



# STATE OF RHODE ISLAND OFFICE OF THE ATTORNEY GENERAL

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*Peter F. Neronha*  
*Attorney General*

August 5, 2023  
Via Electronic Mail Only  
Mr. Cory King  
Acting Health Insurance Commissioner  
Office of the Health Insurance Commissioner  
[Cory.King@ohic.ri.gov](mailto:Cory.King@ohic.ri.gov)

## **In Re: Rates Filed for 2024 Blue Cross Blue Shield Rhode Island in Large, Small, and Individual markets.**

Dear Commissioner King:

The Rhode Island Office of the Attorney General objects to Blue Cross Blue Shield's (BCBS) requested rate increase of 9.4% for the individual market, 5.8% for the small group market, and 10.2% for the large group market. The Attorney General's objections are based on actuarial findings and the unaffordability of the proposed rates. Our Office asks that you exercise your authority to consider the financial strain this will place on Rhode Islanders and deny BCBS's requested rates in each market to hold rates flat from last year.

### **Preliminary Statement**

The Attorney General addresses the Office of the Health Insurance Commissioner in his distinct role in this rate review: to represent, protect and advocate for Rhode Islanders who are consumers of insurance products both now and in the future. R.I. Gen. Laws § 27-36-1. Moreover, this comment addresses Blue Cross Blue Shield's individual filing, which the Office of the Attorney General has a distinct role in reviewing. Insurers in the individual market have a regulatory obligation to provide individual filings to this office for review. R.I. Gen. Laws § 27-19-6. In addition, as the State's Health Care Advocate, the Attorney General is obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of this State. R.I. Gen. Laws § 42-9.1-1. Thus, this Office has the obligation and authority to review all three of Blue Cross Blue Shield's rate increase requests.

The mission of the Office of the Health Insurance Commissioner is to protect health care access, affordability, and quality. Here, OHIC has the opportunity to reaffirm its commitment to its mission by rejecting the unnecessary rate increases requested by BCBS. This Office encourages OHIC to do so and keep insurance in all markets affordable.

### **Actuarial analysis**

The Office of Attorney General is charged with representing, protecting and advocating for the rights of consumers, including hiring experts, even if a rate hearing was not triggered. *See* R.I. Gen. Laws § 27-36-1; *see also* R.I. Gen. Laws § 27-36-2(a). Consistent with that obligation, an actuarial analysis of BCBS's Individual, Small, and Large group market rates were conducted and are submitted in support of this public comment.

#### *i. Individual Market*

The actuaries hired by the Office of the Attorney General reviewed BCBS's individual market filing; however, the insurer did not provide complete responses to all inquiries requested by this Office. However, despite a lack of complete information that would allow for an actuarial recommendation, the team was able to observe several areas that demonstrate the rates can be reasonably decreased. BCBS's medical and pharmacy trend projections are significantly higher than what historical results would suggest is reasonable, and the actuaries believe this trend assumption should therefore be reduced.<sup>1</sup> Moreover, based upon the information provided, decreases to both the risk adjustment and contribution to reserve factors would be reasonable and we encourage the Acting Commissioner to consider making these decreases.<sup>2</sup> Thus, the Office of the Attorney General recommends that BCBSRI's requested rate for its Individual Market filing be rejected or reduced.

#### *ii. Small Group Market*

The team of actuaries hired to review BCBS's Rhode Island Small Group found two components that could be reasonably decreased resulting in a lower increase premium rate. First, it would be reasonable to reduce the trend assumption, and in fact up to a 0.8% reduction would be reasonable, leading to a reduction in the requested rate of -1.4%.<sup>3</sup> Second, BCBS's Contribution of Surplus could be reduced by 1%.<sup>4</sup> These two reasonable reductions in conjunction with other small

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<sup>1</sup> Lewis & Ellis BCBSRI Individual Filing analysis page 10.

<sup>2</sup> *Id.*

<sup>3</sup> Lewis & Ellis BCBSRI Small Group Analysis page 10.

<sup>4</sup> *Id.*

adjustments would result in a reduction of 2.2% from the requested rate, which would benefit the consumer. Thus, we urge the Acting Commissioner to reject or reduce the requested rate increase.

*iii. Large Group Market*

After review of BCBS's filings, the actuaries found similar areas that can be reasonably decreased in the Large Group Market as in the other two markets. BCBS's medical and pharmacy trend projections are significantly higher than what historical results would suggest is reasonable and therefore the 6.7% average trend assumption could be reduced.<sup>5</sup> Moreover, it would be reasonable to reduce BCBS's contribution to surplus, which would further decrease the overall rate increase.<sup>6</sup> Thus, the Office of the Attorney General urges the Acting Commissioner to reduce or reject the requested rate.

**Unaffordability of the Requested Rate Increase**

Blue Cross Blue Shield insures over 120,000 Rhode Islanders, more than any other insurance company in the market.<sup>7</sup> Rhode Islanders are continuing to feel the pain of post-pandemic inflation in all sectors. The State has yet to recover all of the jobs it lost during the pandemic.<sup>8</sup> It is expected that Rhode Island will not recover these jobs until the end of 2024.<sup>9</sup> 98.9% of all Rhode Island businesses qualify as small businesses.<sup>10</sup> Over half of the population of the State is employed by a small business.<sup>11</sup> A majority of small businesses pay half of their employee's premiums, thus an increase in rates impacts employees and employers alike.<sup>12</sup> The average cost for

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<sup>5</sup> Lewis & Ellis BCBSRI Large Group Analysis page 7.

