Actuarial Analysis: Impact of the ACA on Small Group and Non-Group Market Premiums in Rhode Island

Provisional Report

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Prepared for:
The State of Rhode Island

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1. EXECUTIVE SUMMARY

Wakely was retained by the state of Rhode Island Office of the Health Insurance Commissioner (OHIC) to complete analysis to support planning activities related to the creation and operation of health benefit Exchanges under the Affordable Care Act (ACA). This report presents a portion of the actuarial component of our scope of work. All results presented in this report are specific to the State of Rhode Island and may not be applicable for other states. The following components are discussed in this report:

1. Analysis of the Rhode Island individual market, including estimates of the impact of the ACA reforms.
2. Analysis of the Rhode Island small group market, including estimates of the impact of the ACA reforms.
3. Additional policy considerations to address rate shock and consistency inside and outside the Exchange.

We received data from three insurers, covering all of the current Rhode Island individual and small group markets. This data consisted of summarized plan benefit package, premium, claims, underwriting, non-benefit expenses, commission, and demographic information. We supplemented this information with publicly available rate filings, data from other states, and information provided by OHIC. We reviewed this information for reasonability, but did not audit the information.

Results for each component of the analysis are included in the separate sections below. Please see individual sections of the report for important information regarding our methods, assumptions, data and inherent limitations with our estimates. A summary of the results and conclusions is listed below.

Individual Market under ACA

We estimate the changes to individual market premiums from the current legislation in force in Rhode Island (as of July 2011) as shown in Table 1a below. The best estimate of the change in premium required is 8%. This reflects the change in the premium required to cover the health risks of the expected population after the ACA changes. It can also be viewed as the expected change in the "filed" rates of an insurer.

Table 1a: Changes to Individual Market Premiums under ACA

Description	Low Estimate	Best Estimate	High Estimate
State Mandated Benefits (beyond Essential)	Not yet determined		
Max out of Pocket <= H.S.A. Limit	0%	0%	0%
Essential Benefits Requirement	0%	0%	0%
Bronze Minimum Act. Value	0%	0%	0%
Minimum Loss Ration = 80%	0%	0%	0%
Rate Classes Not Allowed	0%	0%	0%
Durational Factors Not Allowed	0%	0%	0%
Pre-Ex Not Allowed	0%	0%	0%
Net Reinsurance (only during 2014-2016)	Varies by year		
Health Insurance Provider Fee	3%	3%	3%
Morbidity Change Due to No Denials, Individual Mandate	-1%	5%	13%
Total Impact to Premium Required (2017+)	**2%**	**8%**	**16%**
Estimated Premium Subsidies to Current Insureds	-23%	-25%	-27%
Premium Impact after Subsidies to Current Insureds	-22%	-19%	-16%

The estimated change to individual market premiums will be lower than the figures in Table 1a in 2014 through 2016 when individual insurers will be receiving additional funds from the net impact of transitional reinsurance. It is projected that the additional reduction in 2014 will be -11%, in 2015 will be -5%, and in 2016 will be -3% due to reinsurance. After 2016, the average premium impact will be as reflected in Table 1a when the reinsurance program has ended and the provider fee will continue to be included in rates. These comments assume that insurers will pass the full impact of the provider fee and reinsurance on to consumers.

As shown above, we estimate that average individual market premiums may increase due to the ACA reforms and the influx of newly eligible individuals. However, due to the currently existing rules and regulations in place in Rhode Island's individual market, many of the aspects of ACA reforms that are expected to result in significant changes in other states are not impactful for Rhode Island.

Additionally, it's important to note that Table 1a reflects the impact to *average* individual premiums. The net result of combining the rating pools (Pool 1, which is the guarantee issue pool, and Pool 2, which is the preferred risk pool) is necessarily 0, although the impact to individuals within Pool 1 and Pool 2 varies significantly. See Table 1b below for the range of ACA impacts to premiums in Pool 1 and Pool 2.

Table 1b: Range of Impact by Pool in the Individual Market

Description	Minimum	Maximum
Pool 1 (Guarantee Issue)	-57%	7%
Pool 2 (Preferred)	6%	39%

Our base scenario results in individual premiums post-ACA that are greater than small group premiums post-ACA, after adjusting for differences in demographics and plan designs. Under the ACA, insurers will no longer be able to medically underwrite incoming individuals; that is, they will no longer use medical questionnaires to evaluate and rate for health status of individuals. If this removal of underwriting causes the individual risk pool to be similar to the small group risk pool, premium changes may be more in line with the low estimate above.

Beginning in 2014, some lower income individuals will also be eligible to receive premium tax credits and cost sharing subsidies to make health care costs more affordable. For those individuals currently covered by individual insurance, the effective premium change under the best estimate would be a decrease of 19% as opposed to the underlying 8% increase in premiums after taking into account the premium tax credits these individuals will receive. This estimate is based on the second lowest silver plan's premium and assumes that only individuals over 133% of the Federal Poverty Level (FPL) will be in the exchange. The impact to any one member is greatly impacted by the income of that one person. While an average decrease in premium of 19% is projected for all current members, that premium impact will range from an 92% decrease for the oldest, lowest income individuals to an 8% increase for those people not eligible for a premium subsidy.

When looking at the ultimate population that will enroll, we can estimate the subsidies based on the projected premium and actuarial values for the plans. These subsidies will reduce the premium and cost sharing levels compared to base premiums set by insurers and the cost sharing associated with those plans. As displayed in Table 1a, the impact of the premium subsidies is very significant, 25% for the currently enrolled population. The *ultimate* population projected to be in the exchange is expected to receive even greater premium subsidies, 31% on average. In addition to premium subsidies, if these individuals also choose a silver level plan, and otherwise meet qualifications for cost sharing subsidies, the average cost sharing subsidies for the population is projected to be 12% of the total cost sharing (i.e., they would pay 88% of cost sharing). Combined, the premium tax credit and cost sharing subsidy could result in a 26% reduction to total health care costs on average (premium plus cost sharing) for the ultimately enrolled population, as shown in the following table.

Table 1c: Total Potential Subsidies by Income Range

(Reductions in Individual Outlay – Premiums and Cost-sharing)

Income Range	Ultimate Population Mix	Premium Tax Credit	Cost Sharing Subsidy	Total Subsidy
133-150%	5%	85%	80%	84%
151-200%	12%	75%	57%	70%
201-250%	18%	52%	10%	40%
251-300%	8%	36%	0%	26%
301-350%	10%	31%	0%	23%
351-399%	9%	24%	0%	18%
400%+	38%	0%	0%	0%
Weighted Total		31%	12%	26%

The premium tax credits displayed in Table 1c should be considered as the best estimate average subsidies to expect for an individual covering only themselves, with no covered dependents. For simplification in our projections, and due to not having enrollment figures broken out by income levels by age in the data received by the carriers, we are using CPS data to estimate the number of individuals in each age band by income level. The figures in Table 1c are calculated based on the weighted average expected premium across all ages compared to the maximum premium for the income range. For a given income level, younger people who are more likely to have lower premiums will be more likely to have a lower premium tax credit, if any. Conversely, older people having higher premiums will be more likely to have greater premium subsidies. We are reflecting only the subsidies for individuals with no dependents. The subsidies for families may be different from the values above.

Small Group Market under ACA

Table 2 contains our estimates of the following changes to small group market premiums (on a PMPM basis) beyond current legislation in force in Rhode Island (as of July 2011). The impact of the ACA requirements that have already gone into effect, such as the dependent definition expansion to age 26, are not included in the table below. In addition, it is important to note that the premium impacts below reflect the insurer perspective and do not include any tax credits received by small groups which are expected to offset overall small group premiums by 1% through 2015.

Table 2: Changes to Small Group Market Premiums under ACA

Description	Low Estimate	Best Estimate	High Estimate	Notes
State Mandated Benefits (beyond Essential)	Not Yet Determined			
Benefit Requirements	0%	0%	1%	[1]
Elimination of Underwriting	0%	0%	0%	[2]
Rating Restrictions (age/gender, tobacco, etc.)	0%	0%	0%	[2]
MLR Requirements	0%	0%	0%	
Health Insurance Provider Fee	3%	3%	3%	
Net Reinsurance (only during 2014-2016)	Varies by year			[3]
Morbidity Change	-5%	0%	5%	[4]
Overall impact to small group premiums	-2%	3%	9%	

[1] Includes essential benefits, deductible, MOOP, and AV requirements.
[2] Overall change to morbidity handled in Morbidity Change line
[3] Reinsurance is expected to add 1.2% to small group premiums in 2014, 0.7% in 2015, 0.4% in 2016, and 0% thereafter
[4] This includes impact of new group and employee and dependent entrants to and exits from the small group market

As shown above, our best estimate is that average group market premiums will increase slightly, primarily driven by the health insurance provider fee requirement (the annual federal assessment made on health insurers). Employer behavior regarding eliminating or adding insurance coverage for their employers in response to the ACA changes creates the most uncertainty with respect to our estimates. Similar to the individual market, Rhode Island's current existing small group rules and regulations are similar to the ACA provision reforms and will not result in significant changes in the market. The minimal small group impact in Rhode Island is an exception compared to the majority of other states where the ACA introduces significantly more rating restrictions compared to the existing rating rules.

It is important to note, however, that specific groups will see varied premium impacts based their group-specific circumstances. Those groups with benefit plans that currently do not meet ACA requirements or groups with employees with the highest or lowest average ages will see more varied premium impacts than listed in the above table. Please see the small group section of the report for more detail.

Policy Considerations to Minimize Rate Shock

Based on the analysis of the individual market, there is a concern for rate shock to a material portion of the population. The individuals who currently are qualified for preferred rates will be seeing large increases in their healthcare premiums if they do not qualify for premium subsidies. At Rhode Island's request, we have analyzed several potential policy considerations to address this issue. While we did not perform an in-depth analysis of the universe of associated considerations, we did analyze what we believe to be the most influential aspects of addressing the rate shock concern.

Because individual premiums in other states are often higher than comparable small group rates, merging the small group and individual markets is often considered a way to mitigate increases in individual rates. However, in Rhode Island, individual rates under the ACA provisions are expected to be slightly lower than small group rates in 2017 and beyond (and significantly less than small group rates in 2014 and 2015). Even though the projected average morbidity of the individual market is slightly sicker than the small group market, the individual market has lower administrative expenses than the small group market, which more than offsets the morbidity difference.

Our analysis has shown that merging the individual and small group markets would soften the rate shock felt by individual market preferred Pool 2 members but only by 1% to 2% and only if the premiums of small group and individual policies were allowed to vary for reinsurance and administrative costs within a merged market. The reason that merging markets mitigates rate shock for the individual market is that the individual market is expected to have a slightly higher morbidity than the small group market, and merging the markets spreads the cost of anticipated pent-up demand for new entrants coming into the individual market. Please see Table 3 below containing the premium impact by scenario for a 30-year-old consumer in the preferred Pool 2.

Table 3: Premium Impact for 30-year-old in Preferred Pool 2
Who Is Not Eligible for Subsidies (Assumes No Cost Trend)

Assumes BG1s Remain in Small Group

Scenario	2014	2015	2016	2017
Individual (no merge)	21%	28%	31%	35%
Merged, vary by reinsurance	21%	29%	32%	36%
Merged, vary by admin	29%	32%	32%	34%
Merged, vary by reins and admin	19%	27%	30%	34%
Merged, no rate variation	31%	34%	35%	36%

While premiums in Pool 2 currently differ by gender, for simplicity the figures displayed in Table 3 represent the overall average changes for males and females combined.

If premiums of small group and individual policies were not allowed to vary whatsoever in a merged market, merging markets would worsen the rate shock for the individual market in 2014-2016 since the benefits of the transitional reinsurance program and lower administrative costs would be spread between individual and small group policies.

Beginning in 2017 when transitional reinsurance will no longer be incorporated, merging markets would not have a significant impact on either individual or small group premiums.

Another consideration is if Rhode Island has the authority to continue allowing business groups with one employee (BG1s) to remain in the small group market. And, if given the flexibility to make that decision, would moving BG1s to the individual market worsen or improve the rate shock of the preferred Pool 2

members in the individual market? There are varying interpretations of the ACA's definition of "employer," and it is unclear whether CMS intends for sole proprietors to be treated as individuals and not be considered as part of the small group market. If BG1s moved to the individual market, Wakely estimates that the 2017 individual market premiums would increase by about 2%, BG1s would experience almost no change in their premiums, and premiums for the remaining small groups would be expected to decrease by about 2%. While this change would lower small group premiums, it would magnify the rate shock to the individual market.

The state can further utilize other rating tools to mitigate the rate shock potential. One such tool is to allow the individual premium rates to vary dependent on the tobacco use status of the individual. This would allow for a potentially lower rate for the healthy individuals that were previously in Pool 2, so they would not receive as significant an increase.

Policy Considerations to Maintain Consistency Inside and Outside the Exchange

In order to minimize adverse selection against the Exchange and the market as a whole, we recommend that the State consider the following policy options related to maintaining consistency inside and outside the individual and SHOP Exchange:

- Within the Exchange, consider having participating QHPs offer at least the highest three actuarial value tiers (Gold, Silver, and Platinum).
- For carriers offering products outside the Exchange, consider requiring them to also offer products inside the Exchange. This is particularly important to consider for carriers offering catastrophic plans outside the Exchange.
- For carriers offering products inside and outside the Exchange, consider requiring that the plan designs offered inside and outside are identical. For example, if a carrier chooses to offer a Silver plan outside the Exchange and a Silver plan inside the Exchange, then that carrier may be required to offer the same Silver plan inside and outside the Exchange.
- Assigning actuarial values to plans offered outside the Exchange. This will make comparison between designs easier for consumers and regulators.
- Minimizing the amount of stop loss coverage allowed for self-funded employer groups. This will minimize the risk of having the healthiest small groups leave the market by purchasing stop loss coverage and retaining minimal risk.

What's Not Included in this Report

As noted in the title, this report is "provisional" indicating that the report will be updated as more information becomes available. Some of the things that this report does not include are:

- Analysis of the mandated benefits not required under the essential benefit package
- Analysis of the 51-100 life market
- Updates to the Who Goes Where Analysis based on the premium results in this report

These analyses along with the expected federal regulations on the following topics may change the results contained in this report.

- Requirements of actuarial value determinations and de minimus rules
- Essential benefits determinations
- Geographic rating requirements
- How consumer choice in an employer sponsored coverage decision in the exchange will be allowed or restricted

Possible Next Steps

The analysis done to date has highlighted many possible changes in the market, and decisions that will need to be made when establishing a Health Exchange. The following are some areas that we would recommend further analysis.

- Update impact of Mandated Benefits once they are defined
- Review and comment on transition strategies for the individual market
- Review potential options for reinsurance
- Determine options under the ACA regarding ability to keep business groups of one employee (BG1s) in the small group market rather than having them move to the individual market
- Review impact of including groups size 51-100 employees
- Analyze impact of various age slopes (that still meet the 3:1 ratio) on rates, including slopes that have a more compressed ratio than 3:1
- Analyze the tax credit impact by group size
- Analyze the premium impact on the individual market if the State has a Basic Health Plan (BHP). An internal analysis for a comparable population of members determined there was minimal difference in morbidity between enrollees with incomes of <200% FPL versus those with incomes of 200% to 400% FPL. Based on those findings, the premium impact on the individual market if the State has a BHP may be minimal, but further analysis regarding this issue is warranted.
- Provide additional details regarding the impact of merging the small group and individual markets
- Consider additional items such as reinsurance, risk adjustment, business groups of one, and additional carriers offering individual coverage that could potentially affect the merging of the small group and individual markets
- Develop a work plan for implementing risk adjustment for the small group market

2. ANALYSIS OF THE RHODE ISLAND INDIVIDUAL MARKET

2.1 Summary of Individual Analysis

In summary we expect the following changes in the individual market in 2017 as compared to 2010 as a result of ACA provisions:

- Slight compression of rates due to ACA requirement for three to one maximum age rate difference. Of the two current pools – guarantee issue and preferred rates – in the market, the guarantee issue rates currently reflect a ratio of less than three to one while the preferred pool has rates reflecting slightly more than three to one.
- Overall increase of 8% to individual premiums due to ACA with a range of possible outcomes ranging from 2% to 16%.
- The impacts to individuals vary significantly based on their current plan and pool.
- Premium tax credits for individuals with incomes less than 400% FPL vary greatly, and for many people will more than offset premium increases otherwise resulting from ACA rating requirements.
- Qualified low income individuals may also be eligible to receive cost sharing subsidies to offset out of pocket costs beyond the premium if they enroll in a silver plan through the exchange.
- The individual market will see significant influx of new enrollees coming mostly from the current uninsured population. **This change drives the majority of the expected change in premiums**.
- There is only one carrier in the individual business in Rhode Island, and it offers five plan designs today. There is no expected change due to Maximum Out of Pocket limits and minimum Medical Loss Ratios as required by ACA as all plans meet the current requirements.

2.2 Current Rating and Underwriting Rules in Rhode Island

Rhode Island currently allows significant rate variation based on health status and demographics . In general, there are no statutory limits on how much individual premiums can vary based on age, gender, health status, family size, and other factors. However, the regulatory review process in Rhode Island is designed to provide effective consumer protection, where any adjustments to rating rules require a public hearing and must be approved by the OHIC.

Carriers are required to offer individual health insurance to any resident on a guaranteed issue basis during an annual 30-day open enrollment period. Guarantee issue policies may not impose any pre-existing condition exclusions. The rates may vary by age and gender, although for the guarantee issue pool, current market rates do not reflect gender variations.

Medical underwriting may be used, requiring individuals to complete detailed health questionnaires, which are analyzed to determine if the individual qualifies for a preferred premium rate. These medically underwritten preferred plans may impose pre-existing condition exclusions for up to 12 months, although in practice these riders are not utilized.

2.3 Current Coverage and Costs in the Rhode Island Individual Market

Data Received

The analysis was based on data provided by the insurers and the State. This information includes but is not limited to:

- Detailed benefit plan information for plans representing the full block of the insurer's individual book of business. The detailed information includes:
    - 2010 earned premiums, allowed and paid claims, and member months by benefit plan. The same data elements were also provided in aggregate for the balance of the remaining plans in the insurer's small group book of business.
    - High level cost sharing and covered services information for each benefit plan
- Summary of member months, premium, claims and allowed cost experience by line of business (small group, individual, 51-100 size groups) and product type.
- Underwriting experience for 2010 sales
- Member months by gender and age band.
- Administrative information including:
    - Amount of commissions
    - Division of administration into following components:
        - Marketing/sales
        - Enrollment
        - Billing
        - Collections
        - Other

Blue Cross Blue Shield of Rhode Island is the only carrier operating in the individual market in Rhode Island. All information provided by the carrier was for fully insured business.

Loss Ratios and Actuarial Values of Benefit Plans in the Individual Market

The loss ratio for the sole individual carrier is around 88%, which is already above the ACA minimum Medical Loss Ratio (MLR) of 80% for the individual market.

The actuarial value (AV) reflects the relative richness of the benefit and is calculated by dividing the claims cost by the allowed amounts under the benefit plan. AV values for the current plans offered by BCBSRI range from 63% to 80%.

Current Rating Practices

The current regulations on the Rhode Island individual market are not significantly different compared to ACA. Rhode Island already offers guarantee issue individual insurance. There is underwriting allowed that reviews the health status of individuals and provides them with lower premium plans if they pass the underwriting requirements to join the preferred pool. While there are a limited number of mandatory benefits, many additional benefits are routinely covered, so the additional benefits expected to be offered in an essential benefit package is not significant. Unlike many other states, maternity coverage is currently standard in individual plans.

The current plans also reflect fairly flat age/gender rates, with the guarantee issue pool actually showing less than 3:1 ratio between the age 60-64 band and the under 25 age band. Thus, the new ACA regulatory environment will not be a strong shift from the current state where guarantee issue, rating limits and much stronger requirements around benefit coverage will exist. Because the current plans are guarantee issue, no individuals are denied coverage. In 2010, 45% of members in the individual market were in the guaranteed issue pool, and 55% were in the preferred pool. However, in 2010, the majority (55%) of new policies issued were in the guaranteed issue pool. This may indicate a shift in the health status of the population or may indicate that the guaranteed issue pool has more turnover than the preferred pool.

As noted, there currently is no limit to the type of rating variables or the variation in the rating factors themselves. The primary rating variables currently used by Blue Cross Blue Shield include the following:

- **Demographic (age and gender) factors.** Age/gender factors utilized for each of the separate individual market pools vary considerably. Pool I (guaranteed issue) is not gender specific while Pool II (preferred) does currently offer separate male and female rates.
- **Underwriting factors.** The range of rate decreases varies by age, and can be up to almost 200% discount for the young ages.
- **Smoking.** Rates are not explicitly adjusted based on smoking status, although it can be presumed that tobacco use is included in the medical underwriting information collected by the carrier.
- **Geography**. Geography is not utilized in the individual rating approach.
- **Benefit plan.** Various plan designs are currently available in the market. The plans vary from $500 deductible plans to $5,000 deductible HSA plans.

Of the primary rating variables noted above, only demographic (age only), area and benefit factors will be allowed under ACA and even these variables will have limits around the factors that may be utilized. Smoking factors, currently assumed to be implicit in the insurers' underwriting factors, will also be allowed under ACA.

2.4 ACA Impact on Individual Market Summary

The ACA includes a provision for states to develop an exchange by which individuals can purchase health insurance. The ACA also includes significant new underwriting and rating requirements for the individual market. The purpose of this section is to analyze the estimated impact of these new requirements on current individual premiums. Since the ACA dictates that rates need to be the same for insurers who offer insurance both in and out of the exchange, the focus of the analysis is on premiums in the overall individual market, in or out of the exchange.

Overall premiums are estimated to change by 8% under the ACA underwriting and rating requirements. This change is not uniform over all individuals, as some enrollees could see their premiums drop in half while others could see them increase by as much as 71% before taking into consideration premium tax credits. Groups of one are included in the small group analysis as they are currently considered small groups today. Table 4 below shows the projected impact for each of the requirements that are most impactful to premiums. As can be noted in the table, the most significant requirement to the Rhode Island individual market, as measured by overall impact to premium, is the morbidity change due to new entrants to the market; these entrants are mostly coming from currently uninsured populations. While changes to the age/gender slope and removal of underwriting factors have no overall impact, their impact to individual enrollees is significant. The overall premium impacts (gross of premium tax credits) by ACA requirement are shown in the following sections.

Table 4: Projected Impact for Requirements Most Impactful to Individual Premiums

Description	Overall Impact
State Mandated Benefits (beyond Essential)	Not yet determined
Max out of Pocket <= H.S.A. Limit	0%
Essential Benefits Requirement	0%
Bronze Minimum Act. Value	0%
Minimum Loss Ration = 80%	0%
Rate Classes Not Allowed	0%
Durational Factors Not Allowed	0%
Pre-Ex Not Allowed	0%
Net Reinsurance (only during 2014-2016)	Varies by year
Health Insurance Provider Fee	3%
Morbidity Change Due to No Denials, Individual Mandate	5%
Total Impact to Premium Required (2017+)	**8%**

Note that the above table does not include the impact of reinsurance or pent-up demand since these adjustments vary by year (2014-2016). The results shown in Table 4 are reflective of the impact of the ACA requirements in 2017 and after, when reinsurance and pent-up demand are not impactful. See the Additional Requirements and Considerations section for information on these topics.

Beginning in 2014, health insurers will be required to pay annual federal assessment fees related to a health insurance provider fee. Total fees will be $8 billion in 2014, $11.3 billion in 2015 and 2016, $13.9 billion 2017, and $14.3 billion in 2018, increasing annually thereafter by a premium growth rate. The fees will be allocated among insurers using a formula based on net premiums. According to Holtz-Eakin, the health insurance provider fee will result in an average increase to premiums of approximately 3%.

