revise the Year 2 2025 FFS medical utilization & severity trend assumptions from 3.4% to of 2.2%. This assumption change would decrease the rates by approximately 0.6%.

**Assumption #2:** Revise the 2023 and 2024 trends used to project 2025 claims from 12.0% and 10.3%, respectively, to the previously approved 9.8% trend from the 2024 rate filing. This assumption change would decrease rates by approximately 1.5%

**Assumption #3:** Revise the assumptions for RI assessments to reflect the updated costs for FY 2025. This would lower rates by approximately 0.2%.

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$46.12 PMPM to \$41.41. This would lower rates by approximately 0.4%.

**Contribution to Reserves:** The RI Health Insurance Commissioner has approved a 1.0% contribution to reserves.

The table below shows United's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

	UHC and UHCNE LG		
	Requested	Final Approved	Impact to Rate Change
Medical FFS Utilization & Severity Trend - 2025	3.4%	2.2%	-0.6%
2023 & 2024 Trend Set to 2024 Final Approved Trends	12.0% / 10.3%	9.8%	-1.5%
Update Assessments for FY2025 Costs	\$7.53	\$6.62	-0.2%
Administrative PMPM Charge	\$46.12	\$41.41	-0.4%
Contribution to Reserves/Profit	2.0%	1.0%	-1.1%
<b>Expected Overall Rate Change from 2024</b>	<b>14.9%</b>	<b>10.6%</b>	

Table 1: Requested and Final Approved Rate Change

## III. Proposed Rate Changes

The large group RIOHIC rate template requires the insurer to report the proposed average rate change for its entire large group book of business. The template requires the insurer to report the increase by quarter and then an annual rate change.

As of February 2024, there were 12,314 members. UHIC and UHCNE have requested a 14.9% annual rate increase.

Renewal Quarter and Year	Proposed Average Rate Change	% of Renewals (Membership)
1Q 25 Renewals	14.9%	49.2%
2Q 25 Renewals	14.9%	16.3%
3Q 25 Renewals	14.9%	25.2%
4Q 25 Renewals	14.9%	9.4%
Total	14.9%	100.0%

**Table 2: Average Rate Changes by Quarter**

UHIC and UHCNE projects 2025 claims by using actual CY 2023 experience and projects forward to 2025 using the updated estimated trend from 2023, and the 2024 & 2025 proposed trend from this rate filing. The 2025 projected premium is calculated by applying the 2025 retention charges to the 2025 projected claims. The required rate change is then determined by comparing the projected 2025 premium to the estimated 2024 premium. The 2024 premium is a blend of actual premium for groups that have already renewed and projected premium for those who have not yet renewed. UHIC and UHCNE provided exhibits to support their calculations. The exhibits provided by United calculate rate changes by account and separates the 51-99 groups from the 100+ groups. The 51-99 groups represent 66 accounts and the projected average rate change for these groups is 14.5%. The 100+ groups represent 26 accounts and the projected average rate change for these groups is 15.2%. The projected average rate changes have a wide variation, from -81% to +297%. United was asked if the volatility is considered when the developing the requested rate increase or if pooling thresholds & charges were considered. United indicated that pooling is used in its Experience Rating Methodology.<sup>2</sup>

The 2025 average rate change of 14.9% is driven by these key factors as reported by United in Tab V of the Rhode Island OHIC rate template:

- 8.9% due to trend
- 1.3% due to the increase in the contribution to reserve
- 0.9% due to increase in Primary Care Spend obligation
- 1.0% due to increases in the administrative charges<sup>3</sup>

<sup>2</sup> It is necessary to project the required revenue in 2025 in order to calculate the average rate change. The rate changes by account provided in this rate filing are not representative of the actual rate changes by account as United will implement floors and ceilings on the rate changes to limit volatility, along with blending experience with manual rates and pooling large losses.

<sup>3</sup> This is outside of the impact of changes in assessments.

#### IV. Experience & Trend Assumptions

A review of claims experience shows that actual trends for UHIC and UHCNE's large group market increased 6.6% in 2022 and 9.0% in 2023. The table below shows a three-year history of allowed claims PMPMs. Membership for UHIC and UHCNE decreased 16.0% in 2022 and an additional 1.0% in 2023. The small size of the segment and changes in membership lead to volatility in claim costs and trends. Due to credibility, UHIC and UHCNE does not rely solely on their Rhode Island data for trend projections.