<sup>6</sup> *Id.*

<sup>7</sup> Office of the Health Insurance Commissioner "2024 Requested Commercial Health Insurance Rates Have Been Submitted to OHC for Review." June 16, 2023, <https://ohic.ri.gov/sites/g/files/xkgbur736/files/2023-06/Rate%20Review%20Process%20Press%20Release%20-%20Requested%20Rates.pdf>

<sup>8</sup> Rhode Island Current, "R.I recession predictions abated but job recover still lags," May 2, 2023, <https://rhodeislandcurrent.com/2023/05/02/r-i-recession-predictions-abated-but-job-recovery-still-lags/>

<sup>9</sup> Rhode Island Current, "R.I recession predictions abated but job recover still lags," May 2, 2023, <https://rhodeislandcurrent.com/2023/05/02/r-i-recession-predictions-abated-but-job-recovery-still-lags>

<sup>10</sup> U.S Small Business Administration, Office of Advocacy, "2022 Small Business Profile," <https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-RI.pdf#:~:text=Opening%20and%20expanding%20Rhode%20Island%20establishments%20added%2037%2C085,lost%2044%2C004%2C%20for%20a%20net%20decrease%20of16%2C017%20jobs>.

<sup>11</sup> U.S Small Business Administration, Office of Advocacy, "2022 Small Business Profile," <https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-RI.pdf#:~:text=Opening%20and%20expanding%20Rhode%20Island%20establishments%20added%2037%2C085,lost%2044%2C004%2C%20for%20a%20net%20decrease%20of16%2C017%20jobs>

<sup>12</sup> Nerdwallet, "How Much Does Small-Business Health Insurance Cost," February 14, 2022, <https://www.nerdwallet.com/article/small-business/how-much-does-small-business-health-insurance->



more than 50% chance of economic downturn in an untenable request for Rhode Islanders to bear. According to OHIC's Affordability Standards, the Commissioner may consider whether the health insurance product is affordable, and whether the carrier has implemented effective strategies to enhance the affordability of its products.<sup>22</sup> Given the current economic struggles faced by Rhode Islanders, the Attorney General strongly urges you to exercise your discretion to reject Blue Cross Blue Shield's requested rate increases and hold premiums level with last year.

If the Acting Commissioner determines that rate increases are required, the Office of the Attorney General Recommends the Individual market rate is limited to no more than a 6.3% increase, the Small Group market is limited to no more than a 3.6% increase, and the Large Group Market is limited to no more than a 7.6% increase.

Respectfully Submitted,

PETER F. NERONHA  
ATTORNEY GENERAL

By:

*/s/ Sarah W. Rice*

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<sup>22</sup> OHIC's Affordable Standards (Current Version: Effective June 2020)  
<https://ohic.ri.gov/sites/g/files/xkgbur736/files/2022-03/230-ricr-20-30-4-final-sos.pdf>

August 2, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Blue Cross and Blue Shield of Rhode Island  
2024 Large Group Rate Filing  
SERFF# BCBS-133633817

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, Inc's (L&E) actuarial analysis regarding the proposed 2024 Large Group Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating the proposed rates.

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## FILING DESCRIPTION

1. BCBSRI is a not-for-profit insurer that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for BCBSRI's commercial major medical insurance that will be offered in the Large Group market beginning January 1, 2024.
2. BCBSRI submitted proposed rates on May 1, 2023, with a 10.2% average rate increase. BCBSRI revised its filing during the review to address several issues, refining estimated incurred claims, corrections in the rating template, etc. The revisions had minimal impact on the proposed rates, and the requested average rate increase remained at 10.2%. This report's analysis is based on those proposed rates.

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## PURPOSE AND SCOPE

Pursuant to Rhode Island Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery.

The OAG has engaged L&E to perform an actuarial review of BCBSRI's 2023 filing for 2024 large group market rates. This letter is to assist the OAG in evaluating the proposed rates. L&E's

observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

BCBSRI provided the methodology used to develop the proposed 2024 Large Group market premiums. The Company provided exhibits that demonstrated the quantitative development for each component of the premium request, including trend, federal programs, administrative costs, and taxes and fees.

BCBSRI provided additional exhibits and information as requested during the rate review process; however, BCBSRI did not provide complete responses to all inquiries as requested by the OAG.

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## L&E ANALYSIS

The items outlined below are key filing assumptions for the proposed 10.2% rate increase.

### 1. TREND

#### Utilization Trends

The base period for claims experience is calendar year (CY) 2022. Because of the various care disruptions related to the Covid-19 virus beginning in 2020, the historical claims experience must be assessed carefully.

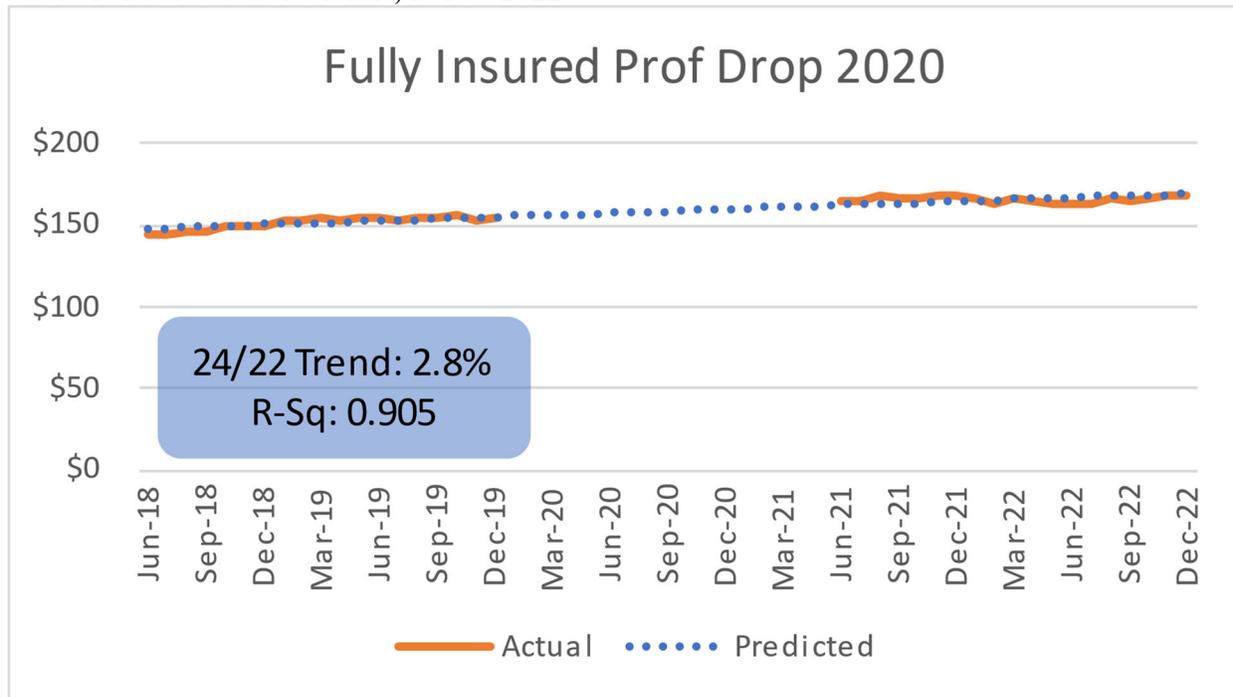
BCBSRI's typical methodology for developing utilization/mix trends is to use a linear regression model with three years of allowed claims on a per member per month (PMPM) basis. These allowed claims are normalized for changes due to influences other than utilization or mix. During the review of the 2023 plan year rates, it was discovered that the Company was not appropriately normalizing its claim data for the impact of its population's average age. This was revised prior to finalizing the plan year 2023 rates; therefore, the analysis used to develop the utilization trends for 2024 appropriately accounted for the impact of aging.