The reinsurance program under the ACA is a temporary program that will operate from 2014 through 2016. The reinsurance program is intended to protect health plans operating in the individual market from specific high cost individuals. Unlike risk adjustment, states that establish a state based exchange must administer the reinsurance program. They cannot outsource this function to HHS. States that do not operate an Exchange may still operate the reinsurance program or allow HHS to operate the program.

States can contract with or establish a reinsurance administrator subject to certain standards. The proposed rules include guidance that allows states to establish contracts with multiple reinsurance administrators, but requires their geographic coverage areas to be distinct. Subcontracting of some administrative functions by the reinsurance entity is allowed, subject to review to ensure the contracts are appropriate.

The ACA included the following nationwide requirements for total reinsurance contributions:

2014 = $10 billion

2015 = $6 billion

2016 = $4 billion

In addition, required national contributions to the U.S. Treasury to provide health reform funding are as follows:

2014 = $2 billion

2015 = $2 billion

2016 = $1 billion

Preliminary modeling suggests that the assessment on issuers will be approximately 1% of premium (costs for self-insured) in 2014 for the reinsurance only portion of this assessment (20% more in 2014 if Treasury contribution is included). Individual market premium rates may decrease because of this transfer between 7% and 12% in 2014 depending on a number of factors, including strategic decisions states make, the size of the individual market, actual individual market morbidity, and others.

The following table shows preliminary estimates of the impact of reinsurance to individual market premiums nationally and for Rhode Island.

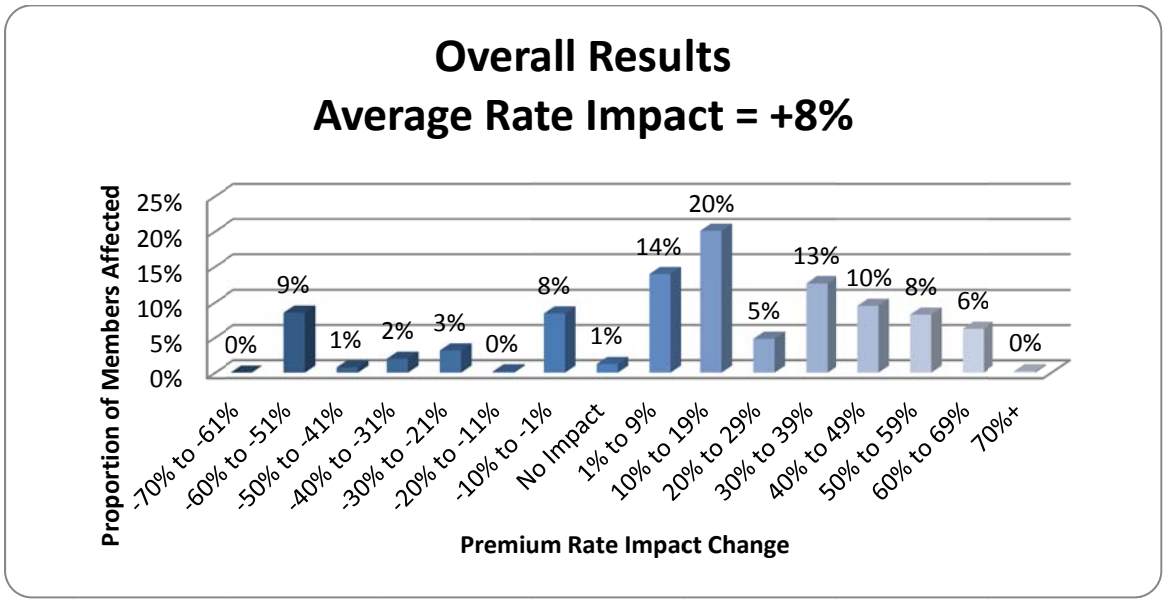
Table 5: Estimates of Impact of Reinsurance to Premiums

Description	Assuming Larger Individual Market			Assuming Smaller Individual Market		
	2014	2015	2016	2014	2015	2016
Net Assessment (Reinsurance Only - Not Treasury Contribution)	1.2%	0.6%	0.4%	1.2%	0.7%	0.4%
Net Impact to Individual Market Premiums (US)	-7.4%	-3.5%	-2.0%	-11.4%	-5.2%	-2.7%
Net Impact to Individual Market Premiums (Rhode Island)	-9.1%	-4.4%	-2.6%	-13.7%	-6.4%	-3.4%

Figure 1 below shows the various estimated premium changes and the corresponding percent of members impacted. Enrollees receiving the greatest premium increases are likely to be males in the preferred rate pool. Conversely, enrollees receiving the largest premium decreases are likely younger enrollees in the guaranteed issue pool.

Note that the premium changes included in this section reflect the average premium change from the perspective of the insurer. They do not take into account the impact of the premium tax credits that will be available to lower income individuals. The premium tax credits would be layered on to the changes reflected in this section. We did not receive information on income ranges of individuals in each plan or pool, so we were unable to combine the impacts at this level of detail.

Figure 1: Estimated Premium Changes and Percent of Members Impacted



Premium Impact

Maximum Out of Pocket Limits

Starting in 2014, the maximum out-of-pocket (MOOP) cannot be greater than the HSA limit (currently $5,950 but will be indexed annually). There are currently no individual plans offered that have a MOOP higher than this level. Therefore there is not anticipated to be any change due to the limit on the MOOP.

Essential Benefits

The ACA requires that all benefit plans cover services for certain essential benefits, some of which are often excluded in the current individual market. The definition of essential benefits is still not fully understood, particularly around potential minimum coverage levels, and further regulations are still forthcoming. For this analysis, it is assumed that essential benefits include but are not limited to:

- Inpatient and outpatient services
- Office visits
- Emergency services
- Laboratory services
- Rehabilitation services and devices
- Preventive and wellness services
- Maternity and newborn care
- Mental health and substance abuse
- 3-tier (generic, brand, non-formulary brand) prescription drugs
- Oral and vision pediatric services

Currently individual insurers in Rhode Island include all these benefits in their plans with the exception of vision pediatric services. The overall impact of adding this essential benefit to the current benefit plans is 0.13%. This increase is consistent across all plans.

Bronze Requirement

Beginning in 2014, there will be four primary levels of plan designs that may be offered, varying by their actuarial value, or the percent of the costs that are covered by the insurer for essential benefits for an average insured. The four plans are Bronze at 60% actuarial value (AV), Silver at 70%, Gold at 80% and Platinum at 90%. While not all of the specifics of this requirement have been finalized, all insurers participating in the individual market will be required to offer at least two plans, one at the Silver level and one at the Gold level. Table 6 below shows the current distribution of plans and members by various AV levels. Note these do not line up with the "metal" levels for the ACA. These AVs have been adjusted to include any essential benefits that may not currently be covered.

Table 6: Distribution of current plans by AV Level

Current AV, Essential Benefit Adjusted	Member Distribution
< 0.60	0.0%
0.60 <= AV < 0.70	40.0%
0.70 <= AV < 0.80	18.2%
0.80 <= AV < 0.90	41.8%
AV >= 0.90	0.0%

Given the individual market tends to offer leaner benefit plans than the group market, it is likely that most insurers will also offer the leanest benefit plan allowable, or the Bronze level, in addition to the required Silver and Gold plans. We did not include prospective catastrophic plans in our analysis. The current individual carrier does not offer catastrophic-level plans, and there are such stringent rules regarding who would be eligible for such coverage, we do not think that it would be likely that a significant number of members would enroll in such plans even if they became available. Therefore, for our analysis it is assumed all plans would need to meet the 60% Bronze AV level. As noted in Table 6 above, there are no members currently enrolled in plans that fall below the Bronze AV amount of 60%.

Medical Loss Ratio (MLR) Requirements

Effective January 1, 2011 insurers are required to maintain a minimum loss ratio of 80% for the individual market or the insurer must pay rebates back to the enrollees. While not all of the details for this requirement have been finalized, it is expected that some expenses that traditionally fell under administrative expenses, such as costs for disease management programs or nurse lines, will now be categorized as claim costs.

To assess the impact of this requirement, the current book of business loss ratios were reviewed. The incurred claims we received were not reported using the NAIC guidance for reporting medical costs in 2011, so we expect that the loss ratios will increase for the disease management, quality and fraud and abuse expenses that will be allowed to be included with the medical costs. These loss ratios were also compared to the non-claim expense loads reflected in the rate filing as a check of reasonability.

The 2010 loss ratio was calculated, adjusting for estimated taxes. Since the full impact of other adjustments such as wellness programs is unknown, no additional adjustments were made. The change in premium was then calculated to determine what decrease, if any, was needed to comply with the minimum 80% loss ratio. The sole individual carrier does already meet the MLR requirement, so no additional change in premiums is expected due to the loss ratio level.

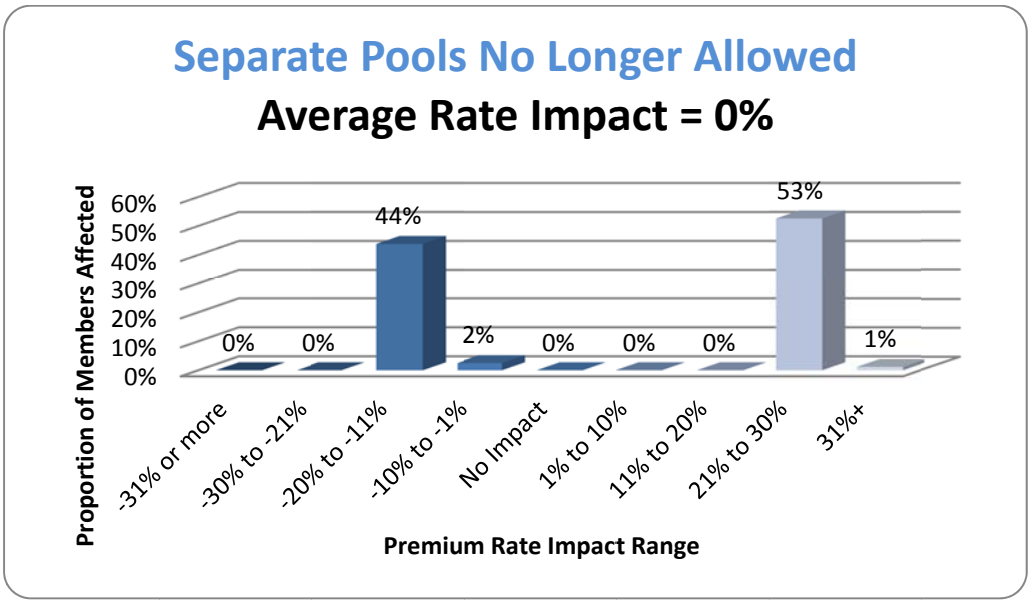
Underwriting Factors

Underwriting factors are designed to allow insurers to vary premiums such that they would be more in line with expected costs for an individual. This enables insurers to accept more applicants by accepting higher risk individuals at a higher premium level. In the current Rhode Island individual market the

underwriting factors reflect the difference between the guarantee issue "Pool I" rates and the preferred risks in "Pool II".

These underwriting factors can be a significant adjustment to the premiums compared to the premiums for a similar enrollee with average health risk. The average factors applied by the insurer to preferred policies issued in 2010 are on average around a 45% discount off of the guarantee issue rate. Thus, most enrollees who are currently in Pool I will see a significant premium decrease while those with preferred rates, in Pool II, will see a premium increase. These premium impacts can be seen in Figure 2 below.

Figure 2: Combining of Guaranteed Issue and Preferred Health Status Pools



Under ACA, only tobacco factors will be allowed with a maximum premium ratio of 1.5 to 1.0. Based on Medical Expenditure Panel Survey (MEPS) data as well as other publicly available surveys on tobacco use prevalence, we assume the percent of adult tobacco users in the current individual market is around 13%. Since the guaranteed issue pool is 45% of the total individual members, this equates to 27% of the adult guaranteed issue pool (and 23% of the entire guaranteed issue pool) being tobacco users. Note that this amount is close to the estimated uninsured adult tobacco rate of 28%.

Since we do not know which of the members are tobacco users, we have not included the impact of the smoking factor in Figure 2 above. However, note that for the guaranteed issue members who are tobacco users, if the health plan applies the full 50% load under ACA, these members could see premium increases due to underwriting factors of up to 45% instead of the decreases shown above.

Demographic Factors

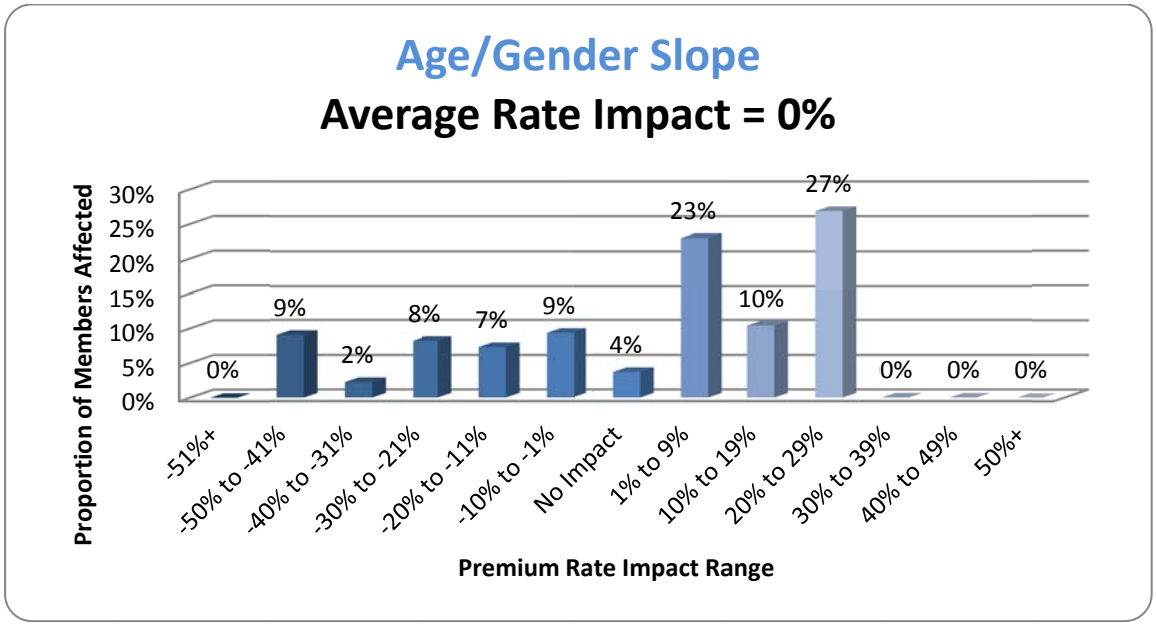
Two significant changes will be required in 2014 for any demographic adjustments to rates. Currently, there is no limit to how much an insurer can charge an enrollee based on their age or gender. Under the

ACA, rates can not differ based on gender alone and the maximum ratio of the highest to lowest adult rate is 3 to 1. While it is unknown what age factors the insurers will implement in 2014, and each insurer can develop their own factors that meet the requirement, an assumption was made for this analysis after reviewing current demographic factors and incorporating the new requirements.

Currently, the sole individual insurer has rate ratios of under 3 to 1 for guarantee issue rates, and only slightly above for the preferred risks. The overall impact of this change is expected to be premium neutral, although the member impact is significant. For the guaranteed issue pool, assuming the full 3 to 1 ratio is used, the younger enrollees will see large premium decreases and the older enrollees will see premium increases. For the preferred pool, the younger adult enrollees will see modest premium increases while older enrollees may see decreases. These premium impacts may be offset in the preferred pool by the blending of rates by gender. While strong variations exist by age, overall females will see a roughly 12% decrease in premiums while males will see a 12% increase.

The number of members impacted and the corresponding combined impact of both of the gender and ratio changes are in Figure 3 below.

Figure 3: Impact of Gender and Ratio Changes



Morbidity Changes

Currently insurers are able to manage the risk that they carry by underwriting the incoming applicant and determining the rate to charge for the individuals/families. Because the rates are guarantee issue, they cannot deny coverage. Insurers could also apply a pre-existing condition exclusion to an enrollee which enables that enrollee to obtain health insurance in Pool II with the exception of claims related to a

declared preexisting condition. In Rhode Island, the individual carrier has opted not to use any pre-existing condition exclusions.

Because there is a guarantee issue option, Rhode Island has no high risk pool. Even though the individual market is guarantee issue, individuals can choose not to be covered, and close to 10% of the population in Rhode Island is currently uninsured.

In order to determine the impact of the incoming population that was previously uninsured, we needed to understand the expected risk of this incoming population. Since they are uninsured and thus have no available claims data, we used data from the Current Population Survey (CPS) to determine how their projected claim costs would compare to the current market insured through the individual market. The CPS information is publicly available data produced through the U.S. Census Bureau and provides insight into self-reported health status for Rhode Island residents currently uninsured as well as those currently insured in individual policies and group plans. Income level relative to the federal poverty level is also denoted in the CPS data, making it possible to identify those who would be eligible for subsidies within the Exchange. By using robust All Payers Claims Databases in other states and incorporating the CPS information for those states, we have developed a claims relativity that corresponds to the CPS surveyed health status responses. For example, we have calculated the relationship of average claims costs based on how respondents generalize their health status, as indicated in the CPS information. We then applied the Rhode Island-specific CPS information to those claims relativities for this analysis in order to compare average morbidity of different cohorts of the projected Rhode Island individual market population.

It was seen that the Rhode Island uninsured with incomes less than 400% FPL tend to categorize themselves as being in much worse health than the population currently in the individual market. **Ultimately, an aggregate 5.3% increase in rates is expected due to the influx of these new, less healthy, individuals.** This increase reflects the addition of two broad categories of individuals to the exchange - 1) those individuals with incomes less than 400% FPL who are unhealthy but cannot afford the high cost of the current guarantee issue pool rates, and 2) uninsured individuals with incomes greater than 400% FPL who are presumably able to afford premiums in the preferred pool but do not feel the need to have insurance based on their own assessment of good health. The former category of people are expected to have much higher claim costs than those currently insured in the individual market, and the latter group of people are expected to have significantly lower claim costs than those currently insured in the individual market. According to the "Who Goes Where" analysis produced for the State, there are 2.5 times more people in group #1 expected to enter the individual market under the ACA than people from group #2.

Due to more limited rating restrictions and higher risk individuals that will now be covered, in the absence of mandatory coverage, it would be expected that the overall premiums will need to be increased in order to cover the higher risk. This alone would result in driving some of the healthier individuals from coverage, or discouraging them from purchasing insurance in the first place. In order to offset this potential risk, each individual will also be required to obtain minimum essential coverage or face a penalty. This clause will help mitigate increases to the overall risk level of the individual market

(assuming the penalties are sufficient to drive individuals' behavior). The additional incoming individuals are primarily part of the current uninsured population. They will include some individuals who are eligible for subsidies (about 2/3 of individuals) and some who are not eligible for subsidies (about 1/3 of individuals). The mix of individuals (high and low risk) is expected to be very different by benefit plan level. Another mitigating function is the transitional reinsurance program which is intended to offset some of these increases in 2014-2016; however, in 2017 and after, the transitional reinsurance will no longer exist.

Table 7 below shows the expected impact of introducing the individual mandate as well as no longer allowing premium differentiation due to underwriting. The impact is offset by the expected increase in healthier individuals to the market due to the minimum essential coverage requirement. We show three scenarios, which differ according to the relative morbidity of newly insured. The enrollment shifts represented in Table 7 tie to figures developed within the "Who Goes Where" analysis and specifically assume that the individuals with incomes below 133% FPL will be in Medicaid and would not enroll in the individual market. There is some uncertainty regarding if the currently insured population below 133% FPL would move to Medicaid in actuality because they are currently paying premiums despite their limited income and may prefer to remain in their current plans, and some non-citizen populations will not be eligible for subsidies. However, for the purpose of calculating the shift in morbidity inherent within the future individual market, this assumption regarding the Medicaid population was more conservative than assuming some Medicaid eligible would enter the individual market in 2014.

Table 7: Expected Impact of Introducing Individual Mandate and No Underwriting Rating Differentiation to the Market

Current Status	Subsidy-Eligible	Future Average Members Individual Market	Future Membership Distribution Individual Market	Low Morbidity Relativity	Medium Morbidity Relativity	High Morbidity Relativity
Uninsured	Subsidy-Eligible	20,583	34%	1.020	1.231	1.443
Uninsured	Not Subsidy-Eligible	8,023	13%	0.950	0.911	0.872
Private Ins	Subsidy-Eligible	10,179	17%	1.006	1.006	1.031
Private Ins	Not Subsidy-Eligible	9,245	15%	0.937	0.937	0.960
Individual	Subsidy-Eligible	7,160	12%	1.006	1.006	1.031
Individual	Not Subsidy-Eligible	5,564	9%	0.937	0.937	0.960
Total		60,755	100%	0.986	1.053	1.132
Morbidity relativity to current insured individual market				**-1.4%**	**5.3%**	**13.2%**

2.5 Premium Credits and Cost Sharing Subsidies

The ACA provides for premium and cost-sharing subsidies for eligible individuals in the exchange who have incomes less than 400% FPL. For these individuals, premiums are limited to a sliding scale of 2% to 9.5% of the individual's income as a percent of the FPL. Cost-sharing subsidies limit the members' cost-sharing and in effect increases the AV of the selected benefit plan without increasing the premium amount. The subsidies for low income individuals can be significant. This section describes the expected impact to both the premium and cost sharing from the individual's perspective. The analysis considers only individuals earning above 133% FPL, since individuals below this level will be eligible for Medicaid and will therefore not be eligible to receive premium or cost-sharing subsidies within the exchange.

Furthermore, if a State chooses to establish a Basic Health Plan (BHP), those with incomes under 200% FPL will be required to enroll in the BHP for their subsidies instead of accessing them through the exchange. Also, if the State chooses to implement a BHP, the relative risk and size of the BHP eligible population should be studied relative to the other individual consumers. To the extent that the BHP eligible population is healthier or less healthy than the other consumers in the individual market, there will be an adverse or positive selection on the individual exchange.

Premium Tax Credits

Premium tax credits will be available on a sliding scale based on the income level of the individual. Qualifying individuals at 133% of FPL will receive credits so that their premium costs are not above 3% of their income. Credits will reduce as income levels increase to the point that individuals at 400% of FPL are not paying more than 9.5% of their income for health care premiums. There are no premium tax credits available above 400% FPL. The following table show the limits outlined in the ACA.

Table 8: Premium Tax Credit Levels by Income Level

Income Level (% of FPL)	Max Amount of Income for Premiums	Max Annual Premium Contribution*
133%	3.0%	$487
150%	4.0%	$650
200%	6.3%	$1,365
250%	8.1%	$2,180
300%	9.5%	$3,087
350%	9.5%	$3,601
400%	9.5%	$4,115
400%+	N/A	-

*as of April 2010 for 1 person

The premium tax credit amount will be based on the second lowest cost silver plan available to individuals in the exchange, although individuals are able to enroll in other than silver level plans and still receive the tax credit. Individuals enrolling in more expensive plans than the second lowest silver plan will have to pay additional premium amounts out of pocket.

The expected impact of the premium tax credits, if all individuals enroll in silver plans, is expected to be an effective subsidy of 31% for premiums over the projected population to be enrolled. Even if the number of uninsured joining the exchange is 25% below current projections, or 25% above current projections, the effective subsidy is still within 1% of this estimate. The following table shows the expected premium tax credits by income range. The credits assume that the individuals enroll for silver level plans. If they enroll for more expensive plans, the tax credit as a percent of premium will be reduced from what is shown here.