Allowed Claims PMPM			
	CY 2021	CY 2022	CY 2023
Inpatient Hospital	\$101.63	\$102.01	\$95.84
Outpatient Hospital	\$176.18	\$176.29	\$192.69
Professional	\$111.82	\$123.67	\$128.80
Other Medical	\$0.07	\$0.07	\$0.72
Capitation	\$53.46	\$59.35	\$78.49
Prescription Drug	<u>\$79.79</u>	<u>\$95.89</u>	<u>\$110.69</u>
Total	\$522.96	\$557.27	\$607.23
Member Months	165,511	139,106	137,736

Allowed Claims PMPM Trend		
	CY 2022	CY 2023
Inpatient Hospital	0.4%	-6.1%
Outpatient Hospital	0.1%	9.3%
Professional	10.6%	4.2%
Other Medical	-4.7%	975.3%
Capitation	11.0%	32.3%
Prescription Drug	<u>20.2%</u>	<u>15.4%</u>
Total	6.6%	9.0%
Member Months Trend	-16.0%	-1.0%

**Table 3: Allowed Claims PMPM and Trend CY 2021 – CY 2023**

UHIC and UHCNE are assuming an average annual trend assumption of 7.9% excluding leverage and 9.1% including leverage. This is a decrease from last year's trend assumptions of 8.8% excluding leverage and 10.3% including leverage. United is also including a 0.8% demographic adjustment within its trend across all service categories, resulting in an overall average total trend of 10.0%. The table below shows UHIC and UHCNE's trend assumptions by service category. The average medical cost trend is 4.0%, compared to 4.8%

last year. The average medical utilization & severity trend is 3.2%, compared to 3.7% last year. The average medical fee-for-service (FFS) utilization & severity trend is 3.8%.<sup>4</sup>

Trend Assumptions			
	Cost Trend	Utilization & Severity Trend	Total Trend
Inpatient Hospital	4.6%	3.2%	7.9%
Outpatient Hospital	3.9%	3.4%	7.4%
Professional	1.8%	4.9%	6.8%
Other Medical	1.9%	4.9%	6.9%
Capitation	7.4%	0.0%	7.4%
<b>Total Medical</b>	<b>4.0%</b>	<b>3.2%</b>	<b>7.4%</b>
<b>Prescription Drug</b>	<b><u>4.7%</u></b>	<b><u>5.2%</u></b>	<b><u>10.1%</u></b>
<b>Subtotal Excluding Leverage:</b>	<b>4.1%</b>	<b>3.6%</b>	<b>7.9%</b>
Leverage			1.1%
<b>Total Incl. Leverage:</b>			<b>9.1%</b>

**Table 4: Proposed Trend Assumptions**

As they have done in prior rate filings, UHIC and UHCNE provided a significant amount of detail related to their trend development and the data and methodology is the same for the large group filing as the small group filing. Given that United Rhode Island specific data is not credible for trend analysis purposes, utilization and severity trends are developed at the nationwide level based on actual experience and adjusted for items such as the impact of technology, environmental, network contracting, administrative initiatives, and the number of workdays. These adjustments are primarily developed on a national company-wide level. United provided information to show that the nationwide 2023 medical utilization & severity trend is 4.6% (prior to adjustments) and it is the adjustments that lead to the overall FFS 3.8% medical utilization & severity trend and total medical utilization & severity trend of 3.2%. The largest adjustment is for “economic”, valued at -1.5%, and is described as “utilization changes due to changes in economic conditions”.

OWA is not able to validate these adjustments, or the overall medical utilization & severity trend assumption based on the information provided by United.

Given United’s reliance on national data to develop trends and the lack of credibility with United’s Rhode Island specific data, it is not reasonable to develop Rhode Island trend assumptions specific to United’s own Rhode Island data. It is reasonable to assume that United should have medical utilization & severity trends in line with other major Rhode Island insurers and that Rhode Island specific utilization & severity trend assumptions would be more appropriate than national trend assumptions given the differences in

<sup>4</sup> This excludes capitation.

utilization patterns. For the other primary insurers in Rhode Island, FFS medical utilization & severity trend assumptions are an average of approximately 2.2%. Furthermore, when developing the 2025 claims projection, United is using updated trends for 2023 and 2024 rather than the trends approved in the 2024 rate filing for these years.

**Assumption #1:** Revise the Year 2 2025 FFS medical utilization & severity trend assumptions from 3.4% to 2.2%. This assumption change would decrease the rates by approximately 0.6%.<sup>5</sup>

**Assumption #2:** Revise the 2023 and 2024 trends used to project 2025 claims from 12.0% and 10.3%, respectively, to the previously approved 9.8% trend from the 2024 rate filing. This assumption change would decrease rates by approximately 1.5%.