Due to Covid-19 disruptions impacting inpatient, outpatient, and professional services, BCBSRI revised its methodology to use claims from 2018 to 2022, with 2020 excluded. The Company analyzed the adjusted claims by using rolling 6-month averages. An example of this analysis is shown for the professional category in Chart 1, and the analysis results for all service categories are summarized in Table 1.

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<sup>1</sup> This is based on Actuarial Standards of Practice No. 8  
<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

**Chart 1: Professional Claims, 2018 - 2022**



BCBSRI used this adjusted regression analysis for all service categories except for pharmacy. For pharmacy claims, a rolling 12-month average approach was used. By reviewing Chart 2 below, it is clear that the pandemic had a minimal impact on pharmacy utilization trends. L&E believes BCBSRI’s proposed pharmacy trend assumption is consistent with the historical data and reasonable for 2024.

**Chart 2: Pharmacy Claims, 2020 – 2022**

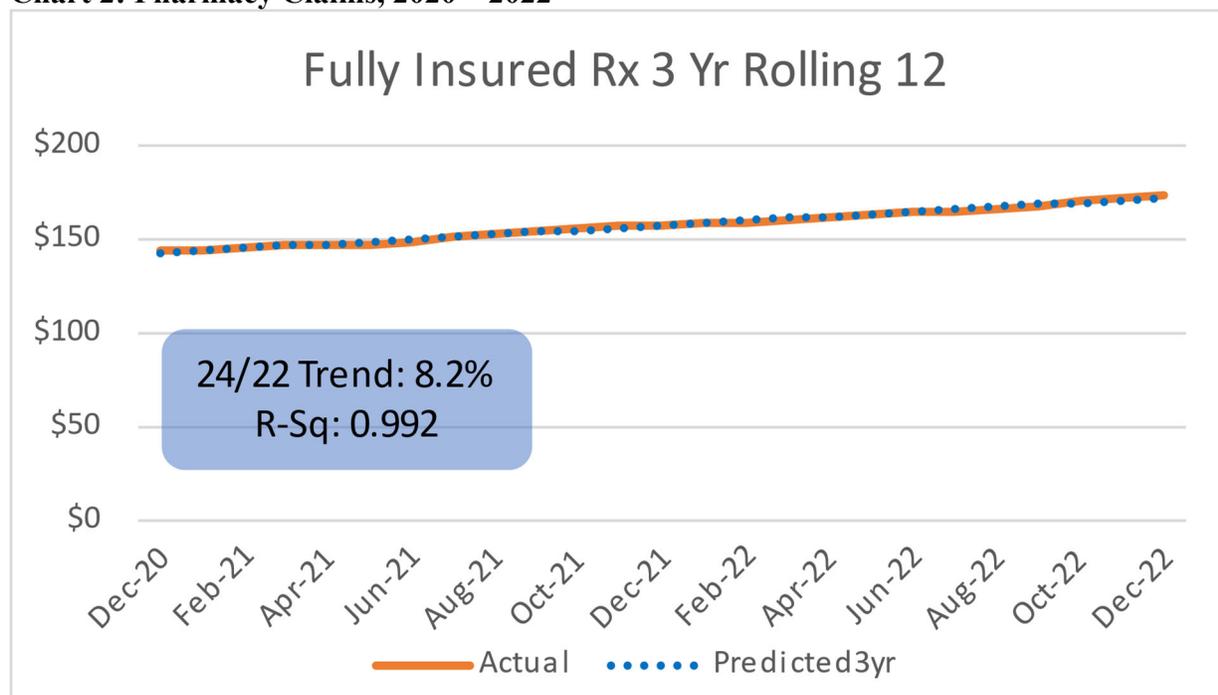


Table 1 shows the results of the regression analysis by service category.

**Table 1: Utilization Trend Regression Analysis Results**

Service Category	Utilization Trends
Inpatient	-2.4%
Outpatient	2.2%
Professional	2.8%
Pharmacy	8.2%

**Unit Cost Trends**

Cost projection factors are developed for inpatient, outpatient, and professional services. These factors represent anticipated unit price increases from the 2022 experience period to the 2024 rating period. BCBSRI’s Enterprise Analytics team estimates these price projection factors based on actual provider contract changes to date and best estimates of price changes for provider contracts not yet finalized. This methodology is consistent with the approach used in last year’s 2023 rate development.