The premium tax credits displayed in Table 9 should be considered as the minimum subsidies to expect. For simplification in our projections, and due to not having enrollment figures broken out by income levels by age in the data received by the carriers, the figures in Table 9 are calculated by using CPS data to estimate the distribution of population ages by income range. For a given income level, younger people who have lower premiums will be more likely to have a lower premium tax credit, if any.

Conversely, older people having higher premiums will be more likely to have greater premium subsidies than those displayed.

Table 9: Effective Premium Tax Credit by Income Level

Income Range	Ultimate Population Mix	Premium Tax Credit
133-150%	5%	85%
151-200%	12%	75%
201-250%	18%	52%
251-300%	8%	36%
301-350%	10%	31%
351-399%	9%	24%
400%+	38%	0%
Weighted Total		31%

Cost Sharing Subsidies

Individuals who qualify for premium credits and are enrolled in a silver plan in the exchange will also be eligible for assistance in paying their cost sharing. Any plan in the exchange will already have a limit on the maximum out-of-pocket (MOOP) such that it cannot exceed the high deductible health plan limit ($5,950 in 2010). The cost sharing subsidies will further reduce these MOOP limits by two-thirds for individuals up to 200% of FPL, by one-half for individuals between 200% and 300% of FPL, and by one-third for individuals between 300% and 400% of FPL. Other cost sharing such as deductibles, coinsurance, and copays will be further subsidized, if necessary, to ensure that the health plan and subsidies cover the percentages of allowed health care expenses as shown in the following table. Individuals would be responsible for the remaining amount of allowed expenses reflected in the final column of the table.

Table 10: Cost Sharing Subsidy by Income Level

Income Level (% of FPL)	% of Allowed Expenses Covered by Plan and Subsidy	% of Allowed Expenses Covered by Individual
133-150%	94%	6%
151-200%	87%	13%
201-250%	73%	27%
251-300%	70%	30%
301-350%	70%	30%
351-399%	70%	30%
400%+	70%	30%

The silver plan level contemplates an actuarial value of 70%, consistent with the covered expenses for 251% FPL and above as shown in Table 10. While many aspects of how the cost-sharing subsidies will be operationalized and how exactly members with incomes of 251-399% of FPL will be impacted are yet to be resolved by HHS, our assumption is that only individuals with incomes of 250% of FPL or less will receive the cost sharing subsidy. The following table shows the subsidy as a percent of expected cost sharing for each income level. Given the expected population mix, the overall impact is expected to be a 12% reduction in the cost sharing burden on individuals compared to total cost sharing expected in the absence of subsidies.

Table 11: Effective Cost Sharing Subsidy by Income Range

Income Range	Ultimate Population Mix	Cost Sharing Subsidy
133-150%	5%	80%
151-200%	12%	57%
201-250%	18%	10%
251-300%	8%	0%
301-350%	10%	0%
351-399%	9%	0%
400%+	38%	0%
Weighted Total		12%

Total Impact

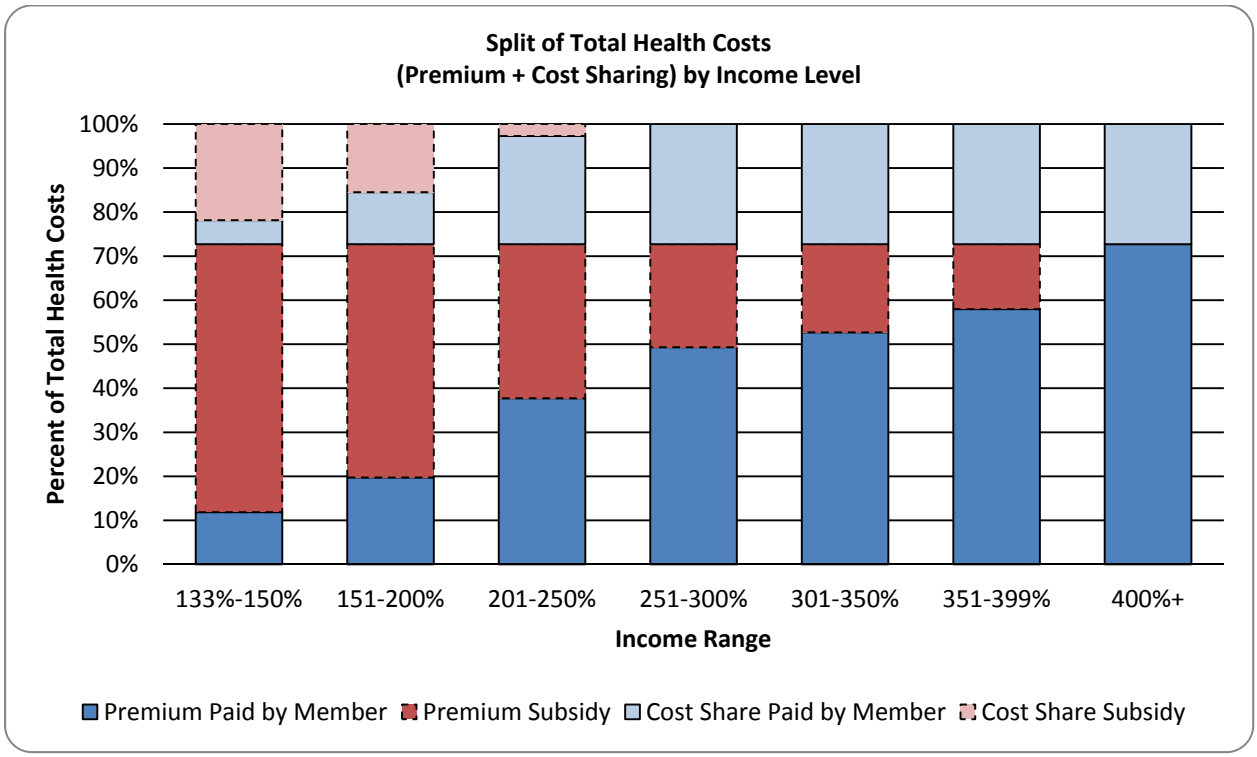
When considering the money that an individual has to pay for health care, it can be divided into two key components. First is the premium that is paid monthly for the insurance policy. Second is the cost sharing (deductibles, coinsurance, copays) that is paid when and if services are received. The premium tax credit and cost sharing subsidies are intended to reduce both components, respectively. The following table demonstrates the overall subsidy expected when considering the combined impact of the premium tax credit and cost sharing subsidies. The premium tax credit reflects the percent of premium expected to be covered by the tax credit. The cost sharing subsidy reflects the percent of cost sharing expected to be covered by the subsidy. For the expected mix of individuals by income range, the total costs for health care, which is comprised of the premium paid plus the cost sharing paid would be reduced by 26% due to the subsidies.

Table 12: Total Subsidies Expected by Income Range

Income Range	Ultimate Population Mix	Premium Tax Credit	Cost Sharing Subsidy	Total Subsidy
133-150%	5%	85%	80%	84%
151-200%	12%	75%	57%	70%
201-250%	18%	52%	10%	40%
251-300%	8%	36%	0%	26%
301-350%	10%	31%	0%	23%
351-399%	9%	24%	0%	18%
400%+	38%	0%	0%	0%
Weighted Total		31%	12%	26%

The impact of the subsidies by income range can perhaps be seen most clearly in the following graph. The two bottom bars in the graph below represent the premium, and the two top bars represent the cost sharing. Within each component, the blue bars outlined in dashed lines identify the proportion that is expected to be subsidized.

Figure 4: Split of Total Health Costs



For Rhode Island, it is expected that the premium will account for about 73% of the total health costs of a silver plan in the exchange, and cost sharing will account for the remaining 27%. The cost sharing amount of 27% is slightly less than the 30% associated with the silver plan due to the impact of non-benefit expenses. Note that the 30% cost sharing for an actuarial value test is relative to allowed costs (excluding non-benefit expenses), while 27% cost sharing is a percentage of total health costs (including non-benefit expenses).

To understand the potential change for individuals covered today, we are considering only individuals covered in a comparable silver plan (i.e., with a 70% AV). If these individuals were covered by a silver level plan that meets all post-ACA requirements, we would expect changes on the premium and cost sharing sides. As outlined in the previous section, the overall change in premiums is expected to be 8% from the perspective of the insurance company. Since there is no change due to changing the AV to meet the bronze level of 60%, this is also the expected overall change for silver plans. An insured individual today would expect to see this increase if they were not eligible for any premium tax credits (see the results for the "400%+" row in the table below).

Due to the subsidies described above, there is a very different result by income range when looking at how the premium or cost sharing is expected to change from the current environment to the post-ACA environment. The lowest income individuals, if they were insured today and paying the average premium and cost sharing for a plan with a 70% AV, would actually expect to see an 84% decrease in premium after premium tax credits and would pay about 80% less in cost sharing due to the cost sharing subsidies and the slight shift of costs for essential benefits (which rounds to 0%) to the premium side. This equates to an overall decrease of 83% in the total health care cost outlay for the individual. At the other extreme, individuals with incomes over 400% would not qualify for any subsidies and would see the full 8% increase in premium (on average). They would see no change to cost sharing as we would expect that their utilization would not change even though the overall premium is increasing. Together, these would equate to about a 6% overall increase in total health care cost expenditures (premium plus member cost-sharing).

The underlying premium would be offset at lower income levels by the premium tax credit. Total change in premium paid by a member is expected to be a 16% decrease on average. Cost sharing would also have the subsidy available to lower income individuals. The average change for the current population is a decrease of 8% for cost sharing. Together, these weight to a 16% decrease in health care costs (premium plus cost sharing) for the individuals currently covered today. The following table shows the change to each component by income range.

Table 13: Change in Premium and Cost Sharing by Income Level

Income Range	Current Population Mix	Premium Change	Cost Sharing Change	Total Outlay Change
133-150%	0%	-84%	-80%	-83%
151-200%	11%	-73%	-57%	-68%
201-250%	16%	-48%	-10%	-37%
251-300%	7%	-31%	0%	-22%
301-350%	10%	-26%	0%	-19%
351-399%	11%	-18%	0%	-13%
400%+	45%	8%	0%	6%
Wtd Total (Current)		-19%	-8%	-16%

It is important to note that the subsidy impacts described in this section are also average changes. As described in the prior section, there are also changes dependent on whether an individual is in Pool 1 or Pool 2 today. Almost half (45%) of the current population is over 400% FPL, and will not be eligible for subsidies of any type. For individuals in the preferred Pool 2 who are not subsidy-eligible, the premium increases will range between 6% and 39%.

2.6 Additional Requirements and Considerations

The previous sections outlined our analyses with respect to requirements that had a quantifiable and significant impact to the individual premiums. There are additional requirements and considerations that have already been implemented or may impact premiums and rating practices going forward and are thus, worth noting.

SEPTEMBER 23, 2010 REQUIREMENTS

A few regulations that impacted premiums were effective September 23, 2010. Identifying the impact of these issues is not part of our analysis as the focus was on the impact of implementing all of the ACA requirements yet to be incorporated. We did, however, consider that the impact of these items may already be reflected in the data and filings received for the reviewed market. The primary changes that may have impacted premiums for the September 2010 regulations include:

1. Preexisting condition exclusions for children under age 19 is no longer allowed
2. 100% coverage for specified preventive benefits
3. Lifetime benefit limits for essential health benefits is no longer allowed
4. Annual limits on essential health benefits are restricted
5. Dependent coverage extended to age 26

ADDITIONAL RATING RESTRICTIONS FOR THE INDIVIDUAL MARKET

Rating area - ACA requires that area rating will be state determined, reviewed and approved by the secretary. Since area factors are not currently used by insurers, and the state is very small, this is not expected to be a significant change to current rating practices.

Family structure - The current proposed rules recommend a four tier rating structure. Since this will be consistent across the market, this is not expected to have an overall premium impact.

Grandfathered plans – These plans are exempt from many of the ACA requirements and thus will dilute the impact of the ACA requirements on the individual market. However, it is unknown how many plans will become grandfathered and how many enrollees will remain in grandfathered plans. Thus, the impact of these plans is difficult to project and was not considered in this analysis.

PENT UP DEMAND

There will be new entrants to the individual market in the exchange that are coming from an uninsured period. Prior to joining the exchange, they would have been paying out of pocket for any medical costs, and it can be assumed that they made decisions not to treat minor issues and to forgo preventive care due to cost. Once they are covered in the exchange, there may be an increase in utilization for this population as they now afford to have minor issues treated or begin preventive care visits.

Based on analysis of programs serving a similar population, it appears that the claims are higher in the first six months to a year that an individual is covered. Then the claims revert to the average level for the block. Within that first year, the claims for those previously uninsured are on average 3-4% higher than the overall average.

The summary statistics displayed in this report reflect the 2017 market environment, after the majority of the effects of pent-up demand are assumed to have existed. In the current block, insurers already are reflecting the impact of pent up demand to a degree as they already cover individuals that may be coming from an uninsured period. The population of individuals that will be covered by the exchange is expected to be comprised of people coming from an insured environment (either through individual or group insurance), individuals from the high risk pool, and individuals that are currently uninsured.

3. ANALYSIS OF THE RHODE ISLAND SMALL GROUP MARKET

3.1 Summary of Small Group Analysis

In summary we expect the following changes in the small group market in 2014 as compared to 2010 as a result of ACA provisions:

- Compression of rates caused by the rating restrictions due the current four to one age/gender rule being compressed to three to one.

- Overall increase of 3.2% to small group premiums due to ACA with a range of possible outcomes ranging from -2% to +9%. The CBO estimates that the overall effect of the law on premiums for companies with fewer than 50 workers would range from an increase of 1% to a decrease of 2% in 2016, relative to current law. This is without the effects of the small business tax credit, which the CBO estimates would further reduce premiums by 8% to 11% for eligible firms.

- Insignificant impacts to the small group market size and product mix.

- Minimal changes to the anticipated overall health risk of the small group market. We anticipate that the relative health of the small group market may decrease or increase as much as 5%, with a best estimate of no change.

We have not included the following in the small group analysis:

- Impact of moving the definition of small group from 50 employees to 100 employees.

- Impact of structural decisions to be made in establishing an exchange including various options for employee choice within a SHOP Exchange. A future analysis could include a broad assessment regarding employer and employee choice including rate implications, market demand, operational issues, tax implications, etc.

- A full analysis of the impact of expanded self-insurance options on the small group market post ACA. Anecdotal information suggests that the number of small employers that are switching from fully insured to self-insured is increasing, and reinsurers are targeting this market for further expansion. This could, if left unchecked, destabilize a state's fully insured market.

3.2 Current Rating and Underwriting Rules in Rhode Island

The current rating and underwriting rules provide an important context for analyzing the premium impacts and selection issues under the ACA since underwriting and rating practices are at least partially designed to mitigate adverse selection. Current regulations in these areas are intended to provide particular consumer protections while allowing for health insurers to protect themselves against adverse selection. Regulations vary considerably by state. Rhode Island is generally average to slightly more restrictive than other states in terms of the practices they allow small group insurers to employ to mitigate adverse selection.

Rhode Island currently defines small employer groups as those with 50 or fewer employees for rating purposes. The State requires the guarantee issue of insurance to small employers, meaning that small employers cannot be turned down or cancelled because of health conditions. However, insurers can require small employers to meet minimum participation and contribution requirements; if they do not, the small group coverage can be denied or terminated.

Insurers are required to set premiums based on adjusted community rating, and can vary premiums based on age, gender, and family size. Varying rates based on health status was removed from legislation beginning January 1, 2009. Before that time, carriers could vary premiums between +10% and -10% for health status as measured by standardized health status data collection tools developed by the health commissioner.

Specific rules regarding the adjusted community rating include:

- Family composition tiers must include (1) the enrollee; (2) the enrollee, spouse and children; (3) the enrollee and spouse; or (4) the enrollee and children.
- 5 year minimum age brackets
- For each health benefit plan offered by a carrier, the highest premium rate for each family composition type shall not exceed four (4) times the premium rate that could be charged to a small employer with the lowest premium rate for that family composition. (R.I. Gen. Laws § 27-50-5(a)(4))
- No requirements to pool and rate small group and individual markets together.

See Appendix A for more details regarding the current statutes for small group insurance in Rhode Island.

3.3 Current Coverage and Costs in the Rhode Island Small Group Market

Data Received

The analysis was based on data provided by the insurers and the State. This information includes but is not limited to:

- Detailed benefit plan information for plans representing at least 80% of the insurer's small group book of business. The detailed information includes:
    - 2010 earned premiums, allowed and paid claims, and member months by benefit plan. The same data elements were also provided in aggregate for the balance of the remaining plans in the insurer's small group book of business.
    - High level cost sharing and covered services information for each benefit plan
- Summary of member months, premium, claims and allowed cost experience by line of business (small group, individual, 51-100 size groups) and product type.
- Underwriting experience, including group months, member months, employee months, earned premium and incurred claims by group size.
- Member months by family composition and age band.
- Administrative information including:
    - Amount of commissions

- Division of administration into following components:
  - Marketing/sales
  - Enrollment
  - Billing
  - Collections
  - Other

Three insurers provided information for the analysis including:

- Blue Cross Blue Shield of Rhode Island
- Tufts Health Plan
- United Healthcare

All information provided by the carriers was for fully insured business.

Overview of Current Small Group Market

As compared to national statistics, the Rhode Island small group market has higher costs and is more likely to offer small group coverage.

Table 14: Rhode Island Small Group Market Compared to US

Description	United States	Rhode Island
Average Monthly Premium – 2010 [1]		
Single Coverage	$426	$482
Family Coverage	$1,117	$1,265
Percent of Private Sector Establishments that offer Health Insurance to Employees – 2010 [2]		
Firms with Fewer than 50 Employees	39.2%	49.6%
Firms with 50 Employees or More	96.4%	98.4%

[1] Source: AHIP Center for Policy and Research. Small Group Health Insurance in 2010: A Comprehensive Survey of Premiums, Product Choices, and Benefits

[2] Source: Agency for Healthcare Research and Quality, Center for Cost and Financing Studies. 2010 Medical Expenditure Panel Survey - Insurance Component. Table II.A.2.

When assessing the impact of ACA on the small group market, it's important to look at how the new law impacts various group sizes. Smaller group sizes behave more like individuals in that they have a wider variation of premiums, larger fluctuation of claims and selection is a bigger factor. Larger group sizes, mainly because of the law of large numbers, tend to revert to the average of the market, with average age/gender factors and claims costs and therefore have less variation in costs.

Table 15: National Premium Variation by Group Size – Small Group Market, 2010

	10th Percentile	Mean	90th Percentile	Ratio of 90th Percentile to 10th Percentile
10 or Fewer Employees	$184	$446	$803	4.4:1
11 - 25 employees	$185	$419	$721	3.9:1
26 - 50 employees	$188	$406	$676	3.6:1
All Small Groups	$181	$426	$720	4.2:1

Source: AHIP Center for Policy and Research. Small Group Health Insurance in 2010: A Comprehensive Survey of Premiums, Product Choices, and Benefits

http://www.ahipresearch.org/pdfs/SmallGroupReport2011.pdf

Along with this idea of keeping track of impacts by group size, it's important to understand the difference between the distribution of group counts versus the distribution of members by group size. Generally, the distribution of groups is not the same as the distribution of membership. Rhode Island is not an exception in this regard. The table below shows a national distribution of groups and members as well as the Rhode Island distribution of groups and members.

Table 16: 2010 Distribution of Groups and Distribution of Members

	National		Rhode Island	
	Distribution of Groups	Distribution of Members	Distribution of Groups	Distribution of Members
10 or Fewer Employees	73%	37%	90%	57%
11 - 25 Employees	19%	34%	7%	26%
26 - 50 Employees	8%	28%	3%	17%

As you can see, the majority (90%) of the small groups have 10 or fewer employees. However, the membership associated to these small groups is only 57% of the small group market. The average group of the insured small group employer covers 3.8 employees and 7.3 members. Note this average group size is much smaller than the national average, which is in part due to the small group definition in Rhode Island including groups of one.

Loss Ratios and Actuarial Values of Benefit Plans in the Small Group Market

The loss ratios of the top three small group insurers are somewhat consistent. The highest loss ratio is slightly over 85%, and the lowest loss ratio is slightly below 82%, with an average loss ratio of 84.9%.

The actuarial value (AV) reflects the relative richness of the benefit and is calculated by dividing the claims cost by the allowed amounts under the benefit plan. An AV value of 100% means the benefit plan provides 100% coverage with no cost sharing. The average AVs by carrier in Rhode Island are surprisingly varied, with one carrier having an average AV value of 75% and a different carrier having an average AV value of 85%. Different AV levels can indicate differences between the carriers in the risk of the underlying populations. This difference in AVs by carrier is highly correlated with the average premium by carrier, as would be expected.

Table 17: 2010 Distribution of Groups and Distribution of Members

Carrier	Average Actuarial Value	Average PMPM Revenue
1	75%	$332
2	82%	$356
3	86%	$403

Current Rating Practices

Per statute, carriers vary rates by age, gender, plan benefit plan, and family size. Geography, group size, industry and underwriting factors are not used for rating, as detailed below. Unfortunately, the rate filings required by the state do not mandate that the rating factors be included. Therefore, we cannot compare the various carriers for variations in the rating factors being used.

- **Geography**. Geography is not an allowed case characteristic.

- **Age/gender**. The variation of age/gender rating for adults are required to be no greater than 4:1 within any one family composition tier.

- **Group size.** Group size is not an allowed rating variable; however, the experience shows that both claims and premiums on a PMPM basis decrease by group size. Some of the variation by group size can be explained by the average number of covered members by employee, but not all of it.

Table 18: 2010 Premiums and Claims by Group Size - Based on Data Provided by Carriers

Group Size	Earned Premium	Relativity to Average	Net claims	Relativity to Average	Average # of Members/ Employee
1 Employee	$ 388	1.00	$ 369	1.13	2.07
2 to 5 Employees	$ 398	1.03	$ 358	1.09	1.82
6 to 10 Employees	$ 397	1.03	$ 316	0.96	1.84
11 to 20 Employees	$ 385	0.99	$ 306	0.93	1.93
21 to 30 Employees	$ 370	0.96	$ 298	0.91	1.92
31 to 40 Employees	$ 369	0.95	$ 287	0.88	1.93
41 to 50 Employees	$ 354	0.92	$ 317	0.97	1.87
Total	$ 387	1.00	$ 328	1.00	1.90

Higher claims and premiums for the smaller group sizes are consistent with national experience data.

- **Industry**. Industry is not an allowed risk factor by group.
- **Smoking.** Adjusting rates for the smoking characteristics of the group is not allowed.
- **Underwriting factors.** Carriers cannot include any rating variation for health status.
- **Benefit plan.** Various plan designs are currently available in the market. Table 19 below shows the distribution of small group membership by deductible and in-network plan coinsurance.

Table 19: Percent of Membership Enrolled in Plans

In-network Deductible	In-network Plan Coinsurance	% of Membership
$ 0	100%	37.3%
$ 250	100%	20.5%
$ 1,000	100%	16.8%
$ 500	100%	11.6%
$ 1,500	100%	5.0%
$ 2,000	80%	2.4%
$ 3,000	100%	1.9%
$ 1,000	80%	1.8%
$ 500	90%	1.1%
Other	Other	1.5%

Carriers in the Market

The small group market is dominated by the Blue Cross Blue Shield of Rhode Island (BCBS RI). BCBS RI has approximately three times the membership of the next largest small group insurer.

The next two largest insurers are United Health Care (combined companies) and Tufts.

Table 20: Carriers in the Rhode Island Small Group Market

Carrier	2010 MM
Blue Cross Blue Shield Rhode Island	848,816
United Healthcare	254,008
Tufts Health Plan	14,225

An analysis shows that the distribution of group sizes within two carriers is similar. However, one carrier has fewer small groups under five employees and more employers of size 6 – 50.