In addition to the trend assumptions above, UHIC and UHCNE adds a 1.1% leverage adjustment into their rates to account for cost sharing leveraging.<sup>6</sup>

United is projecting an increase in its Primary Care spending obligation from \$22.05 PMPM to \$27.58 PMPM, or approximately 1% of projected medical claims

## V. Assessments

UHIC and UHCNE include the cost of assessments for Childhood Immunizations, Adult Immunizations and the Children's Health Account in their medical claims projection. The cost for the Care Transformation Collaborative of RI is split between medical claims and retention.<sup>7</sup> The cost for Current Care is included in retention. United's approach to projecting the assessments included in the medical claim projection is to start with CY 2023 actuals and then apply two years of the pricing trend.

This rate filing starts with the FY 2024 assessment costs for Childhood Immunizations, Adult Immunizations and the Children's Health Account, applies the mix of United's children and adults, applies and adjustment for proportion of members that are Rhode Island residents, and trends forward. This equates to approximately \$7.53 PMPM. United did not reflect the FY 2025 assessments costs in their initial rate filing and the assessment costs decreased slightly compared to what was assumed<sup>8</sup>. Updating the assessments for the final FY 2025 costs, the projected assessment costs decrease to approximately \$6.62 PMPM

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<sup>5</sup> This is based on updating the trend assumptions in United's file "2025 United 51+ Cap Projection Support."

<sup>6</sup> Since copayments and deductibles do not increase at the same rate as claims cost trends, the share of claims paid for by the insurer increases at a higher rate than total allowed costs. Insurers account for this by applying a leverage adjustment. To estimate this adjustment, UHIC and UHCNE started with their trended allowed claims and subtracted out projected cost sharing to simulate a projected net claims trend. Copay dollars were trended by the utilization trend, coinsurance dollars were trended by the PMPM trend (reflecting both utilization and cost trends) and deductible dollars were not trended at all. The result is a 1.1% leverage impact.

<sup>7</sup> Approximately 13% of the costs for the Care Transformation Collaborative of RI is included in the medical claims projections and the remaining 87% in retention.

<sup>8</sup> Assessments for vaccinations FY 2024 (July 1, 2023 – July 1, 2024) were \$24.83 per child and \$6.24 per adult. Assessments for vaccinations FY 2025 (July 1, 2024 – July 1, 2025) are \$23.16 per child and \$5.04 per adult. The Children's Health Account assessment changed from \$9.52 in FY 2024 to \$9.20 in FY 2025.

**Assumption #3** Revise the assumptions for RI assessments to reflect the updated costs for FY 2025. This would lower rates by approximately 0.2%.

## VI. Projected MLR and Retention Charge

Using the federal definition, excluding adjustments for credibility, United projects an MLR for 2025 of 87.4% for the 2025 rating period which includes a 2.0% contribution to reserve. United assumed a 1.0% contribution to reserve in the 2024 rate filing. United reports an MLR of 89.4% for CY 2021, 90.7% MLR for 2022, and 88.4% MLR for 2023.<sup>9</sup>

The retention charge of a rate includes the administrative expenses, taxes and fees, and the contribution to reserve. United is proposing an average retention charge of 10.8% for 2025. This is slightly higher than the retention charge from 2024 of 9.9% and the primary driver is the increase in the contribution to reserve assumption.

Proposed Retention Charge	2025	2024	Change
ACA Fees and Taxes	0.0%	0.0%	0.0%
Premium Tax	2.0%	2.0%	0.0%
Other Retention Charge	0.0%	0.0%	0.0%
Contribution to Reserve (Profit/Risk Load)	2.0%	1.0%	1.0%
Investment Income Credit	0.0%	0.0%	0.0%
Administrative Expense Load	<u>6.8%</u>	<u>6.9%</u>	<u>-0.1%</u>
Total Retention Charge	10.8%	9.9%	0.9%

**Table 5: Proposed Retention Charge<sup>10</sup>**

**Assumption #4:** Revise the administrative PMPM charge net of assessments from \$46.12 PMPM to \$41.41. This would lower rates by approximately 0.4%.

**Contribution to Reserves:** The RI Health Insurance Commissioner has approved a 1.0% contribution to reserves.

## VII. Financial Position

A review of UHIC's and UHCNE's financial measures show that UHIC's RBC position has remained healthy for the past four years, ranging from 644.2% to 813.6%. The underwriting gain/loss and SAPOR<sup>11</sup> have also remained fairly consistent for UHIC. UHCNE's RBC, SAPOR and underwriting gain/loss is consistently lower than UHIC through 2021. In 2022, UHCNE experienced a significant increase in their SAPOR, RBC and

<sup>9</sup> There may be updates to the 2023 MLR that are not reflected in what was reported in the initial rate filing.