For the 2023 filing, BCBS’s best estimate for the 2<sup>nd</sup> year unit cost trends resulted in an initial weighted average IP & OP hospital cost trend of 7.2%. This was primarily based on unknown contracts at the time of rate development being based on the Company’s best estimate of CPI-U as of October, plus 1%. The retrospective estimate for 2023 is now 6.3%. Given the conservatism

exhibited in the prior year as well as the general direction of CPI-U during 2023 (i.e., June 2023 CPI less food and energy was 4.8%), L&E believes that the current estimate for 2024 unknown contracts is conservative.

### Aggregate Trends

To analyze aggregate trends, BCBSRI provided monthly allowed claims, paid claims, and enrollment from January 2018 through December 2022. Additionally, BCBSRI provided the average age and benefit factors for each calendar year. Using this data, L&E developed historical normalized allowed claims PMPMs for 2018 to 2022. The resulting annualized medical and pharmacy allowed claims trends are significantly lower than BCBSRI's trend assumptions.

**Table 2: Normalized Medical and Pharmacy Allowed Claims PMPM**

Year	Normalized Medical Allowed (PMPM)	Normalized Pharmacy Allowed (PMPM)
2018	\$355.27	\$118.55
2019	\$374.96	\$121.73
2020	\$323.43	\$117.75
2021	\$391.65	\$130.63
2022	\$405.75	\$146.59

**Table 3: Annualized Medical and Pharmacy Allowed Claims Trend**

Year	Medical Allowed Annualized Trend	Pharmacy Allowed Annualized Trend
<b>Annualized Trend from 2018 to 2022</b>	3.4%	5.5%
<b>Annualized Trend from 2019 to 2022</b>	2.7%	6.4%

## 2. COVID-19 CLAIMS

BCBSRI included a Covid-19 claims adjustment of 0.988. This factor was developed by analyzing the number of Covid-19 claims present in 2022 on a PMPM basis, trending it to 2024, and comparing this to projected 2024 Vaccine/Testing Costs. The 2022 Vaccine/Testing Costs Trended to 2024 are projected to be \$8.49 compared to the Projected 2024 Vaccine/Testing costs of \$2.55 PMPM, resulting in a difference of \$5.95 PMPM. The \$2.55 PMPM costs for 2024 Covid-19 testing and vaccine administration expense used 2022 claims experience and assumed a continued decrease in utilization of vaccines by 50% and a 70% reduction in testing. Additionally, this amount included an expected cost difference of \$0.08 PMPM to account for inpatient cost sharing for Covid-19 admissions no longer being waived, as well as the expected cost difference of -\$1.44 PMPM for Prior Authorization requirements being waived during the public health emergency.

The projected total costs were then divided by the trended EHB allowed claims PMPM. The 0.988 factor was then applied to the projected 2024 expected claims.

**Table 7: Covid-19 Reduction Factor Development**

<b>COVID Adjustment</b>	<b>Allowed PMPM</b>
<b>Testing and Vaccine Cost Reduction</b>	<b>(\$5.95)</b>
<b>Inpatient Cost Share Waiver</b>	<b>(\$0.08)</b>
<b>Reinstate Prior Authorizations</b>	<b>(\$1.44)</b>
<b>Total COVID Adjustment</b>	<b>(\$7.47)</b>

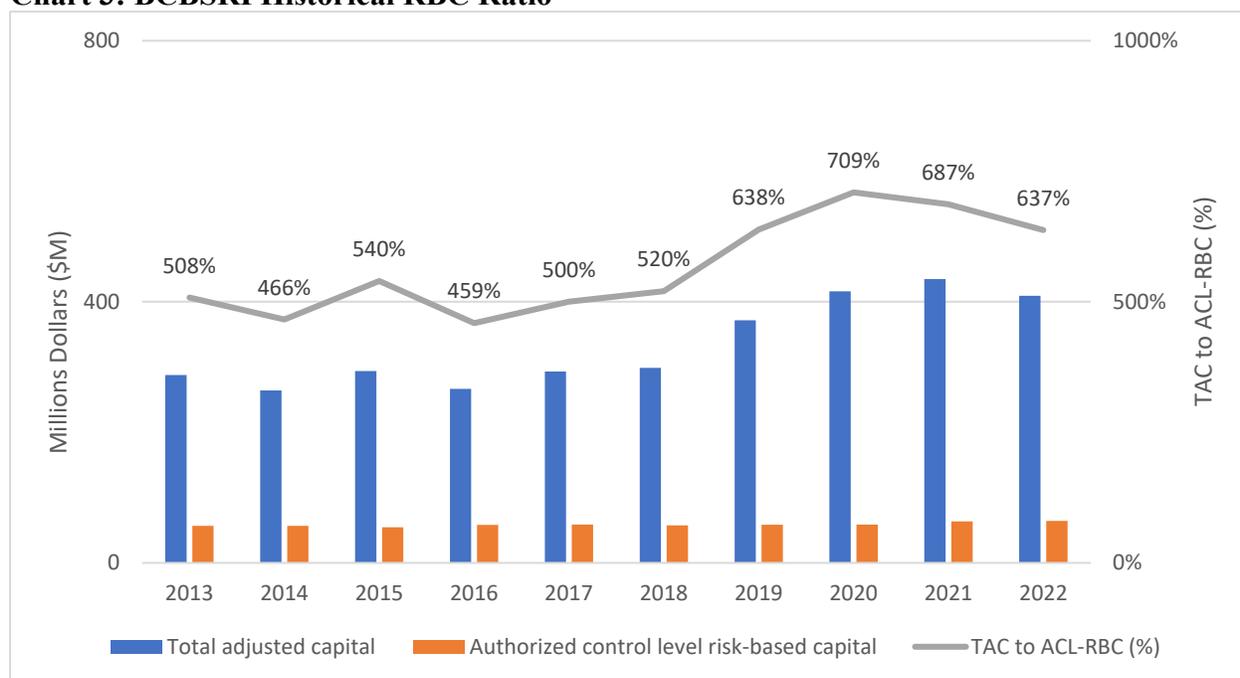
<b>Covid-19 Reduction Factor Development</b>	
<b>Total COVID Adjustment</b>	<b>(\$7.47)</b>
<b>Trended Allowed Claims PMPM</b>	<b>\$623.13</b>
<b>COVID Adjustment Factor</b>	<b>0.988</b>

L&E reviewed changes to the reduction factor if the Covid-19 impact on 2024 was based on different assumptions than the 50% reduction in vaccines and 70% reduction in testing, and the resulting impact was minimal. Due to the limited variability, L&E considers the Company's expected decrease in Covid-19's impact on 2024 claims versus 2022 to be reasonable and appropriate.