3.4 ACA Impact on Small Group Market Summary

In studying the impact that the ACA will have on the small group market, there are many factors to consider. In this section, we review provisions of the ACA both inside and outside SHOP and their impact on:

- Premium rates
- Product offering
- Market size

The small group market in 2014 will be split between the groups accessing insurance coverage through the small group exchange, called the Small Business Options Program (SHOP), those fully insured outside of the exchange, and those that choose to self-insure. The ACA will directly impact all fully insured plans, but will have limited impact to the self-insured market.

Premium Impact

Underwriting rules

The general guarantee issue requirements in the ACA (for children in 2010 and for all ages in 2014) are not expected to have significant effect in the small group market given the historical guarantee issue provisions for the small employer insurance market in Rhode Island statute. The expansion of coverage to dependents to age 26 (implemented in the fall of 2010) is expected to have an overall increase to small group employer rates due to the additional members covered, but an overall decrease to the PMPM rates (as the average risk of the additional members is less than the small group market as a whole). We expect the average PMPM premiums to decrease between 0.5% and 1%. Although this impact is not listed in our executive summary of prospective ACA impacts (Table 2), it was necessary to

estimate this impact as the data we received was for calendar year 2010 and generally does not reflect the impact of this change.

New Plan Design Restrictions

Starting in 2010, the ACA incorporated the following benefit design restrictions:

1. Removal of lifetime limits and restricted annual maximums
2. 100% coverage of the preventive care services
3. Coverage of emergency services
4. Choice of provider

These coverages increased premiums for the small group market between 1% and 2%. Again, this impact is not listed in our executive summary of prospective ACA impacts (Table 2), but was estimated because we received calendar year 2010 data which generally does not reflect the impact of this change.

Starting in 2014, the ACA has the following main provisions regarding plan design:

1. Prohibition on annual limits
2. Essential benefits must be covered under the plan design
3. The overall coverage (as compared to the member cost sharing) has to meet minimum requirements
4. Various limits on specific cost-sharing thresholds.

Starting in 2014, all health plans sold through the exchange and in the individual and small-group markets will be required to provide an essential benefit package. Grandfathered plans will not have to comply with the standard. The ACA defines essential health benefits to "include at least the following general categories and the items and services covered within the categories: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services, including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric services, including oral and vision care." Insurance policies must cover these benefits in order to be certified and offered in the SHOP.

In addition, the essential benefits package is defined to require one of four levels of coverage, measured in terms of actuarial value (AV).

The AV is a ratio of the expected paid amount to the expected allowed amount of costs in a plan. An AV equal to 100% indicates full coverage with no cost-sharing. Various AV levels have been defined by ACA.

Plan Design Names	Actuarial Value
Bronze	60%
Silver	70%
Gold	80%
Platinum	90%

Every benefit design in SHOP will need to be at least as rich as the Bronze plan design. Regulations clarifying how this minimum value can be achieved by benefit category are not yet released. However, how or if these benefits are mandated outside of the exchange is not yet clear. The ACA requires that each health insurer *…that offers health insurance coverage in the individual or small group market shall ensure that such coverage includes the essential health benefits package.* This may imply that all health plans both in SHOP and outside of SHOP all need to comply with the benefit minimums as well as be equivalent to one of four specific plans as defined by the actuarial value.

The ACA limits cost-sharing structures for the essential benefits package by indicating maximum deductibles and maximum out of pocket maximums. Out of pocket costs are limited to $5,950 (single policies) and $11,900 (family policies). Deductibles for small businesses can be no greater than $2,000 for a single policy or $4,000 for a family policy. Further information on specific benefit coverages are expected to be released with the proposed rules.

Our analysis of the current small group plan designs offered in Rhode Island as provided by the carriers indicates:

- The vast majority of the small group plan designs are compliant with the plan design requirements of ACA.
- Approximately 6% of the current benefit plans, reflecting about 3% of the membership, are not compliant with the essential benefits package. The vast majority of non-compliant benefit plans result from plans with deductibles over $2,000.
- For the plans that are not compliant, the average increase in benefits and premiums is approximately 7.5%, increasing the small group market premiums overall by less than a half of percent.

New Rating Rules

Starting in 2014, the ACA introduces many new rating restrictions for non-grandfathered health plans. The main rating rules to discuss include:

- Age and gender rating restrictions
- Elimination of underwriting factors
- Family composition requirements
- Rating area- state determined, reviewed and approved by the secretary
- Tobacco use (1.5:1)

These rating rules also apply to groups outside the exchange.[1]

[1] Footnote: www.ahcahp.org/LinkClick.aspx?fileticket=Ow82Z107-Ns%3D... PPACA Requirements for Offering Health Insurance Inside Versus Outside an Exchange, Congressional Research Service

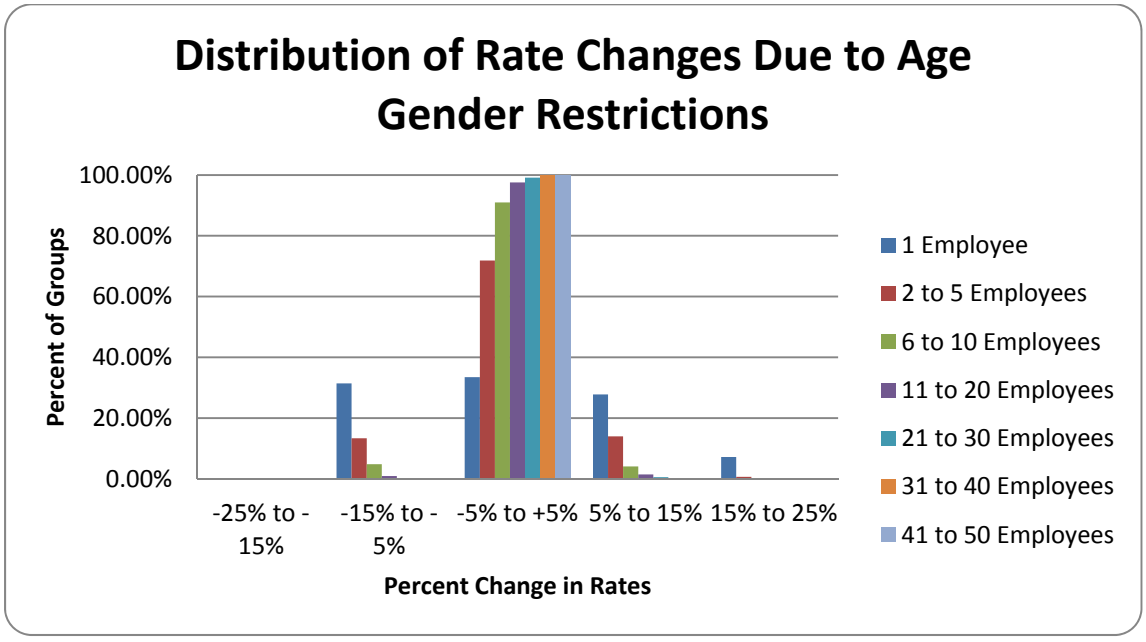
Furthermore, any QHP that offers in the exchange must agree to charge the same premium outside the exchange.

Overall, it's not expected that any one of these rating rules will have a significant impact on the average small group premiums as long as the same pool of groups remain in the small group market. However, depending on the characteristics of group, some groups will see premium increases and some will see premium decreases.

The age and gender rating restrictions introduced by the ACA require that the highest adult rate be no more than three times the cost as the lowest adult rate and that male and female rates must be the same. Current age and gender rating rules in Rhode Island require that within any one family composition tier, the maximum ratio of highest to lowest rate is four to one. Due to ACA, there will be a minor compression of rates due to the 3:1 requirement. Similar to the individual market analysis, there will be winners and losers from this change in rating methodology; the youngest ages will see a rate increase and the oldest ages will see rate decreases. However, the small group market rates will behave somewhat differently than the individual market in that group rates generally reflect the average rate of all employees. Therefore in order for an average group rate to change, the majority of the employees of the group would have to be at either the very young or the very old ages. Due to the law of large numbers, the smallest groups would have the highest likelihood of being affected by a change in average premium due to a change in the age gender slope of the rates.

Since we don't have demographic information for every small group in Rhode Island, we took an alternate approach to estimating the distribution of the impacts by group for the compression of the 3:1 rate requirement. Figure 5 below shows the results of our analysis.

Figure 5: Small Group Rate Changes Due to Age Gender Restrictions



One of the major concerning impacts of the ACA for small groups in many states is the elimination of underwriting factors. However, since Rhode Island small group carriers will be precluded from using underwriting factors with the amendments of Regulation 11, there will be no impact to the Rhode Island small group market resulting from this ACA rating restriction.

Rating by family composition (EE only, Employee plus spouse, employee plus children, employee plus family) under the ACA appears to be materially consistent with the current rating rules. However, the proposed rules are requesting comment as to what restrictions should be established around the tier structuring. Based on the guidance to date, we do not believe that the tier structuring rules will impact rates.

ACA allows for rating by geography, which is not relevant in the current small group rate methodologies used in Rhode Island. Unless the State amends the law to allow rating by geography, this rating restriction will have no impact on the small group premiums.

Another rating factor that the ACA incorporates that is not allowed in the current Rhode Island small group rates is tobacco use. Under the ACA, rates for consumers can be increased up to a load of 50% if the consumer uses tobacco. Again, unless the State amends the law to allow rating by tobacco use, this rating restriction will have no impact on the small group premiums.

New MLR requirements

The new medical loss ratio requirement, effective in 2011, requires that small group carriers maintain a loss ratio of 80%. Any carrier with loss ratios less than 80% will need to rebate the difference back to the member. The 80% requirement is also included in the specific Rhode Island Regulation 11 which requires that charge rates shall be based on a minimum projected loss ratio of eighty percent (80%), using a calculation methodology approved by the commissioner.

As part of our analysis, we were provided incurred claims and earned premiums for 2010 small group lines of business for 2010. All of the three carriers currently have small group loss ratios above the 80% minimum requirement. The incurred claims we received were not reported using the NAIC guidance for reporting medical costs in 2011, so we expect that the loss ratios will increase for the disease management, quality and fraud and abuse expenses that will be allowed to be included with the medical costs. Assuming that carriers will have increased loss ratios for these reporting changes in the same way as the individual market, we do not expect that the minimum loss ratio requirement to have any effect on small employer rates.

Projecting no rate change due to the MLR requirement is a somewhat different result than the national CBO estimates that indicated reduction in administrative costs would reduce premiums between 1 percent and 4 percent.

The Health Insurance Provider Fee

Beginning in 2014, health insurers will be required to pay annual fees. Total fees will be $8 billion in 2014, $11.3 billion in 2015 and 2016, $13.9 billion 2017, and $14.3 billion in 2018, increasing annually thereafter by a premium growth rate. The fees will be allocated among insurers using a formula based on net premiums. According to Holtz-Eakin, the health insurance provider fee will result in an average increase to premiums of approximately 3%.[2] We do not expect the percentage to vary significantly by state.

The ACA also allows the exchanges to assess fees. If additional fees are assessed, they will likely be included in the premium rates. The 3% estimate does not include any fee(s) that may be assessed by the exchange.

Tax Credits

From 2010 through 2013, until the SHOP Exchanges are set up, businesses with 10 or fewer full-time-equivalent employees earning less than $25,000 a year on average will be eligible for a tax credit of 35% of health insurance costs. (Companies with between 11 and 25 workers and an average wage of up to $50,000 are eligible for partial credits.)

The tax credit will remain in place, increasing to 50% of costs, for the first two years a company buys insurance through its state's SHOP. The Congressional Budget Office predicts that the tax credit will affect about 12% of individuals covered via the small-group insurance market, lowering the groups' cost of insurance by between 8% and 11%. Nationally, we anticipate tax credits will offset approximately 1% of the premium paid by small group employers. It's important to note, however, that small employers can only claim the credit for 2010 through 2013 and for two additional years beginning in 2014, which limits the long term effect of the employer tax credit.[3]

The impact of this tax credit will vary by small employer size. Although not included in the scope of this report, we have listed an analysis of the tax credit by group size as a project in the "next steps" section of this report.

Other Items Impacting the Overall Morbidity of the Risk Pool

While the specific rating provisions described above will have varying impacts to existing groups based on the demographic characteristics and existing benefit coverage of each group, considerable thought and time needs to be spent on understanding the entrants and exits of various employer groups to the market.

[2] http://americanactionforum.org/sites/default/files/Case%20of%20the%20Premium%20Tax.pdf
[3] http://www.irs.gov/newsroom/article/0,,id=245334,00.html

According to MEPs data, approximately 50% of small employers offer Employer Sponsored Insurance (ESI) in Rhode Island. Of those employees that are eligible for ESI by small employers, only 77% take the coverage.[4] Key questions remain around whether small employers are more or less likely to purchase insurance in 2014, whether employees will be more likely to sign up for coverage, and what is the relative health risk of the currently uninsured consumers relative to the existing small group ESI market.

One of the main exchange issues states are wrestling with is the mitigation of selection inside the pool and how to structure the exchange so that it does not get adversely selected against, and the pool of enrollees in the exchange reflects a broad cross-section of healthy and sick individuals. CCIIO, in their guidance to states on exchanges, state "Successful Exchanges will avoid adverse selection by ensuring that those who buy through the Exchange are a broad mix of the healthy and the less healthy. The tax credits, which can only be accessed through the Exchanges, and insurance reforms required by the Affordable Care Act will reduce the potential for adverse selection against the Exchange, but will not eliminate it. States have flexibility to provide consistent regulation inside and outside the Exchange, and to take additional action to prevent adverse selection under section 1311(e)(1)(B). The federal government will work with States to maximize State flexibility in this area." [5]

Adverse selection in the context of the exchanges generally refers to individuals' propensity, acting as direct purchasers or small employee groups, to make decisions that benefit themselves, to the detriment of the insurance market in general or to a specific insurance issuer. Adverse selection occurs when healthy people decide not to purchase insurance, or purchase the minimum coverage necessary or when sick individuals only purchase insurance when they know they will need it, or when sick individuals purchase policies that cover the maximum amount of their expected costs. Carriers can influence the selection process by offering only certain products or marketing to a select group of individuals. These actions can quickly multiply when they are happening simultaneously, creating a marketplace with escalating costs and decreasing participation. Avoiding and mitigating adverse selection is essential to the success of the exchange, in order to keep coverage affordable for consumers, particularly those without access to subsidies.

While the various ACA provisions protect the exchange, QHPs and issuers against adverse selection, there are a few provisions that increase the potential for adverse selection in the small group market.

- No health status based rating or underwriting allowed.
- Age rating allowed at a ratio of three to one and gender rating is not allowed.
- Availability of plans outside the exchange, through grandfathered plans, self-insured options and potentially other innovations of the market

[4] http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2010/tiia2.pdf
[5] http://www.hhs.gov/ociio/regulations/guidance_to_states_on_exchanges.html

On the other side of the selection issue, certain ACA and state provisions could attract a cross-section of risks into the small group market.

- Individual mandate
- Penalties for employer groups

Some provisions of the ACA are unclear regarding whether they mitigate or create adverse selection issues.

- Employer tax credits.
- Subsidies for individuals.
- Risk adjustment.

Each of these provisions is examined further in the following sections.

Health Status and Age Rating

Because both underwriting and unlimited age gender rating (the first two items in the list above) are not currently allowed in the Rhode Island small group market, Rhode Island is not susceptible to adverse selection resulting from these provisions of the ACA.

Availability of Plans Inside and Outside the Exchange

The availability of plans outside the exchange include staying in a grandfathered plan, moving to a non-SHOP based fully insured plan (that's not participating in the SHOP), entering the self-insured market, moving all the workers to the individual market by simply removing coverage, or potentially other non-regulated fully insured options like associations or PEOs.

Health Plans outside the exchange may be grandfathered such that they are allowed to remain in place as long as they meet requirements for maintaining their pre-reform benefit levels, copays, contribution levels, and covered services. In addition, employer groups must stay within the same plan design they were enrolled as of March 23, 2010 in order to maintain their status. Grandfathered plans are not subject to many ACA rules. These plans would not be available within the exchange, and may drive a different balance of risk between the population covered through the exchange and those covered outside the exchange. The ACA does not require that grandfathered plans offered outside the exchange follow the same structure as within the exchange. The Blue Cross Blue Shield Association released projections that the majority of small employer group plans (size 3-99) will lose their grandfathered status by 2013. [6])

Self-funding options are attractive to healthy groups, but have generally not been accessed by the small group market historically. Only approximately 15% of employees in Rhode Island small groups with 50

[6] http://www.bcbsm.com/healthreform/reform-alerts/ra_06_15_2010.shtml

or less employees are covered by a self-funded plan versus 56% above that level. [7] The self-insurance market in the small group space will grow as self-insured plans become available, but we do not expect the additional take-up rate to be significant for groups under 50 employees in Rhode Island.

Promoting Cross Section of Risks

The provisions below both encourage a cross-section of risks in the small group market.

- Individual mandate
- Penalties for employer groups

These provisions encourage groups with healthier employees to obtain small employer insurance. The participation of healthier employees in the market will keep premiums low, and will encourage participation by other healthy groups, preventing the situation where only groups with high cost members are attracted to the exchange and drive up the costs.

The amount of increased membership in the small group market resulting from these provisions varies. See the Market Size Impact section which shows the estimates of newly offered ESI.

Individual Premium Subsidies and Tax Credits of Offering ESI Coverage

ACA provides for premium subsidies for lowest income individuals which subsidize the cost of health coverage. As the subsidies are only available within the individual exchange and not through employer sponsored insurance, there is a consistent expectation across the research that the ESI market will lose the lower income workers (and their families) to the individual exchange. It is less clear, however, whether these workers are higher or lower risk than the average ESI enrollment. To the extent that those needing subsidies are also higher than average risk, individual exchange adverse selection may occur and the ESI market will benefit. Because the low income individuals are generally lower age, we believe it is more likely that those leaving will actually be better than average risk. A research paper for Maine quantified the impact of the removal of the workers eligible for subsidies would increase the premiums in the small group ESI market by 6% to 7%.[8] Whether this will be the case in Rhode Island is not yet clear and warrants follow-up analysis.

As described above in the "Tax Credits" section, some employers who have previously not offered coverage might begin to offer coverage as a result of the new tax credit benefit. The risks of groups that begin to offer coverage in response to the tax credit are unknown, and warrant further study.

[7] http://www.meps.ahrq.gov/mepsweb http://ehbs.kff.org/pdf/2010/8085.pdf
[8] http://www.maine.gov/pfr/insurance/reports/pdf/Impact_ACA.pdf

Risk Adjustment

The risk adjustment mechanism is intended to help mitigate adverse selection. Generally the risk adjustment mechanism encourages issuers to:

1. set premium rates based on average morbidity of the pool
2. offer benefit plans that attract higher risk, such as higher AV plans or more expanded networks

Based on the risk adjustment mechanism, revenue for a carrier will either be reduced or supplemented based on whether the risk for a carrier is lower or higher than average. The risk adjustment mechanism may help mitigate adverse selection by encouraging carriers to offer higher benefit plans, as additional revenue can be expected from the risk adjustment mechanism if higher than average risk membership enrolls. We believe that more carriers offering richer benefit plans will promote less adverse selection in the market, as more carriers will be offering the full spectrum of products.

Estimate of Population and Morbidity Change on Premiums

As indicated in the previous sections, small groups will make decisions to leave or enter the small group market in 2014 based on a variety of considerations. To date, we have limited data available in Rhode Island that would indicate the overall morbidity of the new entrants versus those who leave the market. Our best estimate is that the overall morbidity of the small group pool would not change and therefore would have a 0% impact on the average small group premium rates. However, we have provided a range of +/-5% impact as a potential range of effects. These estimates are based on the following:

- Per the "Who Goes Where" analysis, the small group market (both in and outside the SHOP) will increase in size by approximately 5% of membership, a relatively insignificant amount.
- Given that existing Rhode Island rating laws and regulations are fairly similar to the post-ACA rules, we believe there will be limited disturbance in the small group market which will minimize potential anti-selection.
- The +/-5% range of estimates is based on assumptions that at the extreme we would anticipate a 20% change in membership with a 25% change in morbidity (20% * 25% = 5%).

Product Offering Impact

The main ACA provisions affecting the products offered, including the services and the cost-sharing provisions are:

1. Essential Health Benefits
2. Required Actuarial Values
3. Excise tax on high cost plans

In addition to covering the essential benefits, cost-sharing must be limited or conversely a minimum level of coverage must be provided on the essential benefits. This level of coverage is defined by the four levels of actuarial values and has various restrictions on out-of-pocket and deductible.

As insurers seek to differentiate themselves in the newly reformed market, one potential result is a change to the mix of PPO, HMO/POS, HSA/HDHP or indemnity offerings. In New York, when the small group rating moved to community rating, one of the changes in the market was that more HMO/POS products emerged.[9]

An almost certain outcome of the ACA is that the small group market will result in greater homogeneity of the products offered from an AV standpoint.

Market Size Impact

In response to various ACA provisions and rating changes, insurers will make various decisions to stay or leave the small group market. Generally, we do not see an exit of any major insurers from the market as the carriers are currently operating in a rating environment similar to that proposed by the ACA. We have some reason to believe that there may be some new entrants into the Rhode Island region. The following provisions of the ACA and the forthcoming regulations will impact how the market evolves.

1. Regional plans and regional definitions. It is not yet clear if QHPs will be able to operate in only specific areas. However, we do not expect the regional definitions to have any significant impact on the Rhode Island market given the small geographical region.

2. Rules in exchange /outside of exchange. Depending on how Rhode Island restricts benefit plans and rating outside of the exchange, whether small group and individual is pooled, and how soon groups up to size 100 are included in the exchange, some carriers might opt to only offer small group products outside of the exchange.

3. New types of health plans. With the possible introduction of co-ops, multi-state plans and health choice compacts, some opportunity exists for new insurers to enter the Rhode Island market.

4. Tax credit. The tax credit may cause small group employers to begin offering employer sponsored coverage, which has the potential to increase the overall size of the small group employer sponsored insurance market.

Avalere has done a comparison of various micro-simulation models that project impacts on the employer sponsored market. Below is a table showing their summary.

[9] http://www.jstor.org/stable/3083333

Table 1: Estimated Shifts in ESI

	CBO	Lewin Group	Urban Institute	RAND
Change in ESI	-3 million	-3 million	-.5 million	+13.6 million[29]
Newly Offer ESI	6 – 7 million Drivers - Increased demand from individual mandate	14.4 million Drivers: - Avoid penalty - Lower premiums because of elimination of health status rating or new small employer credit	Drivers: - Increased participation due to individual mandate - Premiums decline for small firms (<100) - Offer rates increase most for small firms; smallest firms (<10) have biggest increase in offer rates because of premium tax credit and savings available through small business exchanges	Drivers: - Increased demand from individual mandate and lower cost options through exchanges for small businesses - ESI offer rates increase for small firms (<50) The majority of this increase is driven by firms with ten or fewer employees
Drop ESI	-8 to -9 million Drivers - Lower-wage workers and small businesses may drop coverage due to subsidies	- 17 million Drivers: - Employers will drop coverage primarily if many employees are subsidy or Medicaid eligible - 8.6 M receive subsidy - 3.7 M enroll in Medicaid - 3.9 million move to individual exchange w/o subsidy - 1.0 million will go uninsured		Drivers: - 13% of firms drop ESI because employees are eligible for Medicaid and subsidized coverage in the individual exchanges. - 93 percent of firms that drop coverage have <10 workers; less than 3 percent of people are affected - Increased offerings among small businesses

Source: Avalere: The Affordable Care Act's Impact on Employer Sponsored Insurance: A Look at the Microsimulation Models and Other Analyses

While these models are not specific to the small group market, we believe there are some take-aways that are consistent across the models and applicable to the small group market:

1. The employer sponsored market will stay relatively stable, and
2. The main loss of coverage from employer groups occurs when workers are eligible for the subsidies in the exchange.