<sup>10</sup> United includes most of the cost for the Care Transformation Collaborative of RI and the total the cost for Current Care in retention. The cost of assessments for Childhood Immunizations, Adult Immunizations, Children's Health Account are included in their medical claims projection.

<sup>11</sup> SAPOR is surplus as a percentage of revenue.

underwriting gain/loss. This was explained to OWA by RIOHIC to be due to the transfer of Medicare Advantage business from UHCNE to another United entity.

	UHIC			
	2020	2021	2022	2023
Total Revenues	\$55,111,543,011	\$53,114,149,629	\$43,772,644,000	\$47,235,287,781
Net Underwriting G/L	\$4,008,681,977	\$2,638,502,846	\$3,123,376,617	\$3,414,771,794
<b>Underwriting G/L</b>	<b>7.3%</b>	<b>5.0%</b>	<b>7.1%</b>	<b>7.2%</b>
Capital and Surplus end of reporting year	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
<b>SAPOR</b>	<b>14.9%</b>	<b>15.3%</b>	<b>16.4%</b>	<b>14.8%</b>
Total Adjusted Capital	\$8,219,768,234	\$8,146,535,672	\$7,200,474,486	\$7,005,388,869
Authorized control level risk-based capital	\$1,275,995,904	\$1,224,069,942	\$885,025,263	\$1,009,793,872
<b>RBC</b>	<b>644.2%</b>	<b>665.5%</b>	<b>813.6%</b>	<b>693.7%</b>

**Table 6: Summary of UHIC Financials**

	UHCNE			
	2020	2021	2022	2023
Total Revenues	\$1,433,651,095	\$1,584,388,273	\$656,561,973	\$703,323,670
Net Underwriting G/L	\$64,140,390	\$78,681,058	\$41,619,966	\$23,606,329
<b>Underwriting G/L</b>	<b>4.5%</b>	<b>5.0%</b>	<b>6.3%</b>	<b>3.4%</b>
Capital and Surplus end of reporting year	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
<b>SAPOR</b>	<b>14.3%</b>	<b>13.0%</b>	<b>34.1%</b>	<b>32.8%</b>
Total Adjusted Capital	\$204,411,638	\$206,184,444	\$223,613,760	\$230,506,163
Authorized control level risk-based capital	\$39,155,808	\$33,402,863	\$3,309,866	\$3,383,825
<b>RBC</b>	<b>522.0%</b>	<b>617.3%</b>	<b>6756.0%</b>	<b>6812.0%</b>

**Table 7: Summary of UHCNE Financials**

## VIII. Requested and Final Approved Rate Change

The table below shows United's requested rate change and final approved rate change. Note OWA has estimated how each individual assumption change impacts the overall rate change. Due to the interaction of assumptions, the actual impact may be slightly different due to each insurer's own pricing models. However, final rate change is not an estimate.

	UHC and UHCNE LG		
	Requested	Final Approved	Impact to Rate Change
Medical FFS Utilization & Severity Trend - 2025	3.4%	2.2%	-0.6%
2023 & 2024 Trend Set to 2024 Final Approved Trends	12.0% / 10.3%	9.8%	-1.5%
Update Assessments for FY2025 Costs	\$7.53	\$6.62	-0.2%
Administrative PMPM Charge	\$46.12	\$41.41	-0.4%
Contribution to Reserves/Profit	2.0%	1.0%	-1.1%
<b>Expected Overall Rate Change from 2024</b>	<b>14.9%</b>	<b>10.6%</b>	

**Table 8: Requested and Final Approved Rate Change**

## IX. Data Reliance, Limitations and Qualifications

This letter communicates our findings regarding our review of UHC's and UHCNE's large group rate filing (SERFF tracking numbers UHLC-134066731). Distribution of this letter to parties other than OHIC by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the OHIC on any aspect of our work is not authorized by us and is done at their own risk. In arriving at our findings, we used and relied on information provided by UHC and UHCNE. If this information is inaccurate or incomplete, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we requested clarification. We have utilized generally accepted actuarial methodologies in arriving at our findings.



This letter includes work based on actuarial analysis conducted by Gregory Bruce who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. This letter was peer reviewed by Jennifer Smagula who is a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. They both meet the Academy's Qualification Standards to perform this work.

Yours sincerely,

A handwritten signature in cursive script that reads "Gregory Bruce". The signature is written in black ink and is positioned above the printed name.

Gregory Bruce FSA, MAAA

Cc: Jennifer Smagula FSA, MAAA, OWA

Emily Maranjian, Executive Legal Counsel, Rhode Island OHIC