### 3. CONTRIBUTION TO SURPLUS:

After paying for administrative and claims costs, BCBSRI, as a not-for-profit entity, places any excess funds into an unassigned funds account (i.e., surplus). This surplus is set aside to protect consumers from unexpected adverse financial conditions realized by the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. Since 2019, BCBSRI's RBC ratio has remained above historical norms, as shown below:

**Chart 3: BCBSRI Historical RBC Ratio**

Prior to the Covid-19 pandemic, BCBSRI included a 4.0% contribution to surplus (i.e., margin) in their rates. For 2021, the Company reduced the requested margin to 2.0% in recognition of the favorable claims experience resulting from the pandemic. For 2022, BCBSRI proposed increasing the surplus margin assumption to 2.5%; however, this was reduced to 0% by OHIC. BCBSRI filed a 1% contribution to reserve for 2023 and 2% in the current filing for 2024.

L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable. A contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

## OBSERVATIONS

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

### 1. TRENDS

The inpatient hospital, outpatient hospital and professional unit cost trends are based on a prospective approach and utilizes BCBSRI's best estimate for contracts that are unknown at the time of pricing. L&E notes that CPI-U has been reducing in recent months and it appears that the Company's assumption for unit costs is conservative.

Additionally, the assumed medical and Rx trends are significantly higher than what historical results would suggest is reasonable. L&E believes the current 6.7% average trend assumption could be reduced. L&E believes that a reduction in the range of -0.3% to -0.8% would be reasonable and appropriate. The 0.3% reduction is based on reducing the IP, OP and

Professional 2<sup>nd</sup> year unit cost trends by 0.5%. The 0.8% reduction is derived from a combination of changes (e.g., 0.5% reduction on all Utilization trends in addition to the 0.5% reduction in 2<sup>nd</sup> year unit cost trends for all benefit categories).

These changes would produce an approximate 0.4% to 1.6% rate decrease.

## 2. CONTRIBUTION TO SURPLUS:

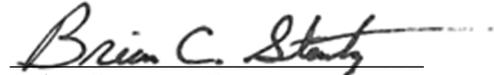
L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable, and a contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

### IMPACT ON OVERALL 2024 PROPOSED RATES

The following table summarizes the range of reasonable 2024 rate changes based on L&E's rate review, analysis, and assessment of the underlying filing assumptions:

Component	Low	High
<b>BCBSRI Proposal</b>	+10.2%	+10.2%
<b>Trends</b>	-1.6%	-0.4%
<b>Contribution to Surplus</b>	-1.0%	+1.0%
<b>BCBSRI Adjusted</b>	<b>+7.6%</b>	<b>+10.8%</b>

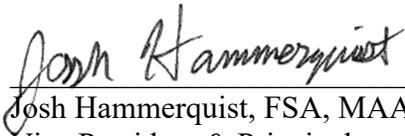
Sincerely,



Brian Stentz, ASA, MAAA  
Consulting Actuary  
Lewis & Ellis, Inc.



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



Josh Hammerquist, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, Inc.

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## ASOP 41 DISCLOSURES

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

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

### IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

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

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 2, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 27, 2023.

### DISCLOSURES IN ACTUARIAL REPORTS

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

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

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

- L&E is aware that there may be subsequent events which could have a material impact on our observations. These include, but may not be limited to, the Covid-19 virus.
- There are no other documents or files that accompany this report.

#### **ACTUARIAL OBSERVATIONS**

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

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

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

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

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

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

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

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

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

August 2, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Blue Cross and Blue Shield of Rhode Island  
2024 Small Group Rate Filing  
SERFF# BCBS-133633617

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, Inc's (L&E) actuarial analysis regarding the proposed 2024 Small Group Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating the proposed rates.

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## FILING DESCRIPTION

1. BCBSRI is a not-for-profit insurer that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for BCBSRI's Qualified Health Plans (QHPs) that will be offered both off and on HealthSource Rhode Island (HSRI) beginning January 1, 2024.
2. BCBSRI submitted proposed rates on May 1, 2023, with a 5.9% average rate increase. BCBSRI revised its filing during the review to address several issues, such as revising several plan designs that didn't comply with final IRS guidelines, corrections in the rating template, etc. The revisions had minimal impact on the proposed rates, with the requested average rate increase lowered to 5.8%. This report's analysis is based on those proposed rates.

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## PURPOSE AND SCOPE

Pursuant to Rhode Island Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island."

The OAG has engaged L&E to perform an actuarial review of BCBSRI's 2023 filing for 2024 small group market ACA rates. This letter is to assist the OAG in evaluating the proposed rates. L&E's observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

BCBSRI provided the methodology used to develop the proposed 2024 Small Group market premiums. The Company provided exhibits that demonstrated the quantitative development for each component of the premium request, including trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

BCBSRI provided additional exhibits and information as requested during the rate review process; however, BCBSRI did not provide complete responses to all inquiries as requested by the OAG.

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## L&E ANALYSIS

The items outlined below are key filing assumptions for the proposed 5.8% rate increase.

### 1. TREND

#### Utilization Trends

The base period for claims experience is calendar year (CY) 2022. Because of the various care disruptions related to the Covid-19 virus beginning in 2020, the historical claims experience must be assessed carefully.