4. POLICY CONSIDERATIONS TO MINIMIZE RATE SHOCK

Based on the analysis of the individual market, there is a concern for rate shock to a material portion of the population. The individuals that currently are covered in Pool 2, who have passed medical underwriting requirements and qualified for preferred rates, will likely be seeing the large increases in their premium. While some of these individuals may be eligible for subsidies that will offset some of the increases, there are many who will bear the full weight of the rate increases. At Rhode Island's request,

we have analyzed the following potential policy considerations to address this issue. While we did not perform an in-depth analysis of the universe of associated considerations, we did analyze what we believe to be the most influential aspects of addressing rate shock concerns.

4.1 Individual and Small Group Merger

One of the options available to states under the Affordable Care Act (ACA) is to combine the small group and individual (non-group) risk pools. Several states have merged the risk pools prior to the ACA laws allowing them to do so. The driving force originally behind merging the markets was a desire to protect and lower costs for individual policyholders who may have less negotiating power and sophistication. From a very simple perspective, merging the markets will equalize premiums. Therefore, if premiums are lower in the small group market prior to the merger, then small group premiums will increase and individual premiums will decrease (and vice versa). The amount of the change in each market depends on the relative size of the markets prior to the merger. If the total market is dominated by small group, the change to individual premiums can be substantial.

Complicating this analysis is the fact that the decision states need to make is after implementation of all of the ACA changes. These regulatory changes affect the two markets differently. In addition, the shifts in the market due to provisions such as the individual mandate, premium and cost sharing subsidies, and others will likely be substantial.

In order to analyze the impact of merging the individual and small group risk pools, what that means first needs to be defined. While the standard risk is clearly required to be for the newly merged market, it is not clear from the ACA law or proposed rules if rates have to be identical in the two markets for same product offered by same health insurance issuer to same person / family. Specific outstanding questions include:

1. Can rates vary due to differences in administrative expenses between the two markets? The costs of administering health insurance clearly vary between the two markets for reasons such as commissions, administrative functions like enrollment and outreach, among others.

2. Can / should rates vary due to the presence of reinsurance in the individual market? Reinsurance effectively transfers funds from the fully insured and self-insured employer markets to the individual market.

According to rate filings received for Rhode Island carriers as well as data received directly by the carriers, Wakely has determined that individual market premiums are advantaged when either of admin or reinsurance is allowed to vary within a merged market environment, and small group rates are disadvantaged. The magnitude of the impact due to these concepts varies by year due to the annual change in reinsurance.

Appendix B provides the estimated premium impact on average by pool (Pool 1 = guaranteed issue, Pool 2 = preferred, BG1, other small groups), by year, by scenario. All figures in Appendix B represent the

premium impact net of premium subsidies. Further detail of premium impacts by age and income level are displayed in Appendix C for years 2014 and 2017, representing when reinsurance has its largest impact and when reinsurance no longer is incorporated, respectively. The scenarios contain permutations of the following concepts:

- If BG1s are included as small groups or individuals (discussed later in more detail)
- If the small group and individual markets are merged
- If the markets are merged, then rates for small group and individuals
    - Are the same
    - Vary by reinsurance
    - Vary by administrative costs
    - Vary by reinsurance and administrative costs

In all Appendix B and C scenarios displayed, pent-up demand for the incoming previously uninsured population has been included.

Conclusions

Consideration of the detailed impacts by age and income level as shown in Appendix B varies widely and is therefore critical to understand prior to making merger decisions. The following is a summary of key conclusions from the Wakely scenario testing.

- Merging the individual and small group markets would soften the rate shock felt by individual market preferred Pool 2 members but only by 1% to 2% and only if the premiums of small group and individual policies were allowed to vary for reinsurance and administrative costs within a merged market. The reason that merging markets mitigates rate shock for the individual market is that the individual market is expected to have a slightly higher morbidity than the small group market, and merging the markets spreads the cost of anticipated pent-up demand for new entrants coming into the individual market.
- We estimate that the rate impact of merging the small group and individual markets would be minimal in 2017 and after, when reinsurance is no longer incorporated. If markets were merged, 2017 rates in the individual market would likely increase approximately 1%, and rates in the small group market would likely decrease by approximately 1%. This result is contrary to one of standard objectives states have for merging the markets (lowering individual premiums). These estimates are based on the assumption that small group and individual rates could not differ in a merged market.
- If rates in a merged market were allowed to differ by administrative expenses and reinsurance, the impact of merging the markets is expected to result in a rate decrease of about 2% to the individual market and a rate increase to small groups of 1% in 2014. By 2017, there would be no significant impact to either small group rates or individual rates due to merging the markets if rates are allowed to vary by administrative expenses.
- If markets are merged and small group and individual rates cannot vary due to reinsurance or administrative expenses, the impact of merging the markets will be a 9% increase to individual

rates and a 6% decrease to small group rates in 2014. As stated previously, this differential is minimal by 2017 but is significant prior to that year due to the incorporation of reinsurance.

- In isolation, the impact of allowing administrative expenses as a rating variable within a merged market environment results in a 2% differential, helping lower individual premiums and raising small group premiums.
- Allowing reinsurance as a rating variable within a merged market environment significantly reduces individual premiums in 2014, which would assist in transitioning particularly the Pool 2 consumers not eligible for premium subsidies due to having incomes of 400% of FPL or more. Reinsurance as a rating variable reduces individual premiums 10% in 2014, 4% in 2015, and 3% in 2016. This concept of course has the opposite directional impact on small groups but to a lesser magnitude; for example, they would experience a 6% increase in rates in 2014 due to reinsurance being an allowed rating variable.

These estimates should be viewed as a comparison to if the markets were not merged post-ACA, rather than a comparison to the current rates in the markets. These estimates are after projections for the impact of other ACA reforms (no underwriting, essential benefit requirements, etc.) have been accounted for. Since premium rates inside and outside the exchange need to be the same, after accounting for allowable rating characteristics, our results do not depend on the size of the health insurance exchange or whether or not there is a market outside the exchange. Other considerations in deciding whether to merge the markets include size and stability of the market over time, disruption to policyholders and health plans, continuity of coverage, and others.

While a significant amount of scenario-testing was performed in order to develop these conclusions, the following step-by-step process outlines the underpinnings of the merger analysis. This process generally starts with baseline 2010 premiums for each market, adjusts each for ACA requirements, and normalizes each for differences in characteristics such as age, benefit design, and administration costs in order to determine the differences in underlying morbidity for each of the projected markets. Then using the projected membership for each market, the rate impact is derived. Please reference Appendix D for more information regarding the steps taken to calculate the premium impact of merging markets.

Another consideration made was that in a merged market environment, it is assumed that all carriers participating in the Exchange will sell products in the individual and small group markets. Currently, only one carrier offers individual coverage, while three carriers offer small group coverage. Based on data supplied by the carriers, we estimate that if the current Rhode Island small group carriers remain in the market and expand into individual coverage, the impact to individual premiums would be less than a 1% decrease. Therefore, this is not an impactful pricing consideration when determining whether to merge the markets, but developing legislation that mandates carriers that participate in either individual or small group markets must offer products in both markets will be an important consideration for any state contemplating a market merger. This specific aspect of our merger analysis was based on the following assumptions:

- The future distribution of individual market share between carriers would be the same as the current small group market share

- Relative rating between carriers for the individual market would be similar to the current small group relative rating between carriers.

4.2 Business Groups of One

Currently, Business Groups of One (BG1s) have multiple options as consumers in Rhode Island. Because Rhode Island allows BG1s in the small group market, they can obtain individual or group coverage. Looking forward, one consideration is if Rhode Island has the authority under the ACA to continue allowing business groups with one employee (BG1s) to remain in the small group market. And, if given the flexibility to make that decision, would moving BG1s to the individual market worsen or improve the rate shock of the preferred Pool 2 members in the individual market? There are varying interpretations of the ACA's definition of "employer," and it is unclear whether CMS intends for sole proprietors to be treated as individuals and not be considered as part of the small group market. To assist Rhode Island in planning, Wakely analyzed the premium impact for small groups, BG1s, and the individual market if BG1s moved from the current small group market to the individual market.

Based on the data provided by small group carriers in Rhode Island, BG1s are approximately 15% less healthy than other small groups and account for about 12% of all small group membership (as measured by lives covered). BG1s in Rhode Island have approximately 16% higher morbidity than the anticipated individual market. If BG1s moved into the individual market, they would make up approximately 14% of the anticipated individual market. Because of their significant membership and their relatively high morbidity, a potential regulation that would shift BG1s to the individual market would noticeably increase individual premiums and lower small group premiums. The inclusion of BG1s in the individual market will worsen the rate shock for current individual market members.

Wakely estimates that the 2017 individual market premiums would increase by about 2%, BG1s would experience almost no change in their premiums, and premiums for the remaining small groups would be expected to decrease by about 2%. These rate changes are likely to be consistent for all age bands within a market. While this change would lower small group premiums, it would magnify the rate shock to the individual market.

Throughout years 2014-2016 when reinsurance is in effect, individual plans will receive even larger increases (4% increase in 2014), the BG1s who move will receive large decreases in premiums (9% decrease in 2014), while the remaining small groups will consistently have a 2% decrease in premiums due solely to movement of BG1s. The reason for this greater increase in the individual market premiums during these years is that as the size of their market grows due to the incoming BG1s, the offsetting rate decreases from reinsurance are dispersed over more people and therefore muted.

4.3 Use of Tobacco as a Rating Factor

The ACA allows a 1:1.5 rating variation for tobacco users, meaning that carriers can charge tobacco users premiums that are up to 50% higher than premiums for non-tobacco users with otherwise

consistent allowable rating characteristics (age and family size). Adding a rating factor that can further segregate the risks by tobacco status would help mitigate the rate shock effect on the healthiest individuals within preferred Pool 2. Analyzing the use of tobacco as a rating factor was not within the scope of our work. We recommend the following additional analysis:

- If Rhode Island does not allow tobacco as a rating factor,
    - What would the overall premium rate increase be for the entire market (how much would the "1.0" rate change by)? This could be a different answer for the individual market and the small group market.
    - What would the adverse selection implications be? How would the incidence of tobacco users change?
- If Rhode Island chose to allow tobacco as a rating variable, would there be changes to the 1:1.5 ratio?
    - Instead of allowing up to a 50% rate-up, what are the implications of various rate-ups of lesser degree?
    - Would the State consider having different rating allowances for tobacco based on different ages? For example, would the State consider implementing the full allowable 50% rate-up for younger ages and less of a rating impact at older ages (or vice versa)?
- If Rhode Island chose to allow tobacco as a rating variable, what would be the net rate shock for current smokers in the guaranteed issue Pool 1?

4.4 Tightening Rate Compression Beyond 3:1

The ACA allows 3:1 rating variation for adult ages (19-64). If this were fully incorporated, this generally means that a carrier would offer a premium to a 64-year-old that is three times the premium offered to a 19-year-old for the same product. The results of our analysis shown in this document have assumed that Rhode Island carriers would incorporate the full 3:1 variation allowed by the ACA. However, Rhode Island could limit allowable variation to less than 3:1, particularly since the current guaranteed issue individual pool has a more compressed age variation than 3:1. Further compression is would worsen the rate shock for the youngest and healthiest consumers, and lessen the rate shock concern for the oldest members. Determining the impact of compressing this rating variation was not within the scope of our analysis; however, the State may want to explore the following list of questions:

- What are the impacts of adverse selection due to further compression? Will the youngest cohort leave the market, and if so, what would be the premium impact on the remaining covered lives?

- If the rating variation by age were further compressed, would such a change minimize the rate change for the population that would otherwise experience the greatest increases? Or, would such a change exacerbate the rate increases expected for particular populations?

- Do other states currently have more restricted rating variation than 3:1, or are there other states contemplating such a change?

- If the rate variation were compressed beyond 3:1, what ratio should be incorporated?

- The more compressed the rating variation is, the more the younger cohort subsidizes the costs of the older cohort. This lends itself to carriers wanting to market more aggressively to the youngest cohorts. Will the State need to develop marketing regulations such that carriers must also actively market to the oldest cohorts?

- Risk adjustment is intended to take into account variation of morbidity beyond what carriers can utilize in rating (e.g., age). The risk adjustment mechanism employed by HHS may be based on the assumption that carriers will rate the full 3:1 age variation. Therefore, there could be a potential for misalignment between the federal risk adjustment model and Rhode Island rating practices that would be detrimental to carriers who have an older population. If the federal approach does not recognize state-specific characteristics such as market mergers or allowable rating variation, more compressed rating variation by age may create greater impetus for a state-based alternative mechanism for risk adjustment.

5. POLICY CONSIDERATIONS FOR MAINTAINING CONSISTENCY INSIDE AND OUTSIDE THE EXCHANGE

In order to have the individual and SHOP exchanges be active and robust marketplaces for consumers, it is important for states to consider methods for mitigating adverse selection. The following discussion on policy options is intended for Rhode Island's consideration in minimizing adverse selection as it pertains to the Exchange and the market as a whole by maintaining consistency inside and outside the individual and SHOP Exchange.

5.1 Plans Offered Inside and Outside the Exchange

The state should consider incorporating the following requirements around plan designs and associated pricing of products offered inside and outside the Exchange in order to help mitigate adverse selection against the Exchange.

- **Within the Exchange, consider having participating QHPs offer at least the highest three actuarial value tiers (Gold, Silver, and Platinum).** Currently, the ACA requires that QHPs offer at least Gold and Silver plans in the Exchange. Even with risk adjustment leveling for differences in the morbidity of members across issuers, it is likely that carriers will want to continue offering the lowest benefit plans (Bronze) in order to attract the healthiest members. But without

requiring QHPs to offer Platinum products, the QHPs that do offer Platinum products have the potential of being selected against (beyond what risk adjustment can measure and reimburse these carriers for). In the absence of this requirement, there may be limited Platinum options for members since many issuers may not offer such a product.

- **For carriers offering products outside the Exchange, consider requiring them to also offer products inside the Exchange.** This requirement would promote consistency among product offerings inside and outside the Exchange. One concern is that without such a requirement, a carrier could elect to only offer plans outside the Exchange and only offer Bronze products in order to attract the healthiest consumers, potentially affecting the Exchange adversely.

  The potential for adverse selection against the Exchange may be especially applicable with regard to catastrophic plans. Individuals under age 30, or who are exempt from the individual mandate because of hardship or lack of affordable coverage may enroll in catastrophic plans and be credited with qualifying coverage. Catastrophic plans are allowed to be less than the 60% Bronze actuarial value requirement, although they must provide the essential health benefits. Typically, if consumers are provided a choice of products varying in coverage levels, the healthiest consumers will choose the plan with the least coverage because they prefer lower premiums and higher cost sharing over higher premiums and lower cost sharing since they do not anticipate using services. If catastrophic plans are available outside the Exchange and not inside the Exchange, the healthiest consumers may select against the Exchange and choose to enroll in catastrophic products outside the Exchange. Therefore, requiring carriers to sell identical catastrophic plans inside the Exchange if they sell them outside the Exchange may be especially important.

- **For carriers offering products inside and outside the Exchange, consider requiring that the plan designs offered inside and outside are identical.** For example, if a carrier chooses to offer a Silver plan outside the Exchange and a Silver plan inside the Exchange, then that carrier may be required to offer the same Silver plan inside and outside the Exchange. This requirement would not insist that all carriers become QHPs and participate in the Exchange. However, this requirement ensures that if a QHP participating in the Exchange chooses to offer plans outside the Exchange, the plans within a metal tier are identical (i.e., the Silver inside and the Silver outside are the same design). While the ACA requires that plans inside and outside the Exchange are priced using the same actuarial pricing assumptions, ensuring compliance with this requirement may be very difficult if plan design options are not limited or required to be consistent inside and outside the Exchange.

5.2 Assigning Actuarial Value to Plans Outside the Exchange

It is Wakely's interpretation of the ACA that plans offered in the individual and small employer group markets outside the Exchange must correspond to the precious-metal tiers of Bronze, Silver, Gold, and Platinum. The ACA also requires consistent pricing of products inside and outside the Exchange. To

enforce these rules, Rhode Island may want to consider mandating that products offered outside the Exchange be labeled with their specific tier level by the carrier. This would simplify monitoring ACA requirements, make product offerings more understandable for consumers, and may also simplify risk adjustment administration.

5.3 Minimizing Amount of Stop Loss Coverage Allowed for Self-funded Employer Groups

One concern states may have is that absent requirements on defining what it means to be self-funded, groups can call themselves self-funded without really taking risk. The groups that would do this are likely to be the healthiest because they could obtain lower rates based on their own experience than they could if they were in the market. The fear is that the departure of the healthiest groups would degrade the remaining risk pool, causing an increase in fully insured premiums. To mitigate this potential for adverse selection, the State could impose a requirement that self-funded groups must have attachment points of at least a set dollar amount, or self-funded groups must retain a significant portion of the risk based on a standard population (i.e. 85%).

6. CONSIDERATION OF UNKNOWNS

Estimates of future premiums and programs almost four years into the future under a set of changes as sweeping as the ACA are inherently uncertain. There are many issues that are yet to be resolved in the regulations, both within the ACA and within the determined structure of the state exchange. The following are the key outstanding issues that will need to be kept in mind when considering the uncertainty of projections.

1. Even in the absence of ACA changes, the market will change significantly over the course of four years (2010 to 2014).

2. In establishing the exchange, key decisions are yet to be made, including how active of a purchaser the state will be, oversight responsibilities, adverse selection avoidance strategies, risk adjustment methods, and others. These decisions will all affect competition among carriers, carrier rate setting methods and assumptions, and member behavior.

3. Pending guidance and regulations from the Federal government will be released over the next few years.

4. Rates, especially in 2014, depend on how health plans think costs will change under the ACA reforms and population expansions, not necessarily on how costs actually change in 2014. Results and information as presented in analyses such as this are important to communicate with the health insurance carriers. Feedback from these carriers on information they will find useful (e.g., state

rules around rate review, information on the uninsured population, risk adjustment simulations, and others) will be critical to avoid irrational pricing reactions.

5. Rate changes in the small group market and other financial incentives may drive employers to make unanticipated decisions around coverage.

6. The currently uninsured population will likely represent a significant portion of the individual insurance market in 2014. We modeled the impact of this population joining the health insurance market using national data, the Rhode Island "Who Goes Where" (WGW) analysis, and other sources. Shifts in enrollment may occur differently than what has been projected in the current WGW analysis if the rate changes in the small group market and other financial incentives drive some employers to drop coverage.

7. Pent up demand has been shown to significantly increase costs in the first year of enrollment for those previously uninsured. Our estimates do not explicitly assume pent up demand since the effect is expected to be minimal after 2014.

8. Due to the compressed time frames associated with our work, we requested and received summary level market information from the carriers. We did not audit the data supplied.

9. The extent of grandfathered plans in the market may change significantly. The more individuals and small groups that stay enrolled in grandfathered plans, the less of an impact the ACA guaranteed issue rules will have. However, the more grandfathered plans that remain, the higher the absolute level of non-grandfathered rates since grandfathered plans are assumed to have favorable risk pools. Further, the impact of merging the individual and small group market could be skewed if the proportion of enrollment in grandfathered plans is very different between individual and small group.

10. Carriers' contracts with providers and facilities may be renegotiated and would directly impact rates.

11. The level of State mandatory benefits compared to the federal requirements of essential benefits may change over time due to decisions at the state and federal levels.

APPENDICES

Appendix A: Legislative Requirements of Rating Small Employers

Below we summarize some of the key issues contained in Rhode Island's Small Employer Health Insurance Availability Act (Chapter 27-50) and administrative code (Insurance Regulation 11). This summary contains important definitions and restrictions regarding rating and underwriting practices and policy renewability.

1. "Small employer" means, any person, firm, corporation, partnership, association, political subdivision, or self-employed individual that is actively engaged in business including, but not limited to, a business or a corporation organized under the Rhode Island Non-Profit Corporation Act, chapter 6 of title 7, or a similar act of another state that, on at least fifty percent (50%) of its working days during the preceding calendar quarter, employed no more than fifty (50) eligible employees, with a normal work week of thirty (30) or more hours, the majority of whom were employed within this state, and is not formed primarily for purposes of buying health insurance and in which a bona fide employer-employee relationship exists. In determining the number of eligible employees, companies that are affiliated companies, or that are eligible to file a combined tax return for purposes of taxation by this state, shall be considered one employer. Subsequent to the issuance of a health benefit plan to a small employer and for the purpose of determining continued eligibility, the size of a small employer shall be determined annually. Except as otherwise specifically provided, provisions of this chapter that apply to a small employer shall continue to apply at least until the plan anniversary following the date the small employer no longer meets the requirements of this definition. The term small employer includes a self-employed individual. (R.I. Gen. Laws § 27-50-3(KK))

2. "Eligible employee" means an employee who works on a full-time basis with a normal work week of thirty (30) or more hours, except that at the employer's sole discretion, the term shall also include an employee who works on a full-time basis with a normal work week of anywhere between at least seventeen and one-half (17.5) and thirty (30) hours, so long as this eligibility criterion is applied uniformly among all of the employer's employees and without regard to any health status-related factor. The term includes a self-employed individual, a sole proprietor, a partner of a partnership, and may include an independent contractor, if the self-employed individual, sole proprietor, partner, or independent contractor is included as an employee under a health benefit plan of a small employer, but does not include an employee who works on a temporary or substitute basis or who works less than seventeen and one-half (17.5) hours per week. Any retiree under contract with any independently incorporated fire district is also included in the definition of eligible employee. Persons covered under a health benefit plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986 shall not be considered "eligible employees" for purposes of minimum participation requirements pursuant to § 27-50-7(d)(9). (R.I. Gen. Laws § 27-50-3(m))

3. Rating restrictions:

- A small employer carrier shall develop a rate manual based on an adjusted community rate that may vary the adjusted rate only for the following case characteristics: age; gender; family composition and health status, provided that as of June 1, 2000 the carrier varied rates by health status and provided further such carrier (i) varies the adjusted community rate by health status only as provided in R.I. Gen. Laws § 27-50-5(a), (ii) such variation does not result in rates more than ten percent higher or lower than the rates without consideration of health status, and (iii) the adjustments are to be applied uniformly to all small employers covered by the carrier.. (R.I. Ins. Reg. 11 Sect. 5 (a))

- In order to apply health status adjustments on a basis consistent with the requirements of the Act and this regulation, a carrier must determine the dollar amount of deviations for health status from average rates, and take steps to ensure that the total of downward deviations due to health status is approximately equal to the total of upward deviations due to health status. This may be done on either a monthly or an annual basis.