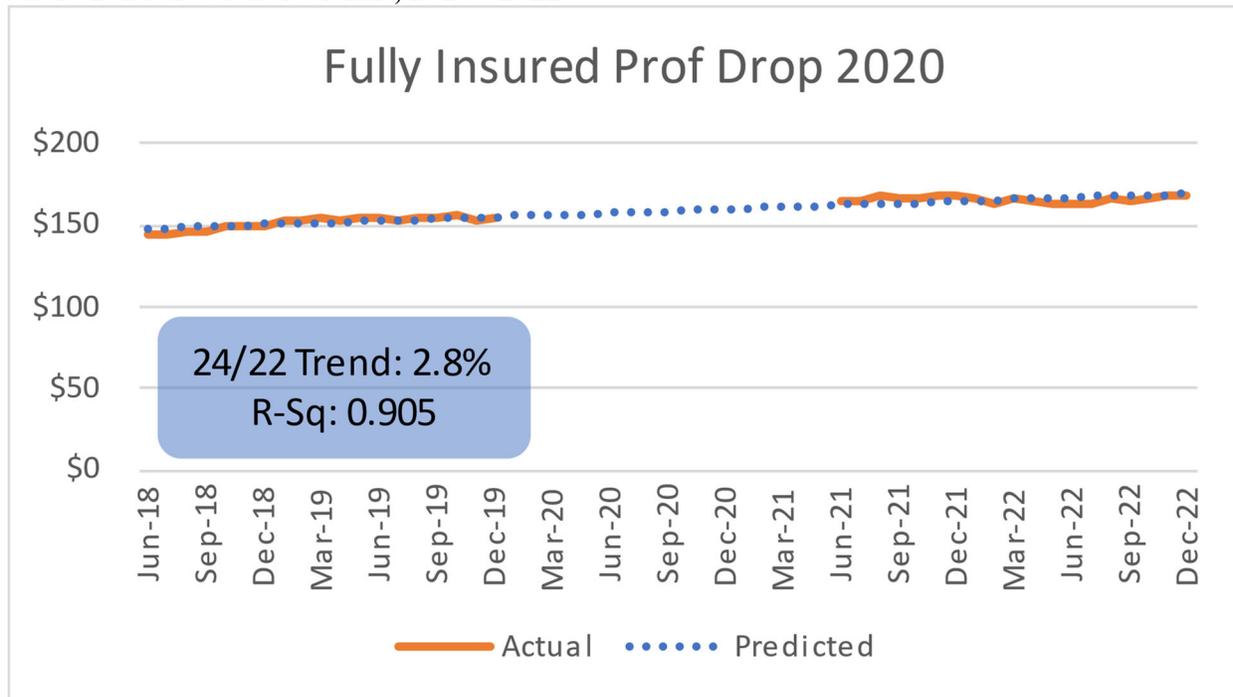
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Due to Covid-19 disruptions impacting inpatient, outpatient, and professional services, BCBSRI revised its methodology to use claims from 2018 to 2022, with 2020 excluded. The Company analyzed the adjusted claims by using rolling 6-month averages. An example of this analysis is shown for the professional category in Chart 1, and the analysis results for all service categories are summarized in Table 1.

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<sup>1</sup> This is based on Actuarial Standards of Practice No. 8  
<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

**Chart 1: Professional Claims, 2018 - 2022**



BCBSRI used this adjusted regression analysis for all service categories except for pharmacy. For pharmacy claims, a rolling 12-month average approach was used. By reviewing Chart 2 below, it is clear that the pandemic had a minimal impact on pharmacy utilization trends. L&E believes BCBSRI’s proposed pharmacy trend assumption is consistent with the historical data and reasonable for 2024.

**Chart 2: Pharmacy Claims, 2020 – 2022**

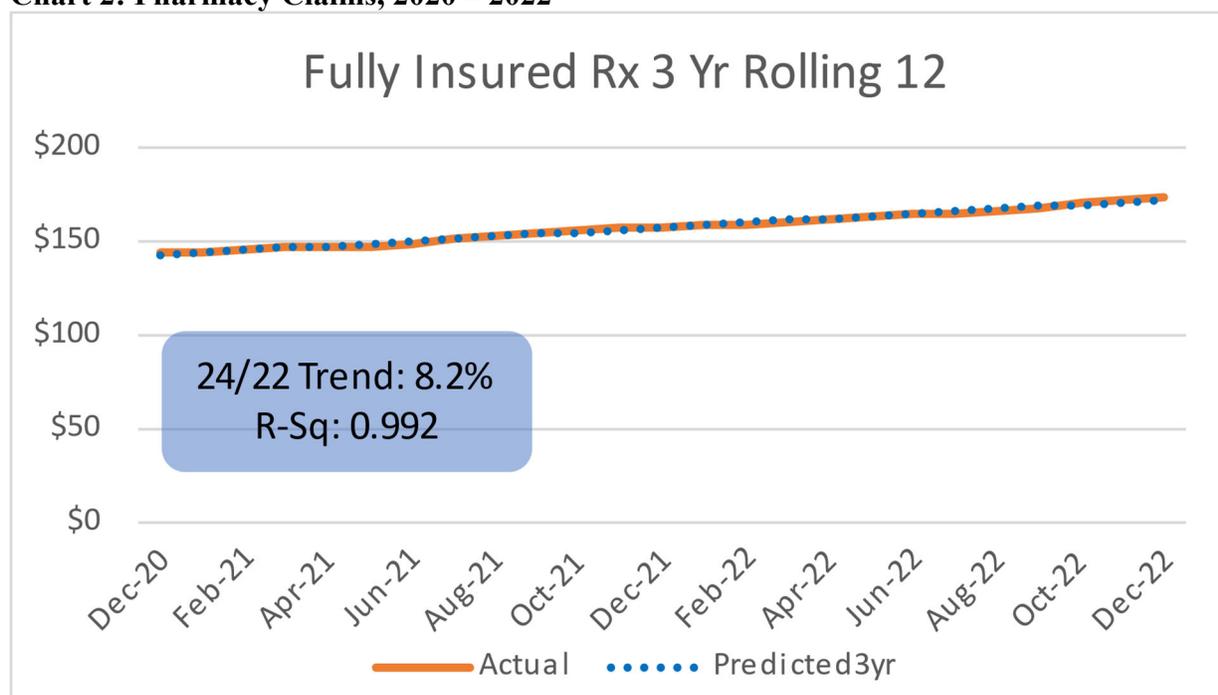


Table 1 shows the results of the regression analysis by service category.