- Family composition. Each small employer carrier shall include all categories of family composition set forth in the Act in each health benefit plan offered to every small employer. Those categories are (1) the enrollee; (2) the enrollee, spouse and children; (3) the enrollee and spouse; or (4) the enrollee and children. (R.I. Ins. Reg. 11 Sect. 5 (c))

- Differences among base premium rates. Differences among base premium rates for health benefit plans shall be based solely on the reasonable and objective differences in the design and benefits of the health benefit plans, except as otherwise specifically permitted under the Act, and shall not be based in any manner on the actual or expected health status or claims experience of the small employer groups that choose or are expected to choose a particular health benefit plan. (R.I. Ins. Reg. 11 Sect. 5 (g))

- No application fees; in general. Except as provided in paragraph (i) of this section, a premium charged to a small employer for a health benefit plan shall not include a separate application fee, underwriting fee, or any other separate fee or charge. (R.I. Ins. Reg. 11 Sect. 5 (h))

- 5 year minimum age brackets from 30 to 65, 65+ can be rated separately. (R.I. Gen. Laws § 27-50-5(a)(2))

- For each health benefit plan offered by a carrier, the highest premium rate for each family composition type shall not exceed four (4) times the premium rate that could be charged to a small employer with the lowest premium rate for that family composition. (R.I. Gen. Laws § 27-50-5(a)(4))

- For a small employer group renewing its health insurance with the same small employer carrier which provided it small employer health insurance in the prior year, the combined adjustment factor for age and gender for that small employer group will not exceed one hundred twenty

percent (120%) of the combined adjustment factor for age and gender for that small employer group in the prior rate year. (R.I. Gen. Laws § 27-50-5(a)(6))

4. In accordance with R.I. Gen. Laws § 27-50-5(h), a small employer carrier shall maintain rating information and documentation relating to rating practices and renewal underwriting practices and make it available to the Director upon request. The small employer carrier is not required to file such information with the Director for approval prior to use. (R.I. Ins. Reg. 11 Sect. 5 (d))

5. Except as provided in R.I. Gen. Laws § 27-50-5(a)(6), base premium rates and new business premium rates charged to small employers by the small employer carrier shall be computed solely from the rate manual developed pursuant to this subsection. To the extent that a portion of the premium rates charged by a small employer carrier is based on the carrier's discretion, the manual shall specify the criteria and factors considered by the carrier in exercising such discretion. (R.I. Ins. Reg. 11 Sect. 5 (e))

6. "Actuarial certification" means a written statement signed by a member of the American Academy of Actuaries or other individual acceptable to the director that a small employer carrier is in compliance with the provisions of § 27-50-5, based upon the person's examination and including a review of the appropriate records and the actuarial assumptions and methods used by the small employer carrier in establishing premium rates for applicable health benefit plans. (R.I. Gen. Laws § 27-50-3(a))

7. Each small employer carrier shall file with the commissioner annually on or before March 15 an actuarial certification certifying that the carrier is in compliance with this chapter and that the rating methods of the small employer carrier are actuarially sound. The certification shall be in a form and manner, and shall contain the information, specified by the commissioner. A copy of the certification shall be retained by the small employer carrier at its principal place of business. (R.I. Gen. Laws § 27-50-5(h)(2))

8. Guaranteed availability of coverage for employers in the group market. (R.I. Gen. Laws § 27-50-7)

    - Health insurance issuer can establish employer contribution rules
    - Health insurance issuer can establish employee participation rules

9. Guaranteed renewability of coverage for employers in the group market (R.I. Gen. Laws § 27-50-6)

Average Premium Changes by Year 2014-2016

		2014											
		BG1s in SG				BG1s to NG				Change due to BG1s moving			
	Scenarios	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG
Merged	Same Rates	-40%	-8%	-2%	-2%	-40%	-7%	-1%	-1%	0%	0%	0%	0%
	Vary by Reins	-47%	-18%	4%	4%	-43%	-12%	-5%	2%	4%	6%	-9%	-2%
	Vary by Admin	-41%	-10%	0%	0%	-41%	-9%	-2%	0%	1%	1%	-2%	0%
	Vary by Rein and Admin	-48%	-20%	5%	5%	-44%	-13%	-6%	3%	4%	6%	-11%	-2%
Non-Merged		-47%	-18%	4%	4%	-43%	-12%	-5%	2%	4%	5%	-9%	-2%
Change due to Merging (if Same Rates)		7%	10%	-6%	-6%	3%	5%	4%	-3%				
Change due to Merging (if Rates Vary by Rein and Admin)		-1%	-2%	1%	1%	-1%	-1%	-1%	1%				

		2015											
		BG1s in SG				BG1s to NG				Change due to BG1s moving			
	Scenarios	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG
Merged	Same Rates	-38%	-5%	1%	1%	-38%	-5%	1%	1%	0%	0%	0%	0%
	Vary by Reins	-41%	-9%	3%	3%	-40%	-8%	-2%	3%	1%	1%	-5%	0%
	Vary by Admin	-39%	-7%	2%	2%	-39%	-6%	0%	2%	1%	1%	-2%	0%
	Vary by Rein and Admin	-43%	-12%	5%	5%	-41%	-9%	-3%	4%	1%	2%	-7%	0%
Non-Merged		-42%	-10%	4%	4%	-39%	-7%	-1%	2%	3%	4%	-5%	-2%
Change due to Merging (if Same Rates)		4%	6%	-3%	-3%	1%	2%	2%	-1%				
Change due to Merging (if Rates Vary by Rein and Admin)		-1%	-1%	1%	1%	-2%	-3%	-2%	2%				

		2016											
		BG1s in SG				BG1s to NG				Change due to BG1s moving			
	Scenarios	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG
Merged	Same Rates	-37%	-4%	1%	1%	-37%	-4%	1%	1%	0%	0%	0%	0%
	Vary by Reins	-39%	-7%	3%	3%	-39%	-6%	0%	3%	0%	1%	-3%	0%
	Vary by Admin	-39%	-6%	2%	2%	-38%	-5%	0%	2%	1%	1%	-2%	0%
	Vary by Rein and Admin	-41%	-9%	4%	4%	-40%	-7%	-1%	4%	1%	2%	-5%	0%
Non-Merged		-40%	-8%	3%	3%	-38%	-5%	1%	1%	2%	3%	-3%	-2%
Change due to Merging (if Same Rates)		3%	4%	-2%	-2%	0%	1%	0%	0%				
Change due to Merging (if Rates Vary by Rein and Admin)		-1%	-1%	1%	1%	-2%	-3%	-2%	2%				

		2017											
		BG1s in SG				BG1s to NG				Change due to BG1s moving			
	Scenarios	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG	Pool 1	Pool 2	BG	SG
Merged	Same Rates	-36%	-2%	2%	2%	-36%	-2%	2%	2%	0%	0%	0%	0%
	Vary by Reins	-36%	-2%	2%	2%	-36%	-2%	2%	2%	0%	0%	0%	0%
	Vary by Admin	-38%	-5%	4%	4%	-37%	-4%	1%	3%	1%	1%	-2%	0%
	Vary by Rein and Admin	-38%	-5%	4%	4%	-37%	-4%	1%	3%	1%	1%	-2%	0%
Non-Merged		-37%	-4%	3%	3%	-35%	-1%	3%	1%	2%	3%	0%	-2%
Change due to Merging (if Same Rates)		1%	2%	-1%	-1%	-1%	-1%	-1%	1%				
Change due to Merging (if Rates Vary by Rein and Admin)		0%	-1%	0%	0%	-2%	-3%	-2%	2%				

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-86%	-86%	-84%	-83%	-81%	-80%	-83%
	151-200%	-78%	-78%	-77%	-76%	-75%	-74%	-75%
	201-250%	-65%	-65%	-64%	-64%	-63%	-64%	-64%
	251-300%	-55%	-55%	-50%	-50%	-50%	-52%	-51%
	301-350%	-55%	-55%	-42%	-38%	-39%	-42%	-42%
	351-399%	-55%	-55%	-42%	-30%	-31%	-35%	-37%
	400%+	-55%	-55%	-42%	-27%	-6%	8%	-9%
	Subtotal	-63%	-61%	-59%	-52%	-32%	-33%	-40%
2 (Preferred)	133-150%	-63%	-63%	-65%	-69%	-72%	-76%	-68%
	151-200%	-43%	-43%	-48%	-55%	-62%	-69%	-56%
	201-250%	-9%	-9%	-19%	-32%	-44%	-56%	-31%
	251-300%	17%	17%	13%	-6%	-25%	-42%	-14%
	301-350%	17%	17%	31%	16%	-8%	-30%	-7%
	351-399%	17%	17%	31%	32%	4%	-21%	4%
	400%+	17%	17%	31%	36%	42%	31%	31%
	Subtotal	-3%	0%	-8%	-9%	2%	-18%	-8%
BG1s	All	19%	19%	6%	-1%	-7%	-10%	-2%
Other Small Groups	All	19%	19%	6%	-1%	-7%	-10%	-2%
All Individual	All	-37%	-35%	-25%	-28%	-18%	-29%	-28%
All Small Group	All	19%	19%	6%	-1%	-7%	-10%	-2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-89%	-89%	-89%	-89%	-89%	-89%	-89%
	151-200%	-81%	-81%	-81%	-82%	-82%	-82%	-82%
	201-250%	-68%	-68%	-69%	-69%	-70%	-72%	-70%
	251-300%	-58%	-58%	-54%	-55%	-57%	-60%	-59%
	301-350%	-58%	-58%	-46%	-43%	-46%	-50%	-49%
	351-399%	-58%	-58%	-46%	-35%	-38%	-43%	-43%
	400%+	-58%	-58%	-46%	-33%	-13%	0%	-16%
	Subtotal	-66%	-65%	-63%	-57%	-39%	-41%	-47%
2 (Preferred)	133-150%	-71%	-71%	-75%	-79%	-83%	-86%	-78%
	151-200%	-52%	-52%	-58%	-66%	-73%	-79%	-66%
	201-250%	-18%	-18%	-29%	-42%	-55%	-66%	-40%
	251-300%	8%	8%	4%	-16%	-35%	-51%	-24%
	301-350%	8%	8%	21%	6%	-19%	-39%	-17%
	351-399%	8%	8%	21%	22%	-7%	-31%	-6%
	400%+	8%	8%	21%	26%	31%	21%	21%
	Subtotal	-12%	-9%	-18%	-20%	-8%	-28%	-18%
BG1s	All	26%	26%	12%	5%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	5%	-2%	-5%	4%
All Individual	All	-43%	-41%	-33%	-36%	-26%	-38%	-36%
All Small Group	All	26%	26%	12%	5%	-2%	-5%	4%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	3%	3%	4%	5%	7%	8%	6%
	151-200%	3%	3%	4%	5%	7%	8%	7%
	201-250%	3%	3%	4%	5%	7%	8%	6%
	251-300%	3%	3%	4%	5%	7%	8%	7%
	301-350%	3%	3%	4%	5%	7%	8%	7%
	351-399%	3%	3%	4%	5%	7%	8%	7%
	400%+	3%	3%	4%	5%	7%	8%	7%
	Subtotal	3%	3%	4%	5%	7%	8%	7%
2 (Preferred)	133-150%	9%	9%	10%	10%	11%	10%	10%
	151-200%	9%	9%	10%	10%	11%	10%	10%
	201-250%	9%	9%	10%	10%	11%	10%	10%
	251-300%	9%	9%	10%	10%	11%	10%	10%
	301-350%	9%	9%	10%	10%	11%	10%	10%
	351-399%	9%	9%	10%	10%	11%	10%	10%
	400%+	9%	9%	10%	10%	11%	10%	10%
	Subtotal	9%	9%	10%	10%	11%	10%	10%
BG1s	All	-7%	-7%	-6%	-6%	-5%	-5%	-6%
Other Small Groups	All	-7%	-7%	-6%	-6%	-5%	-5%	-6%
All Individual	All	6%	6%	8%	8%	9%	9%	8%
All Small Group	All	-7%	-7%	-6%	-6%	-5%	-5%	-6%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-82%	-80%	-78%	-76%	-80%
	151-200%	-76%	-76%	-75%	-73%	-71%	-70%	-72%
	201-250%	-63%	-63%	-62%	-61%	-59%	-59%	-60%
	251-300%	-53%	-53%	-47%	-47%	-46%	-47%	-48%
	301-350%	-53%	-53%	-39%	-35%	-35%	-37%	-38%
	351-399%	-53%	-53%	-39%	-27%	-27%	-30%	-33%
	400%+	-53%	-53%	-39%	-24%	-2%	12%	-5%
	Subtotal	-61%	-60%	-57%	-49%	-28%	-28%	-36%
2 (Preferred)	133-150%	-58%	-58%	-60%	-63%	-66%	-71%	-62%
	151-200%	-38%	-38%	-43%	-50%	-56%	-64%	-51%
	201-250%	-4%	-4%	-14%	-26%	-39%	-51%	-25%
	251-300%	22%	22%	19%	0%	-19%	-36%	-8%
	301-350%	22%	22%	36%	22%	-2%	-24%	-1%
	351-399%	22%	22%	36%	37%	10%	-16%	10%
	400%+	22%	22%	36%	42%	47%	36%	37%
	Subtotal	2%	4%	-2%	-4%	8%	-13%	-2%
BG1s	All	24%	24%	10%	3%	-3%	-7%	2%
Other Small Groups	All	24%	24%	10%	3%	-3%	-7%	2%
All Individual	All	-34%	-32%	-21%	-23%	-13%	-24%	-23%
All Small Group	All	24%	24%	10%	3%	-3%	-7%	2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-81%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-61%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-49%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-39%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-65%	-68%	-73%	-64%
	151-200%	-40%	-40%	-45%	-51%	-58%	-65%	-53%
	201-250%	-5%	-5%	-16%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-2%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	8%
	400%+	21%	21%	35%	40%	46%	34%	35%
	Subtotal	0%	3%	-4%	-5%	7%	-15%	-4%
BG1s	All	25%	25%	11%	4%	-3%	-6%	3%
Other Small Groups	All	25%	25%	11%	4%	-3%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-15%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	1%	1%	1%	1%	1%	1%	1%
	151-200%	1%	1%	1%	1%	1%	1%	1%
	201-250%	1%	1%	1%	1%	1%	1%	1%
	251-300%	1%	1%	1%	1%	1%	1%	1%
	301-350%	1%	1%	1%	1%	1%	1%	1%
	351-399%	1%	1%	1%	1%	1%	1%	1%
	400%+	1%	1%	1%	1%	1%	1%	1%
	Subtotal	1%	1%	1%	1%	1%	1%	1%
2 (Preferred)	133-150%	1%	1%	2%	2%	2%	2%	2%
	151-200%	1%	1%	2%	2%	2%	2%	2%
	201-250%	1%	1%	2%	2%	2%	2%	2%
	251-300%	1%	1%	2%	2%	2%	2%	2%
	301-350%	1%	1%	2%	2%	2%	2%	2%
	351-399%	1%	1%	2%	2%	2%	2%	2%
	400%+	1%	1%	2%	2%	2%	2%	2%
	Subtotal	1%	1%	2%	2%	2%	2%	2%
BG1s	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other Small Groups	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
All Individual	All	1%	1%	1%	1%	1%	1%	1%
All Small Group	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-85%	-85%	-84%	-83%	-81%	-80%	-83%
	151-200%	-78%	-78%	-77%	-76%	-75%	-74%	-75%
	201-250%	-65%	-65%	-64%	-63%	-63%	-63%	-64%
	251-300%	-55%	-55%	-49%	-49%	-50%	-51%	-51%
	301-350%	-55%	-55%	-42%	-38%	-39%	-42%	-42%
	351-399%	-55%	-55%	-42%	-29%	-31%	-34%	-37%
	400%+	-55%	-55%	-42%	-27%	-6%	8%	-9%
	Subtotal	-62%	-61%	-59%	-51%	-32%	-32%	-40%
2 (Preferred)	133-150%	-62%	-62%	-65%	-68%	-72%	-76%	-67%
	151-200%	-43%	-43%	-48%	-55%	-62%	-69%	-56%
	201-250%	-9%	-9%	-19%	-32%	-44%	-56%	-30%
	251-300%	17%	17%	14%	-5%	-24%	-41%	-13%
	301-350%	17%	17%	31%	16%	-8%	-29%	-7%
	351-399%	17%	17%	31%	32%	4%	-21%	5%
	400%+	17%	17%	31%	37%	42%	31%	32%
	Subtotal	-3%	0%	-8%	-9%	3%	-18%	-7%
BG1s	All	19%	19%	6%	-1%	-7%	-10%	-1%
Other Small Groups	All	19%	19%	6%	-1%	-7%	-10%	-1%
All Individual	All	-37%	-35%	-25%	-27%	-18%	-29%	-28%
All Small Group	All	19%	19%	6%	-1%	-7%	-10%	-1%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-87%	-87%	-87%	-86%	-85%	-84%	-86%
	151-200%	-80%	-80%	-79%	-79%	-78%	-78%	-78%
	201-250%	-66%	-66%	-66%	-66%	-66%	-67%	-67%
	251-300%	-56%	-56%	-52%	-52%	-53%	-55%	-55%
	301-350%	-56%	-56%	-44%	-41%	-42%	-46%	-45%
	351-399%	-56%	-56%	-44%	-32%	-34%	-38%	-40%
	400%+	-56%	-56%	-44%	-30%	-9%	4%	-12%
	Subtotal	-64%	-63%	-61%	-54%	-35%	-36%	-43%
2 (Preferred)	133-150%	-67%	-67%	-70%	-73%	-77%	-81%	-72%
	151-200%	-47%	-47%	-53%	-60%	-67%	-74%	-61%
	201-250%	-13%	-13%	-24%	-37%	-49%	-61%	-35%
	251-300%	13%	13%	9%	-10%	-29%	-46%	-18%
	301-350%	13%	13%	26%	11%	-13%	-34%	-11%
	351-399%	13%	13%	26%	27%	-1%	-25%	0%
	400%+	13%	13%	26%	32%	37%	26%	27%
	Subtotal	-7%	-4%	-12%	-14%	-3%	-23%	-12%
BG1s	All	15%	15%	2%	-4%	-10%	-13%	-5%
Other Small Groups	All	24%	24%	10%	3%	-4%	-7%	2%
All Individual	All	-40%	-38%	-29%	-31%	-22%	-33%	-32%
All Small Group	All	23%	23%	9%	2%	-5%	-8%	1%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	2%	2%	2%	3%	3%	4%	3%
	151-200%	2%	2%	2%	3%	3%	4%	3%
	201-250%	2%	2%	2%	3%	3%	4%	3%
	251-300%	2%	2%	2%	3%	3%	4%	4%
	301-350%	2%	2%	2%	3%	3%	4%	4%
	351-399%	2%	2%	2%	3%	3%	4%	3%
	400%+	2%	2%	2%	3%	3%	4%	3%
	Subtotal	2%	2%	2%	3%	3%	4%	3%
2 (Preferred)	133-150%	4%	4%	5%	5%	5%	5%	5%
	151-200%	4%	4%	5%	5%	5%	5%	5%
	201-250%	4%	4%	5%	5%	5%	5%	5%
	251-300%	4%	4%	5%	5%	5%	5%	5%
	301-350%	4%	4%	5%	5%	5%	5%	5%
	351-399%	4%	4%	5%	5%	5%	5%	5%
	400%+	4%	4%	5%	5%	5%	5%	5%
	Subtotal	4%	4%	5%	5%	5%	5%	5%
BG1s	All	4%	4%	4%	4%	3%	3%	4%
Other Small Groups	All	-4%	-4%	-4%	-4%	-3%	-3%	-3%
All Individual	All	3%	3%	4%	4%	4%	4%	4%
All Small Group	All	-3%	-3%	-3%	-3%	-2%	-2%	-3%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-82%	-80%	-78%	-76%	-80%
	151-200%	-76%	-76%	-75%	-73%	-71%	-70%	-72%
	201-250%	-63%	-63%	-62%	-61%	-59%	-59%	-60%
	251-300%	-53%	-53%	-47%	-47%	-46%	-47%	-48%
	301-350%	-53%	-53%	-39%	-35%	-35%	-37%	-38%
	351-399%	-53%	-53%	-39%	-27%	-27%	-30%	-33%
	400%+	-53%	-53%	-39%	-24%	-2%	12%	-5%
	Subtotal	-61%	-60%	-57%	-49%	-28%	-28%	-36%
2 (Preferred)	133-150%	-58%	-58%	-60%	-63%	-66%	-71%	-62%
	151-200%	-38%	-38%	-43%	-50%	-56%	-64%	-51%
	201-250%	-4%	-4%	-14%	-26%	-39%	-51%	-25%
	251-300%	22%	22%	19%	0%	-19%	-36%	-8%
	301-350%	22%	22%	36%	22%	-2%	-24%	-1%
	351-399%	22%	22%	36%	37%	10%	-16%	10%
	400%+	22%	22%	36%	42%	47%	36%	37%
	Subtotal	2%	4%	-2%	-4%	8%	-13%	-2%
BG1s	All	24%	24%	10%	3%	-3%	-7%	2%
Other Small Groups	All	24%	24%	10%	3%	-3%	-7%	2%
All Individual	All	-34%	-32%	-21%	-23%	-13%	-24%	-23%
All Small Group	All	24%	24%	10%	3%	-3%	-7%	2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-83%	-83%	-82%	-80%	-77%	-75%	-79%
	151-200%	-76%	-76%	-74%	-72%	-70%	-69%	-71%
	201-250%	-63%	-63%	-61%	-60%	-58%	-58%	-60%
	251-300%	-52%	-52%	-47%	-46%	-45%	-46%	-47%
	301-350%	-52%	-52%	-39%	-34%	-34%	-36%	-37%
	351-399%	-52%	-52%	-39%	-26%	-26%	-29%	-32%
	400%+	-52%	-52%	-39%	-23%	-1%	13%	-5%
	Subtotal	-60%	-59%	-56%	-48%	-27%	-27%	-35%
2 (Preferred)	133-150%	-57%	-57%	-59%	-62%	-65%	-70%	-61%
	151-200%	-37%	-37%	-42%	-48%	-55%	-62%	-50%
	201-250%	-3%	-3%	-13%	-25%	-37%	-49%	-24%
	251-300%	23%	23%	20%	1%	-17%	-35%	-7%
	301-350%	23%	23%	37%	23%	-1%	-23%	0%
	351-399%	23%	23%	37%	39%	11%	-14%	11%
	400%+	23%	23%	37%	43%	49%	37%	38%
	Subtotal	3%	6%	-1%	-3%	10%	-12%	-1%
BG1s	All	25%	25%	11%	4%	-2%	-6%	3%
Other Small Groups	All	23%	23%	9%	2%	-4%	-7%	1%
All Individual	All	-33%	-31%	-20%	-22%	-12%	-23%	-22%
All Small Group	All	23%	23%	10%	2%	-4%	-7%	2%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	-1%	-1%	-1%	-1%	-1%
	151-200%	0%	0%	-1%	-1%	-1%	-1%	-1%
	201-250%	0%	0%	-1%	-1%	-1%	-1%	-1%
	251-300%	0%	0%	-1%	-1%	-1%	-1%	-1%
	301-350%	0%	0%	-1%	-1%	-1%	-1%	-1%
	351-399%	0%	0%	-1%	-1%	-1%	-1%	-1%
	400%+	0%	0%	-1%	-1%	-1%	-1%	-1%
	Subtotal	0%	0%	-1%	-1%	-1%	-1%	-1%
2 (Preferred)	133-150%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	151-200%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	201-250%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	251-300%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	301-350%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	351-399%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	400%+	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-1%	-1%	-1%
BG1s	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other Small Groups	All	1%	1%	1%	1%	1%	1%	1%
All Individual	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
All Small Group	All	1%	1%	1%	1%	1%	1%	1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-89%	-89%	-89%	-89%	-89%	-89%	-89%
	151-200%	-81%	-81%	-81%	-82%	-82%	-83%	-82%
	201-250%	-68%	-68%	-69%	-69%	-70%	-72%	-70%
	251-300%	-58%	-58%	-54%	-55%	-57%	-60%	-59%
	301-350%	-58%	-58%	-46%	-43%	-46%	-50%	-49%
	351-399%	-58%	-58%	-46%	-35%	-38%	-43%	-44%
	400%+	-58%	-58%	-46%	-33%	-13%	0%	-16%
	Subtotal	-66%	-65%	-63%	-57%	-39%	-41%	-47%
2 (Preferred)	133-150%	-71%	-71%	-75%	-79%	-83%	-86%	-78%
	151-200%	-52%	-52%	-58%	-66%	-73%	-79%	-66%
	201-250%	-18%	-18%	-29%	-42%	-55%	-66%	-40%
	251-300%	8%	8%	3%	-16%	-35%	-51%	-24%
	301-350%	8%	8%	21%	6%	-19%	-39%	-17%
	351-399%	8%	8%	21%	21%	-7%	-31%	-6%
	400%+	8%	8%	21%	26%	31%	21%	21%
	Subtotal	-12%	-9%	-18%	-20%	-8%	-28%	-18%
BG1s	All	26%	26%	12%	5%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	5%	-2%	-5%	4%
All Individual	All	-43%	-41%	-33%	-36%	-26%	-38%	-36%
All Small Group	All	26%	26%	12%	5%	-2%	-5%	4%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-89%	-89%	-89%	-89%	-89%	-89%	-89%
	151-200%	-81%	-81%	-81%	-82%	-82%	-82%	-82%
	201-250%	-68%	-68%	-69%	-69%	-70%	-72%	-70%
	251-300%	-58%	-58%	-54%	-55%	-57%	-60%	-59%
	301-350%	-58%	-58%	-46%	-43%	-46%	-50%	-49%
	351-399%	-58%	-58%	-46%	-35%	-38%	-43%	-43%
	400%+	-58%	-58%	-46%	-33%	-13%	0%	-16%
	Subtotal	-66%	-65%	-63%	-57%	-39%	-41%	-47%
2 (Preferred)	133-150%	-71%	-71%	-75%	-79%	-83%	-86%	-78%
	151-200%	-52%	-52%	-58%	-66%	-73%	-79%	-66%
	201-250%	-18%	-18%	-29%	-42%	-55%	-66%	-40%
	251-300%	8%	8%	4%	-16%	-35%	-51%	-24%
	301-350%	8%	8%	21%	6%	-19%	-39%	-17%
	351-399%	8%	8%	21%	22%	-7%	-31%	-6%
	400%+	8%	8%	21%	26%	31%	21%	21%
	Subtotal	-12%	-9%	-18%	-20%	-8%	-28%	-18%
BG1s	All	26%	26%	12%	5%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	5%	-2%	-5%	4%
All Individual	All	-43%	-41%	-33%	-36%	-26%	-38%	-36%
All Small Group	All	26%	26%	12%	5%	-2%	-5%	4%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	0%	0%	0%	0%	0%
	151-200%	0%	0%	0%	0%	0%	0%	0%
	201-250%	0%	0%	0%	0%	0%	0%	0%
	251-300%	0%	0%	0%	0%	0%	0%	0%
	301-350%	0%	0%	0%	0%	0%	0%	0%
	351-399%	0%	0%	0%	0%	0%	0%	0%
	400%+	0%	0%	0%	0%	0%	0%	0%
	Subtotal	0%	0%	0%	0%	0%	0%	0%
2 (Preferred)	133-150%	0%	0%	0%	0%	0%	0%	0%
	151-200%	0%	0%	0%	0%	0%	0%	0%
	201-250%	0%	0%	0%	0%	0%	0%	0%
	251-300%	0%	0%	0%	0%	0%	0%	0%
	301-350%	0%	0%	0%	0%	0%	0%	0%
	351-399%	0%	0%	0%	0%	0%	0%	0%
	400%+	0%	0%	0%	0%	0%	0%	0%
	Subtotal	0%	0%	0%	0%	0%	0%	0%
BG1s	All	0%	0%	0%	0%	0%	0%	0%
Other Small Groups	All	0%	0%	0%	0%	0%	0%	0%
All Individual	All	0%	0%	0%	0%	0%	0%	0%
All Small Group	All	0%	0%	0%	0%	0%	0%	0%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-82%	-80%	-78%	-76%	-80%
	151-200%	-76%	-76%	-75%	-73%	-71%	-70%	-72%
	201-250%	-63%	-63%	-62%	-61%	-59%	-59%	-60%
	251-300%	-53%	-53%	-47%	-47%	-46%	-47%	-48%
	301-350%	-53%	-53%	-39%	-35%	-35%	-37%	-38%
	351-399%	-53%	-53%	-39%	-27%	-27%	-30%	-33%
	400%+	-53%	-53%	-39%	-24%	-2%	12%	-5%
	Subtotal	-61%	-60%	-57%	-49%	-28%	-28%	-36%
2 (Preferred)	133-150%	-58%	-58%	-60%	-63%	-66%	-71%	-62%
	151-200%	-38%	-38%	-43%	-50%	-56%	-64%	-51%
	201-250%	-4%	-4%	-14%	-26%	-39%	-51%	-25%
	251-300%	22%	22%	19%	0%	-19%	-36%	-8%
	301-350%	22%	22%	36%	22%	-2%	-24%	-1%
	351-399%	22%	22%	36%	37%	10%	-16%	10%
	400%+	22%	22%	36%	42%	47%	36%	37%
	Subtotal	2%	4%	-2%	-4%	8%	-13%	-2%
BG1s	All	24%	24%	10%	3%	-3%	-7%	2%
Other Small Groups	All	24%	24%	10%	3%	-3%	-7%	2%
All Individual	All	-34%	-32%	-21%	-23%	-13%	-24%	-23%
All Small Group	All	24%	24%	10%	3%	-3%	-7%	2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-81%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-61%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-49%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-39%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-65%	-68%	-73%	-64%
	151-200%	-40%	-40%	-45%	-51%	-58%	-65%	-53%
	201-250%	-5%	-5%	-16%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-2%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	8%
	400%+	21%	21%	35%	40%	46%	34%	35%
	Subtotal	0%	3%	-4%	-5%	7%	-15%	-4%
BG1s	All	25%	25%	11%	4%	-3%	-6%	3%
Other Small Groups	All	25%	25%	11%	4%	-3%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-15%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	1%	1%	1%	1%	1%	1%	1%
	151-200%	1%	1%	1%	1%	1%	1%	1%
	201-250%	1%	1%	1%	1%	1%	1%	1%
	251-300%	1%	1%	1%	1%	1%	1%	1%
	301-350%	1%	1%	1%	1%	1%	1%	1%
	351-399%	1%	1%	1%	1%	1%	1%	1%
	400%+	1%	1%	1%	1%	1%	1%	1%
	Subtotal	1%	1%	1%	1%	1%	1%	1%
2 (Preferred)	133-150%	1%	1%	2%	2%	2%	2%	2%
	151-200%	1%	1%	2%	2%	2%	2%	2%
	201-250%	1%	1%	2%	2%	2%	2%	2%
	251-300%	1%	1%	2%	2%	2%	2%	2%
	301-350%	1%	1%	2%	2%	2%	2%	2%
	351-399%	1%	1%	2%	2%	2%	2%	2%
	400%+	1%	1%	2%	2%	2%	2%	2%
	Subtotal	1%	1%	2%	2%	2%	2%	2%
BG1s	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other Small Groups	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
All Individual	All	1%	1%	1%	1%	1%	1%	1%
All Small Group	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-87%	-87%	-86%	-86%	-85%	-84%	-85%
	151-200%	-80%	-80%	-79%	-79%	-78%	-78%	-78%
	201-250%	-66%	-66%	-66%	-66%	-66%	-67%	-67%
	251-300%	-56%	-56%	-52%	-52%	-53%	-55%	-55%
	301-350%	-56%	-56%	-44%	-40%	-42%	-45%	-45%
	351-399%	-56%	-56%	-44%	-32%	-34%	-38%	-40%
	400%+	-56%	-56%	-44%	-30%	-9%	4%	-12%
	Subtotal	-64%	-63%	-61%	-54%	-35%	-36%	-43%
2 (Preferred)	133-150%	-67%	-67%	-70%	-73%	-77%	-81%	-72%
	151-200%	-47%	-47%	-53%	-60%	-67%	-73%	-61%
	201-250%	-13%	-13%	-24%	-37%	-49%	-60%	-35%
	251-300%	13%	13%	9%	-10%	-29%	-46%	-18%
	301-350%	13%	13%	26%	11%	-13%	-34%	-11%
	351-399%	13%	13%	26%	27%	-1%	-25%	0%
	400%+	13%	13%	26%	32%	37%	26%	27%
	Subtotal	-7%	-4%	-12%	-14%	-2%	-23%	-12%
BG1s	All	15%	15%	2%	-4%	-10%	-13%	-5%
Other Small Groups	All	24%	24%	10%	3%	-4%	-7%	2%
All Individual	All	-40%	-38%	-29%	-31%	-22%	-33%	-31%
All Small Group	All	23%	23%	9%	2%	-5%	-8%	1%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-87%	-87%	-87%	-86%	-85%	-84%	-86%
	151-200%	-80%	-80%	-79%	-79%	-78%	-78%	-78%
	201-250%	-66%	-66%	-66%	-66%	-66%	-67%	-67%
	251-300%	-56%	-56%	-52%	-52%	-53%	-55%	-55%
	301-350%	-56%	-56%	-44%	-41%	-42%	-46%	-45%
	351-399%	-56%	-56%	-44%	-32%	-34%	-38%	-40%
	400%+	-56%	-56%	-44%	-30%	-9%	4%	-12%
	Subtotal	-64%	-63%	-61%	-54%	-35%	-36%	-43%
2 (Preferred)	133-150%	-67%	-67%	-70%	-73%	-77%	-81%	-72%
	151-200%	-47%	-47%	-53%	-60%	-67%	-74%	-61%
	201-250%	-13%	-13%	-24%	-37%	-49%	-61%	-35%
	251-300%	13%	13%	9%	-10%	-29%	-46%	-18%
	301-350%	13%	13%	26%	11%	-13%	-34%	-11%
	351-399%	13%	13%	26%	27%	-1%	-25%	0%
	400%+	13%	13%	26%	32%	37%	26%	27%
	Subtotal	-7%	-4%	-12%	-14%	-3%	-23%	-12%
BG1s	All	15%	15%	2%	-4%	-10%	-13%	-5%
Other Small Groups	All	24%	24%	10%	3%	-4%	-7%	2%
All Individual	All	-40%	-38%	-29%	-31%	-22%	-33%	-32%
All Small Group	All	23%	23%	9%	2%	-5%	-8%	1%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	0%	0%	0%	0%	0%
	151-200%	0%	0%	0%	0%	0%	0%	0%
	201-250%	0%	0%	0%	0%	0%	0%	0%
	251-300%	0%	0%	0%	0%	0%	0%	0%
	301-350%	0%	0%	0%	0%	0%	0%	0%
	351-399%	0%	0%	0%	0%	0%	0%	0%
	400%+	0%	0%	0%	0%	0%	0%	0%
	Subtotal	0%	0%	0%	0%	0%	0%	0%
2 (Preferred)	133-150%	0%	0%	0%	0%	0%	0%	0%
	151-200%	0%	0%	0%	0%	0%	0%	0%
	201-250%	0%	0%	0%	0%	0%	0%	0%
	251-300%	0%	0%	0%	0%	0%	0%	0%
	301-350%	0%	0%	0%	0%	0%	0%	0%
	351-399%	0%	0%	0%	0%	0%	0%	0%
	400%+	0%	0%	0%	0%	0%	0%	0%
	Subtotal	0%	0%	0%	0%	0%	0%	0%
BG1s	All	0%	0%	0%	0%	0%	0%	0%
Other Small Groups	All	0%	0%	0%	0%	0%	0%	0%
All Individual	All	0%	0%	0%	0%	0%	0%	0%
All Small Group	All	0%	0%	0%	0%	0%	0%	0%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	No	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-82%	-80%	-78%	-76%	-80%
	151-200%	-76%	-76%	-75%	-73%	-71%	-70%	-72%
	201-250%	-63%	-63%	-62%	-61%	-59%	-59%	-60%
	251-300%	-53%	-53%	-47%	-47%	-46%	-47%	-48%
	301-350%	-53%	-53%	-39%	-35%	-35%	-37%	-38%
	351-399%	-53%	-53%	-39%	-27%	-27%	-30%	-33%
	400%+	-53%	-53%	-39%	-24%	-2%	12%	-5%
	Subtotal	-61%	-60%	-57%	-49%	-28%	-28%	-36%
2 (Preferred)	133-150%	-58%	-58%	-60%	-63%	-66%	-71%	-62%
	151-200%	-38%	-38%	-43%	-50%	-56%	-64%	-51%
	201-250%	-4%	-4%	-14%	-26%	-39%	-51%	-25%
	251-300%	22%	22%	19%	0%	-19%	-36%	-8%
	301-350%	22%	22%	36%	22%	-2%	-24%	-1%
	351-399%	22%	22%	36%	37%	10%	-16%	10%
	400%+	22%	22%	36%	42%	47%	36%	37%
	Subtotal	2%	4%	-2%	-4%	8%	-13%	-2%
BG1s	All	24%	24%	10%	3%	-3%	-7%	2%
Other Small Groups	All	24%	24%	10%	3%	-3%	-7%	2%
All Individual	All	-34%	-32%	-21%	-23%	-13%	-24%	-23%
All Small Group	All	24%	24%	10%	3%	-3%	-7%	2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-83%	-83%	-82%	-80%	-77%	-75%	-79%
	151-200%	-76%	-76%	-74%	-72%	-70%	-69%	-71%
	201-250%	-63%	-63%	-61%	-60%	-58%	-58%	-60%
	251-300%	-52%	-52%	-47%	-46%	-45%	-46%	-47%
	301-350%	-52%	-52%	-39%	-34%	-34%	-36%	-37%
	351-399%	-52%	-52%	-39%	-26%	-26%	-29%	-32%
	400%+	-52%	-52%	-39%	-23%	-1%	13%	-5%
	Subtotal	-60%	-59%	-56%	-48%	-27%	-27%	-35%
2 (Preferred)	133-150%	-57%	-57%	-59%	-62%	-65%	-70%	-61%
	151-200%	-37%	-37%	-42%	-48%	-55%	-62%	-50%
	201-250%	-3%	-3%	-13%	-25%	-37%	-49%	-24%
	251-300%	23%	23%	20%	1%	-17%	-35%	-7%
	301-350%	23%	23%	37%	23%	-1%	-23%	0%
	351-399%	23%	23%	37%	39%	11%	-14%	11%
	400%+	23%	23%	37%	43%	49%	37%	38%
	Subtotal	3%	6%	-1%	-3%	10%	-12%	-1%
BG1s	All	25%	25%	11%	4%	-2%	-6%	3%
Other Small Groups	All	23%	23%	9%	2%	-4%	-7%	1%
All Individual	All	-33%	-31%	-20%	-22%	-12%	-23%	-22%
All Small Group	All	23%	23%	10%	2%	-4%	-7%	2%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	-1%	-1%	-1%	-1%	-1%
	151-200%	0%	0%	-1%	-1%	-1%	-1%	-1%
	201-250%	0%	0%	-1%	-1%	-1%	-1%	-1%
	251-300%	0%	0%	-1%	-1%	-1%	-1%	-1%
	301-350%	0%	0%	-1%	-1%	-1%	-1%	-1%
	351-399%	0%	0%	-1%	-1%	-1%	-1%	-1%
	400%+	0%	0%	-1%	-1%	-1%	-1%	-1%
	Subtotal	0%	0%	-1%	-1%	-1%	-1%	-1%
2 (Preferred)	133-150%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	151-200%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	201-250%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	251-300%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	301-350%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	351-399%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	400%+	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-1%	-1%	-1%
BG1s	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other Small Groups	All	1%	1%	1%	1%	1%	1%	1%
All Individual	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
All Small Group	All	1%	1%	1%	1%	1%	1%	1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-86%	-86%	-85%	-84%	-83%	-82%	-84%
	151-200%	-79%	-79%	-78%	-77%	-76%	-76%	-77%
	201-250%	-66%	-66%	-65%	-65%	-65%	-66%	-65%
	251-300%	-55%	-55%	-51%	-51%	-52%	-53%	-53%
	301-350%	-55%	-55%	-43%	-39%	-41%	-44%	-44%
	351-399%	-55%	-55%	-43%	-31%	-33%	-36%	-38%
	400%+	-55%	-55%	-43%	-28%	-8%	6%	-11%
	Subtotal	-63%	-62%	-60%	-53%	-34%	-34%	-41%
2 (Preferred)	133-150%	-65%	-65%	-67%	-71%	-74%	-79%	-70%
	151-200%	-45%	-45%	-51%	-58%	-64%	-71%	-59%
	201-250%	-11%	-11%	-22%	-34%	-47%	-58%	-33%
	251-300%	15%	15%	11%	-8%	-27%	-44%	-16%
	301-350%	15%	15%	29%	14%	-11%	-32%	-9%
	351-399%	15%	15%	29%	29%	1%	-23%	2%
	400%+	15%	15%	29%	34%	39%	28%	29%
	Subtotal	-5%	-2%	-10%	-12%	0%	-21%	-10%
BG1s	All	21%	21%	7%	0%	-6%	-9%	0%
Other Small Groups	All	21%	21%	7%	0%	-6%	-9%	0%
All Individual	All	-38%	-37%	-27%	-29%	-20%	-31%	-30%
All Small Group	All	21%	21%	7%	0%	-6%	-9%	0%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-89%	-89%	-89%	-89%	-89%	-89%	-89%
	151-200%	-81%	-81%	-81%	-82%	-82%	-82%	-82%
	201-250%	-68%	-68%	-69%	-69%	-70%	-72%	-70%
	251-300%	-58%	-58%	-54%	-55%	-57%	-60%	-59%
	301-350%	-58%	-58%	-46%	-43%	-46%	-50%	-49%
	351-399%	-58%	-58%	-46%	-35%	-38%	-43%	-43%
	400%+	-58%	-58%	-46%	-33%	-13%	0%	-16%
	Subtotal	-66%	-65%	-63%	-57%	-39%	-41%	-47%
2 (Preferred)	133-150%	-71%	-71%	-75%	-79%	-83%	-86%	-78%
	151-200%	-52%	-52%	-58%	-66%	-73%	-79%	-66%
	201-250%	-18%	-18%	-29%	-42%	-55%	-66%	-40%
	251-300%	8%	8%	4%	-16%	-35%	-51%	-24%
	301-350%	8%	8%	21%	6%	-19%	-39%	-17%
	351-399%	8%	8%	21%	22%	-7%	-31%	-6%
	400%+	8%	8%	21%	26%	31%	21%	21%
	Subtotal	-12%	-9%	-18%	-20%	-8%	-28%	-18%
BG1s	All	26%	26%	12%	5%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	5%	-2%	-5%	4%
All Individual	All	-43%	-41%	-33%	-36%	-26%	-38%	-36%
All Small Group	All	26%	26%	12%	5%	-2%	-5%	4%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	3%	3%	3%	4%	5%	6%	5%
	151-200%	3%	3%	3%	4%	5%	6%	5%
	201-250%	3%	3%	3%	4%	5%	6%	5%
	251-300%	3%	3%	3%	4%	5%	6%	6%
	301-350%	3%	3%	3%	4%	5%	6%	6%
	351-399%	3%	3%	3%	4%	5%	6%	5%
	400%+	3%	3%	3%	4%	5%	6%	5%
	Subtotal	3%	3%	3%	4%	5%	6%	5%
2 (Preferred)	133-150%	7%	7%	8%	8%	8%	8%	8%
	151-200%	7%	7%	8%	8%	8%	8%	8%
	201-250%	7%	7%	8%	8%	8%	8%	8%
	251-300%	7%	7%	8%	8%	8%	8%	8%
	301-350%	7%	7%	8%	8%	8%	8%	8%
	351-399%	7%	7%	8%	8%	8%	8%	8%
	400%+	7%	7%	8%	8%	8%	8%	8%
	Subtotal	7%	7%	8%	8%	8%	8%	8%
BG1s	All	-5%	-5%	-5%	-4%	-4%	-4%	-4%
Other Small Groups	All	-5%	-5%	-5%	-4%	-4%	-4%	-4%
All Individual	All	4%	4%	6%	6%	7%	7%	6%
All Small Group	All	-5%	-5%	-5%	-4%	-4%	-4%	-4%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-82%	-79%	-78%	-81%
	151-200%	-77%	-77%	-76%	-74%	-73%	-72%	-73%
	201-250%	-64%	-64%	-63%	-62%	-61%	-61%	-62%
	251-300%	-54%	-54%	-48%	-48%	-48%	-49%	-49%
	301-350%	-54%	-54%	-40%	-36%	-37%	-39%	-40%
	351-399%	-54%	-54%	-40%	-28%	-29%	-32%	-35%
	400%+	-54%	-54%	-40%	-25%	-4%	11%	-7%
	Subtotal	-61%	-60%	-58%	-50%	-30%	-30%	-38%
2 (Preferred)	133-150%	-60%	-60%	-62%	-65%	-69%	-73%	-65%
	151-200%	-40%	-40%	-45%	-52%	-59%	-66%	-53%
	201-250%	-6%	-6%	-16%	-29%	-41%	-53%	-28%
	251-300%	20%	20%	16%	-2%	-21%	-38%	-11%
	301-350%	20%	20%	34%	19%	-5%	-26%	-4%
	351-399%	20%	20%	34%	35%	7%	-18%	8%
	400%+	20%	20%	34%	40%	45%	34%	34%
	Subtotal	0%	2%	-5%	-6%	6%	-15%	-5%
BG1s	All	26%	26%	12%	4%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	4%	-2%	-5%	4%
All Individual	All	-35%	-33%	-23%	-25%	-15%	-26%	-25%
All Small Group	All	26%	26%	12%	4%	-2%	-5%	4%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-81%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-61%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-49%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-39%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-65%	-68%	-73%	-64%
	151-200%	-40%	-40%	-45%	-51%	-58%	-65%	-53%
	201-250%	-5%	-5%	-16%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-2%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	8%
	400%+	21%	21%	35%	40%	46%	34%	35%
	Subtotal	0%	3%	-4%	-5%	7%	-15%	-4%
BG1s	All	25%	25%	11%	4%	-3%	-6%	3%
Other Small Groups	All	25%	25%	11%	4%	-3%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-15%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	0%	0%	-1%	-1%	0%
	151-200%	0%	0%	0%	0%	-1%	-1%	0%
	201-250%	0%	0%	0%	0%	-1%	-1%	0%
	251-300%	0%	0%	0%	0%	-1%	-1%	-1%
	301-350%	0%	0%	0%	0%	-1%	-1%	-1%
	351-399%	0%	0%	0%	0%	-1%	-1%	0%
	400%+	0%	0%	0%	0%	-1%	-1%	0%
	Subtotal	0%	0%	0%	0%	-1%	-1%	0%
2 (Preferred)	133-150%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	151-200%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	201-250%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	251-300%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	301-350%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	351-399%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	400%+	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-1%	-1%	-1%
BG1s	All	0%	0%	0%	0%	0%	0%	0%
Other Small Groups	All	0%	0%	0%	0%	0%	0%	0%
All Individual	All	0%	0%	-1%	-1%	-1%	-1%	-1%
All Small Group	All	0%	0%	0%	0%	0%	0%	0%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-86%	-86%	-85%	-84%	-82%	-81%	-83%
	151-200%	-78%	-78%	-78%	-77%	-75%	-75%	-76%
	201-250%	-65%	-65%	-65%	-64%	-64%	-65%	-65%
	251-300%	-55%	-55%	-50%	-50%	-51%	-53%	-52%
	301-350%	-55%	-55%	-42%	-39%	-40%	-43%	-43%
	351-399%	-55%	-55%	-42%	-30%	-32%	-35%	-37%
	400%+	-55%	-55%	-42%	-28%	-7%	7%	-10%
	Subtotal	-63%	-62%	-59%	-52%	-33%	-33%	-41%
2 (Preferred)	133-150%	-63%	-63%	-66%	-70%	-73%	-77%	-69%
	151-200%	-44%	-44%	-49%	-56%	-63%	-70%	-57%
	201-250%	-10%	-10%	-20%	-33%	-45%	-57%	-32%
	251-300%	16%	16%	12%	-7%	-26%	-43%	-15%
	301-350%	16%	16%	30%	15%	-9%	-31%	-8%
	351-399%	16%	16%	30%	31%	3%	-22%	3%
	400%+	16%	16%	30%	35%	41%	30%	30%
	Subtotal	-4%	-1%	-9%	-11%	1%	-19%	-9%
BG1s	All	18%	18%	5%	-2%	-8%	-11%	-2%
Other Small Groups	All	21%	21%	7%	0%	-6%	-9%	0%
All Individual	All	-38%	-36%	-26%	-28%	-19%	-30%	-29%
All Small Group	All	20%	20%	7%	0%	-6%	-9%	-1%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-87%	-87%	-87%	-86%	-85%	-84%	-86%
	151-200%	-80%	-80%	-79%	-79%	-78%	-78%	-78%
	201-250%	-66%	-66%	-66%	-66%	-66%	-67%	-67%
	251-300%	-56%	-56%	-52%	-52%	-53%	-55%	-55%
	301-350%	-56%	-56%	-44%	-41%	-42%	-46%	-45%
	351-399%	-56%	-56%	-44%	-32%	-34%	-38%	-40%
	400%+	-56%	-56%	-44%	-30%	-9%	4%	-12%
	Subtotal	-64%	-63%	-61%	-54%	-35%	-36%	-43%
2 (Preferred)	133-150%	-67%	-67%	-70%	-73%	-77%	-81%	-72%
	151-200%	-47%	-47%	-53%	-60%	-67%	-74%	-61%
	201-250%	-13%	-13%	-24%	-37%	-49%	-61%	-35%
	251-300%	13%	13%	9%	-10%	-29%	-46%	-18%
	301-350%	13%	13%	26%	11%	-13%	-34%	-11%
	351-399%	13%	13%	26%	27%	-1%	-25%	0%
	400%+	13%	13%	26%	32%	37%	26%	27%
	Subtotal	-7%	-4%	-12%	-14%	-3%	-23%	-12%
BG1s	All	15%	15%	2%	-4%	-10%	-13%	-5%
Other Small Groups	All	24%	24%	10%	3%	-4%	-7%	2%
All Individual	All	-40%	-38%	-29%	-31%	-22%	-33%	-32%
All Small Group	All	23%	23%	9%	2%	-5%	-8%	1%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	1%	1%	2%	2%	3%	3%	2%
	151-200%	1%	1%	2%	2%	3%	3%	2%
	201-250%	1%	1%	2%	2%	3%	3%	2%
	251-300%	1%	1%	2%	2%	3%	3%	3%
	301-350%	1%	1%	2%	2%	3%	3%	3%
	351-399%	1%	1%	2%	2%	3%	3%	2%
	400%+	1%	1%	2%	2%	3%	3%	2%
	Subtotal	1%	1%	2%	2%	3%	3%	2%
2 (Preferred)	133-150%	3%	3%	4%	4%	4%	4%	4%
	151-200%	3%	3%	4%	4%	4%	4%	4%
	201-250%	3%	3%	4%	4%	4%	4%	4%
	251-300%	3%	3%	4%	4%	4%	4%	4%
	301-350%	3%	3%	4%	4%	4%	4%	4%
	351-399%	3%	3%	4%	4%	4%	4%	4%
	400%+	3%	3%	4%	4%	4%	4%	4%
	Subtotal	3%	3%	4%	4%	4%	4%	4%
BG1s	All	3%	3%	3%	3%	3%	2%	3%
Other Small Groups	All	-3%	-3%	-3%	-3%	-2%	-2%	-3%
All Individual	All	2%	2%	3%	3%	3%	3%	3%
All Small Group	All	-2%	-2%	-2%	-2%	-2%	-2%	-2%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	No	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-80%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-60%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-48%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-38%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-64%	-68%	-72%	-64%
	151-200%	-39%	-39%	-44%	-51%	-58%	-65%	-52%
	201-250%	-5%	-5%	-15%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-1%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	9%
	400%+	21%	21%	35%	41%	46%	35%	35%
	Subtotal	1%	3%	-4%	-5%	7%	-14%	-4%
BG1s	All	23%	23%	9%	2%	-4%	-8%	1%
Other Small Groups	All	25%	25%	11%	4%	-2%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-14%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-83%	-83%	-82%	-80%	-77%	-75%	-79%
	151-200%	-76%	-76%	-74%	-72%	-70%	-69%	-71%
	201-250%	-63%	-63%	-61%	-60%	-58%	-58%	-60%
	251-300%	-52%	-52%	-47%	-46%	-45%	-46%	-47%
	301-350%	-52%	-52%	-39%	-34%	-34%	-36%	-37%
	351-399%	-52%	-52%	-39%	-26%	-26%	-29%	-32%
	400%+	-52%	-52%	-39%	-23%	-1%	13%	-5%
	Subtotal	-60%	-59%	-56%	-48%	-27%	-27%	-35%
2 (Preferred)	133-150%	-57%	-57%	-59%	-62%	-65%	-70%	-61%
	151-200%	-37%	-37%	-42%	-48%	-55%	-62%	-50%
	201-250%	-3%	-3%	-13%	-25%	-37%	-49%	-24%
	251-300%	23%	23%	20%	1%	-17%	-35%	-7%
	301-350%	23%	23%	37%	23%	-1%	-23%	0%
	351-399%	23%	23%	37%	39%	11%	-14%	11%
	400%+	23%	23%	37%	43%	49%	37%	38%
	Subtotal	3%	6%	-1%	-3%	10%	-12%	-1%
BG1s	All	25%	25%	11%	4%	-2%	-6%	3%
Other Small Groups	All	23%	23%	9%	2%	-4%	-7%	1%
All Individual	All	-33%	-31%	-20%	-22%	-12%	-23%	-22%
All Small Group	All	23%	23%	10%	2%	-4%	-7%	2%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	151-200%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	201-250%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	251-300%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	301-350%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	351-399%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	400%+	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	Subtotal	-1%	-1%	-1%	-1%	-2%	-2%	-2%
2 (Preferred)	133-150%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	151-200%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	201-250%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	251-300%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	301-350%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	351-399%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	400%+	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	Subtotal	-2%	-2%	-3%	-3%	-3%	-3%	-3%
BG1s	All	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Other Small Groups	All	2%	2%	2%	2%	2%	2%	2%
All Individual	All	-2%	-2%	-2%	-2%	-2%	-2%	-2%
All Small Group	All	2%	2%	2%	1%	1%	1%	1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-90%	-90%	-90%	-90%	-90%	-90%	-90%
	151-200%	-82%	-82%	-82%	-83%	-83%	-84%	-83%
	201-250%	-69%	-69%	-69%	-70%	-72%	-74%	-72%
	251-300%	-59%	-59%	-55%	-56%	-58%	-62%	-60%
	301-350%	-59%	-59%	-47%	-45%	-48%	-52%	-51%
	351-399%	-59%	-59%	-47%	-36%	-40%	-44%	-45%
	400%+	-59%	-59%	-47%	-34%	-15%	-2%	-17%
	Subtotal	-67%	-66%	-64%	-58%	-41%	-42%	-48%
2 (Preferred)	133-150%	-73%	-73%	-77%	-81%	-85%	-88%	-80%
	151-200%	-54%	-54%	-60%	-68%	-75%	-81%	-68%
	201-250%	-20%	-20%	-31%	-44%	-57%	-68%	-42%
	251-300%	7%	7%	1%	-18%	-37%	-53%	-26%
	301-350%	7%	7%	19%	4%	-21%	-41%	-19%
	351-399%	7%	7%	19%	19%	-9%	-33%	-8%
	400%+	7%	7%	19%	24%	29%	19%	19%
	Subtotal	-14%	-11%	-20%	-22%	-11%	-30%	-20%
BG1s	All	27%	27%	13%	6%	-1%	-4%	5%
Other Small Groups	All	27%	27%	13%	6%	-1%	-4%	5%
All Individual	All	-44%	-42%	-35%	-38%	-28%	-39%	-37%
All Small Group	All	27%	27%	13%	6%	-1%	-4%	5%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-89%	-89%	-89%	-89%	-89%	-89%	-89%
	151-200%	-81%	-81%	-81%	-82%	-82%	-82%	-82%
	201-250%	-68%	-68%	-69%	-69%	-70%	-72%	-70%
	251-300%	-58%	-58%	-54%	-55%	-57%	-60%	-59%
	301-350%	-58%	-58%	-46%	-43%	-46%	-50%	-49%
	351-399%	-58%	-58%	-46%	-35%	-38%	-43%	-43%
	400%+	-58%	-58%	-46%	-33%	-13%	0%	-16%
	Subtotal	-66%	-65%	-63%	-57%	-39%	-41%	-47%
2 (Preferred)	133-150%	-71%	-71%	-75%	-79%	-83%	-86%	-78%
	151-200%	-52%	-52%	-58%	-66%	-73%	-79%	-66%
	201-250%	-18%	-18%	-29%	-42%	-55%	-66%	-40%
	251-300%	8%	8%	4%	-16%	-35%	-51%	-24%
	301-350%	8%	8%	21%	6%	-19%	-39%	-17%
	351-399%	8%	8%	21%	22%	-7%	-31%	-6%
	400%+	8%	8%	21%	26%	31%	21%	21%
	Subtotal	-12%	-9%	-18%	-20%	-8%	-28%	-18%
BG1s	All	26%	26%	12%	5%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	5%	-2%	-5%	4%
All Individual	All	-43%	-41%	-33%	-36%	-26%	-38%	-36%
All Small Group	All	26%	26%	12%	5%	-2%	-5%	4%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-1%	-1%	-1%	-1%	-2%	-2%	-1%
	151-200%	-1%	-1%	-1%	-1%	-2%	-2%	-1%
	201-250%	-1%	-1%	-1%	-1%	-2%	-2%	-1%
	251-300%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	301-350%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	351-399%	-1%	-1%	-1%	-1%	-2%	-2%	-1%
	400%+	-1%	-1%	-1%	-1%	-2%	-2%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-2%	-2%	-1%
2 (Preferred)	133-150%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	151-200%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	201-250%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	251-300%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	301-350%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	351-399%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	400%+	-2%	-2%	-2%	-2%	-2%	-2%	-2%
	Subtotal	-2%	-2%	-2%	-2%	-2%	-2%	-2%
BG1s	All	1%	1%	1%	1%	1%	1%	1%
Other Small Groups	All	1%	1%	1%	1%	1%	1%	1%
All Individual	All	-1%	-1%	-2%	-2%	-2%	-2%	-2%
All Small Group	All	1%	1%	1%	1%	1%	1%	1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Small group, as today	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-82%	-79%	-78%	-81%
	151-200%	-77%	-77%	-76%	-74%	-73%	-72%	-73%
	201-250%	-64%	-64%	-63%	-62%	-61%	-61%	-62%
	251-300%	-54%	-54%	-48%	-48%	-48%	-49%	-49%
	301-350%	-54%	-54%	-40%	-36%	-37%	-39%	-40%
	351-399%	-54%	-54%	-40%	-28%	-29%	-32%	-35%
	400%+	-54%	-54%	-40%	-25%	-4%	11%	-7%
	Subtotal	-61%	-60%	-58%	-50%	-30%	-30%	-38%
2 (Preferred)	133-150%	-60%	-60%	-62%	-65%	-69%	-73%	-65%
	151-200%	-40%	-40%	-45%	-52%	-59%	-66%	-53%
	201-250%	-6%	-6%	-16%	-29%	-41%	-53%	-28%
	251-300%	20%	20%	16%	-2%	-21%	-38%	-11%
	301-350%	20%	20%	34%	19%	-5%	-26%	-4%
	351-399%	20%	20%	34%	35%	7%	-18%	8%
	400%+	20%	20%	34%	40%	45%	34%	34%
	Subtotal	0%	2%	-5%	-6%	6%	-15%	-5%
BG1s	All	26%	26%	12%	4%	-2%	-5%	4%
Other Small Groups	All	26%	26%	12%	4%	-2%	-5%	4%
All Individual	All	-35%	-33%	-23%	-25%	-15%	-26%	-25%
All Small Group	All	26%	26%	12%	4%	-2%	-5%	4%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-81%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-61%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-49%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-39%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-65%	-68%	-73%	-64%
	151-200%	-40%	-40%	-45%	-51%	-58%	-65%	-53%
	201-250%	-5%	-5%	-16%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-2%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	8%
	400%+	21%	21%	35%	40%	46%	34%	35%
	Subtotal	0%	3%	-4%	-5%	7%	-15%	-4%
BG1s	All	25%	25%	11%	4%	-3%	-6%	3%
Other Small Groups	All	25%	25%	11%	4%	-3%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-15%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	0%	0%	-1%	-1%	0%
	151-200%	0%	0%	0%	0%	-1%	-1%	0%
	201-250%	0%	0%	0%	0%	-1%	-1%	0%
	251-300%	0%	0%	0%	0%	-1%	-1%	-1%
	301-350%	0%	0%	0%	0%	-1%	-1%	-1%
	351-399%	0%	0%	0%	0%	-1%	-1%	0%
	400%+	0%	0%	0%	0%	-1%	-1%	0%
	Subtotal	0%	0%	0%	0%	-1%	-1%	0%
2 (Preferred)	133-150%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	151-200%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	201-250%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	251-300%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	301-350%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	351-399%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	400%+	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-1%	-1%	-1%
BG1s	All	0%	0%	0%	0%	0%	0%	0%
Other Small Groups	All	0%	0%	0%	0%	0%	0%	0%
All Individual	All	0%	0%	-1%	-1%	-1%	-1%	-1%
All Small Group	All	0%	0%	0%	0%	0%	0%	0%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2014**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-88%	-88%	-87%	-86%	-86%	-85%	-86%
	151-200%	-80%	-80%	-80%	-79%	-79%	-79%	-79%
	201-250%	-67%	-67%	-67%	-67%	-67%	-68%	-68%
	251-300%	-57%	-57%	-52%	-53%	-54%	-56%	-56%
	301-350%	-57%	-57%	-44%	-41%	-43%	-46%	-46%
	351-399%	-57%	-57%	-44%	-33%	-35%	-39%	-41%
	400%+	-57%	-57%	-44%	-30%	-10%	3%	-13%
	Subtotal	-65%	-63%	-62%	-55%	-36%	-37%	-44%
2 (Preferred)	133-150%	-68%	-68%	-71%	-75%	-78%	-82%	-73%
	151-200%	-48%	-48%	-54%	-61%	-68%	-75%	-62%
	201-250%	-14%	-14%	-25%	-38%	-50%	-62%	-36%
	251-300%	12%	12%	8%	-12%	-31%	-47%	-19%
	301-350%	12%	12%	25%	10%	-14%	-35%	-13%
	351-399%	12%	12%	25%	26%	-2%	-27%	-1%
	400%+	12%	12%	25%	30%	36%	25%	26%
	Subtotal	-8%	-5%	-13%	-15%	-4%	-24%	-13%
BG1s	All	14%	14%	1%	-5%	-11%	-14%	-6%
Other Small Groups	All	25%	25%	11%	4%	-3%	-6%	3%
All Individual	All	-40%	-39%	-30%	-32%	-23%	-34%	-32%
All Small Group	All	23%	23%	10%	3%	-4%	-7%	2%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-87%	-87%	-87%	-86%	-85%	-84%	-86%
	151-200%	-80%	-80%	-79%	-79%	-78%	-78%	-78%
	201-250%	-66%	-66%	-66%	-66%	-66%	-67%	-67%
	251-300%	-56%	-56%	-52%	-52%	-53%	-55%	-55%
	301-350%	-56%	-56%	-44%	-41%	-42%	-46%	-45%
	351-399%	-56%	-56%	-44%	-32%	-34%	-38%	-40%
	400%+	-56%	-56%	-44%	-30%	-9%	4%	-12%
	Subtotal	-64%	-63%	-61%	-54%	-35%	-36%	-43%
2 (Preferred)	133-150%	-67%	-67%	-70%	-73%	-77%	-81%	-72%
	151-200%	-47%	-47%	-53%	-60%	-67%	-74%	-61%
	201-250%	-13%	-13%	-24%	-37%	-49%	-61%	-35%
	251-300%	13%	13%	9%	-10%	-29%	-46%	-18%
	301-350%	13%	13%	26%	11%	-13%	-34%	-11%
	351-399%	13%	13%	26%	27%	-1%	-25%	0%
	400%+	13%	13%	26%	32%	37%	26%	27%
	Subtotal	-7%	-4%	-12%	-14%	-3%	-23%	-12%
BG1s	All	15%	15%	2%	-4%	-10%	-13%	-5%
Other Small Groups	All	24%	24%	10%	3%	-4%	-7%	2%
All Individual	All	-40%	-38%	-29%	-31%	-22%	-33%	-32%
All Small Group	All	23%	23%	9%	2%	-5%	-8%	1%