**Table 1: Utilization Trend Regression Analysis Results**

Service Category	Utilization Trends
Inpatient	-2.4%
Outpatient	2.2%
Professional	2.8%
Pharmacy	8.2%

**Unit Cost Trends**

Cost projection factors are developed for inpatient, outpatient, and professional services. These factors represent anticipated unit price increases from the 2022 experience period to the 2024 rating period. BCBSRI’s Enterprise Analytics team estimates these price projection factors based on actual provider contract changes to date and best estimates of price changes for provider contracts not yet finalized. This methodology is consistent with the approach used in last year’s 2023 rate development.

For the 2023 filing, BCBS’s best estimate for the 2<sup>nd</sup> year unit cost trends resulted in an initial weighted average IP & OP hospital cost trend of 7.2%. This was primarily based on unknown contracts at the time of rate development being based on the Company’s best estimate of CPI-U as of October, plus 1%. The retrospective estimate for 2023 is now 6.3%. Given the conservatism

exhibited in the prior year as well as the general direction of CPI-U during 2023 (i.e., June 2023 CPI less food and energy was 4.8%), L&E believes that the current estimate for 2024 unknown contracts is conservative.

### Aggregate Trends

To analyze aggregate trends, BCBSRI provided monthly allowed claims, paid claims, and enrollment from January 2018 through December 2022. Additionally, BCBSRI provided the average age and benefit factors for each calendar year. Using this data, L&E developed historical normalized allowed claims PMPMs for 2018 to 2022. The resulting annualized medical and pharmacy allowed claims trends are significantly lower than BCBSRI's trend assumptions.

**Table 2: Normalized Medical and Pharmacy Allowed Claims PMPM**

Year	Normalized Medical Allowed (PMPM)	Normalized Pharmacy Allowed (PMPM)
2018	\$355.27	\$118.55
2019	\$374.96	\$121.73
2020	\$323.43	\$117.75
2021	\$391.65	\$130.63
2022	\$405.75	\$146.59

**Table 3: Annualized Medical and Pharmacy Allowed Claims Trend**

Year	Medical Allowed Annualized Trend	Pharmacy Allowed Annualized Trend
<b>Annualized Trend from 2018 to 2022</b>	3.4%	5.5%
<b>Annualized Trend from 2019 to 2022</b>	2.7%	6.4%

## 2. RISK ADJUSTMENT:

A company's risk adjustment transfer payment (payable or receivable) is dependent on the Company's morbidity relative to the entire Small Group market and the Small Group market's average premium rate. BCBSRI has consistently received transfer payments from the federal Risk Adjustment program because the Company has a disproportionately sicker population relative to the Rhode Island Small Group market.

BCSRI developed its 2024 risk adjustment estimate by starting with the actual 2021 risk adjustment final payment and the risk adjustment from the 2022 interim transfer report. These values were then trended to 2024 using an assumed statewide premium trend assumption and an estimate for the impact of the high-cost risk pool program.

Prior to 2023, the methodology that BCBSRI used to develop its projected rating period risk adjustment did not include applying a premium trend assumption. The estimate was just an average of the prior two years of risk adjustment. In the 2023 review, L&E noted that risk adjustment is a function of the average premium in the market, so the risk adjustment payment in the experience period should be trended forward to the projection period to account for changes in the statewide average premium. BCBSRI has adopted this approach for the 2024 rating period.

BCBSRI estimated a \$5.73 PMPM risk transfer for 2022, using the methodology described above, which resulted in a net Risk Adjustment of \$2.86 PMPM for 2024. The table below illustrates the approach and final amount.

**Table 4: Risk Adjustment Development Exhibit**

	2021 Final	2022 Interim	Average
<b>Transfer Amount PMPM</b>	\$3.83	\$5.73	
<b>2021-2022 Statewide Premium Trend</b>	1.002		
<b>2022-2023 Statewide Premium Trend</b>	1.092	1.092	
<b>2023-2024 Statewide Premium Trend</b>	1.092	1.092	
<b>Trended Transfer Amount PMPM</b>	\$4.58	\$6.83	\$5.71
<b>High-Cost Risk Pool</b>			\$2.85
<b>Net Risk Adjustment PMPM Projection</b>			\$2.86

On June 30, 2023, the Centers for Medicare and Medicaid Services (CMS) released the final 2022 risk adjustment results. The actual 2022 risk adjustment for BCBSRI in the Small Group market was \$3.74 PMPM. By using the updated risk adjustment value in the Company's current methodology, the new estimated risk adjustment transfer amount is \$1.67 PMPM. This adjustment increases the 2024 proposed rates by an additional 0.2%.

**Table 5: Risk Adjustment Development Exhibit Using Actual 2022 Risk Adjustment**

	2021 Final	2022 Final	Average
<b>Transfer Amount PMPM</b>	\$3.83	\$3.74	
<b>2021-2022 Statewide Premium Trend</b>	1.002		
<b>2022-2023 Statewide Premium Trend</b>	1.092	1.092	
<b>2023-2024 Statewide Premium Trend</b>	1.092	1.092	
<b>Trended Transfer Amount PMPM</b>	\$4.58	\$4.46	\$4.52
<b>High-Cost Risk Pool</b>			\$2.85
<b>Net Risk Adjustment PMPM Projection</b>			\$1.67

L&E notes that the most common industry approach is to use the risk adjustment for the underlying base year only as opposed to averaging with the prior year's risk adjustment. Using this approach, BCBSRI's assumed 1.092 premium trend assumption results in a 2024 risk adjustment of \$1.60 PMPM. This risk adjustment transfer would increase 2024 premiums by approximately 0.2%.