Rhode Island Rating Impact Differential between Merged Market and Separate Markets

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	0%	0%	0%	-1%	-1%	-1%	-1%
	151-200%	0%	0%	0%	-1%	-1%	-1%	-1%
	201-250%	0%	0%	0%	-1%	-1%	-1%	-1%
	251-300%	0%	0%	0%	-1%	-1%	-1%	-1%
	301-350%	0%	0%	0%	-1%	-1%	-1%	-1%
	351-399%	0%	0%	0%	-1%	-1%	-1%	-1%
	400%+	0%	0%	0%	-1%	-1%	-1%	-1%
	Subtotal	0%	0%	0%	-1%	-1%	-1%	-1%
2 (Preferred)	133-150%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	151-200%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	201-250%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	251-300%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	301-350%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	351-399%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	400%+	-1%	-1%	-1%	-1%	-1%	-1%	-1%
	Subtotal	-1%	-1%	-1%	-1%	-1%	-1%	-1%
BG1s	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other Small Groups	All	1%	1%	1%	1%	1%	1%	1%
All Individual	All	-1%	-1%	-1%	-1%	-1%	-1%	-1%
All Small Group	All	1%	1%	1%	1%	1%	1%	1%

Rhode Island Rating Impact of Market Merger

Scenario

BG1 market:	Individual only	
Year:	**2017**	
NG-SG Rates differ for Reinsurance?	Yes	<-Reinsurance varies by year.
NG-SG Rates differ for Admin?	Yes	
Are rating impacts after subsidies?	Yes	
Include Impact of Pent-up Demand?	Yes	<-Pent-up demand varies by year.

Markets Are Merged

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-84%	-84%	-83%	-81%	-79%	-77%	-80%
	151-200%	-77%	-77%	-75%	-74%	-72%	-71%	-73%
	201-250%	-63%	-63%	-62%	-61%	-60%	-60%	-61%
	251-300%	-53%	-53%	-48%	-47%	-47%	-48%	-49%
	301-350%	-53%	-53%	-40%	-36%	-36%	-38%	-39%
	351-399%	-53%	-53%	-40%	-27%	-28%	-31%	-34%
	400%+	-53%	-53%	-40%	-25%	-3%	11%	-6%
	Subtotal	-61%	-60%	-57%	-49%	-29%	-29%	-37%
2 (Preferred)	133-150%	-59%	-59%	-61%	-64%	-68%	-72%	-64%
	151-200%	-39%	-39%	-44%	-51%	-58%	-65%	-52%
	201-250%	-5%	-5%	-15%	-28%	-40%	-52%	-27%
	251-300%	21%	21%	17%	-1%	-20%	-38%	-10%
	301-350%	21%	21%	35%	20%	-4%	-26%	-3%
	351-399%	21%	21%	35%	36%	8%	-17%	9%
	400%+	21%	21%	35%	41%	46%	35%	35%
	Subtotal	1%	3%	-4%	-5%	7%	-14%	-4%
BG1s	All	23%	23%	9%	2%	-4%	-8%	1%
Other Small Groups	All	25%	25%	11%	4%	-2%	-6%	3%
All Individual	All	-35%	-33%	-22%	-24%	-14%	-26%	-25%
All Small Group	All	25%	25%	11%	4%	-3%	-6%	3%

Rhode Island Rating Impact if Non-Group and Small Group Markets Were Not Merge

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-83%	-83%	-82%	-80%	-77%	-75%	-79%
	151-200%	-76%	-76%	-74%	-72%	-70%	-69%	-71%
	201-250%	-63%	-63%	-61%	-60%	-58%	-58%	-60%
	251-300%	-52%	-52%	-47%	-46%	-45%	-46%	-47%
	301-350%	-52%	-52%	-39%	-34%	-34%	-36%	-37%
	351-399%	-52%	-52%	-39%	-26%	-26%	-29%	-32%
	400%+	-52%	-52%	-39%	-23%	-1%	13%	-5%
	Subtotal	-60%	-59%	-56%	-48%	-27%	-27%	-35%
2 (Preferred)	133-150%	-57%	-57%	-59%	-62%	-65%	-70%	-61%
	151-200%	-37%	-37%	-42%	-48%	-55%	-62%	-50%
	201-250%	-3%	-3%	-13%	-25%	-37%	-49%	-24%
	251-300%	23%	23%	20%	1%	-17%	-35%	-7%
	301-350%	23%	23%	37%	23%	-1%	-23%	0%
	351-399%	23%	23%	37%	39%	11%	-14%	11%
	400%+	23%	23%	37%	43%	49%	37%	38%
	Subtotal	3%	6%	-1%	-3%	10%	-12%	-1%
BG1s	All	25%	25%	11%	4%	-2%	-6%	3%
Other Small Groups	All	23%	23%	9%	2%	-4%	-7%	1%
All Individual	All	-33%	-31%	-20%	-22%	-12%	-23%	-22%
All Small Group	All	23%	23%	10%	2%	-4%	-7%	2%

Rhode Island Rating Impact Differential between Merged Market and Separate Mark

Current Pool	FPL	0-18	19-24	25-34	35-44	45-54	55-64	Overall
1 (Guaranteed Issue)	133-150%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	151-200%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	201-250%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	251-300%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	301-350%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	351-399%	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	400%+	-1%	-1%	-1%	-1%	-2%	-2%	-2%
	Subtotal	-1%	-1%	-1%	-1%	-2%	-2%	-2%
2 (Preferred)	133-150%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	151-200%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	201-250%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	251-300%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	301-350%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	351-399%	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	400%+	-2%	-2%	-3%	-3%	-3%	-3%	-3%
	Subtotal	-2%	-2%	-3%	-3%	-3%	-3%	-3%
BG1s	All	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Other Small Groups	All	2%	2%	2%	2%	2%	2%	2%
All Individual	All	-2%	-2%	-2%	-2%	-2%	-2%	-2%
All Small Group	All	2%	2%	2%	1%	1%	1%	1%

Appendix D: Sample Calculation of Market Merger Impact

Step 1: Baseline Adjusted. The 2010 average premiums, adjusted for ACA requirements were approximately $400 PMPM for small group and $350 PMPM for individual.

Step 2: Morbidity Change. We do not expect the morbidity of the small group market to change significantly, but as mentioned previously, we have assumed that the morbidity of the individual market will increase approximately 5%.

Step 3: Admin. Remove the respective percentage of admin and profit realized in 2010 from the small group and individual adjusted premium figures. The small group information provided by the carriers reflects admin that is about 2.5% higher than the individual market.

Step 4: Benefit design levels. In order to obtain a claim cost PMPM figure, we divided the results through Step 3 by the respective average actuarial values for all plans. Small group plans in 2010 were about 14% richer than individual plans.

Step 5: Age differences. To account for differences in case mix, we normalized for the average age factors in the small group and individual markets. The small group plans were about 10% lower risk strictly due to age than individual plans.

Step 6: Calculate the morbidity relationship between the two markets based on steps 1-5. The small group market has approximately 2% higher morbidity (normalized for case mix) than the projected individual market.

Step 7: Projected membership mix. Under the ACA, the Who Goes Where analysis showed that small groups would have approximately 93,000 lives, and the individual market would have about 70,000 lives.

Step 8: Calculate results. The results indicate that if markets were merged, small group rates would decrease about 1%, and individual rates would increase about 1%.