**Table 6: Alternative Risk Adjustment Development Exhibit**

	2022 Final
<b>Transfer Amount PMPM</b>	\$3.74
<b>2021-2022 Statewide Premium Trend</b>	N/A
<b>2022-2023 Statewide Premium Trend</b>	1.092
<b>2023-2024 Statewide Premium Trend</b>	1.092
<b>Trended Transfer Amount PMPM</b>	\$4.46
<b>High-Cost Risk Pool</b>	\$2.85
<b>Net Risk Adjustment PMPM Projection</b>	\$1.60

### 3. COVID-19 CLAIMS

BCBSRI included a Covid-19 claims adjustment of 0.988. This factor was developed by analyzing the number of Covid-19 claims present in 2022 on a PMPM basis, trending it to 2024, and comparing this to projected 2024 Vaccine/Testing Costs. The 2022 Vaccine/Testing Costs Trended to 2024 are projected to be \$8.49 compared to the Projected 2024 Vaccine/Testing costs of \$2.55 PMPM, resulting in a difference of \$5.95 PMPM. The \$2.55 PMPM costs for 2024 Covid-19 testing and vaccine administration expense used 2022 claims experience and assumed a continued decrease in utilization of vaccines by 50% and a 70% reduction in testing. Additionally, this amount included an expected cost difference of \$0.08 PMPM to account for inpatient cost sharing for Covid-19 admissions no longer being waived, as well as the expected cost difference of -\$1.44 PMPM for Prior Authorization requirements being waived during the public health emergency. The projected total costs were then divided by the trended EHB allowed claims PMPM. The 0.988 factor was then applied to the projected 2024 expected claims.

**Table 7: Covid-19 Reduction Factor Development**

COVID Adjustment	Allowed PMPM
<b>Testing and Vaccine Cost Reduction</b>	(\$5.95)
<b>Inpatient Cost Share Waiver</b>	(\$0.08)
<b>Reinstate Prior Authorizations</b>	(\$1.44)
<b>Total COVID Adjustment</b>	(\$7.47)

Covid-19 Reduction Factor Development	
Total COVID Adjustment	(\$7.47)
Trended Allowed Claims PMPM	\$623.13
COVID Adjustment Factor	0.988

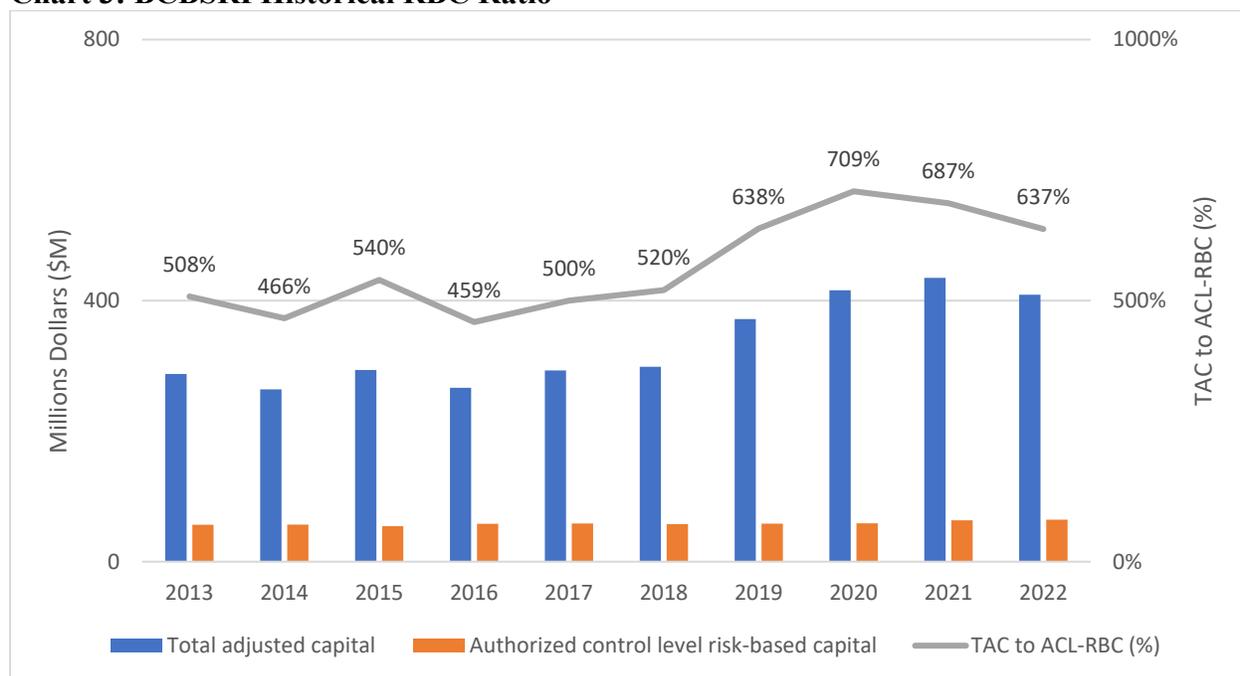
L&E reviewed changes to the reduction factor if the Covid-19 impact on 2024 was based on different assumptions than the 50% reduction in vaccines and 70% reduction in testing, and the resulting impact was minimal. Due to the limited variability, L&E considers the Company's expected decrease in Covid-19's impact on 2024 claims versus 2022 to be reasonable and appropriate.

#### 4. CONTRIBUTION TO SURPLUS:

After paying for administrative and claims costs, BCBSRI, as a not-for-profit entity, places any excess funds into an unassigned funds account (i.e., surplus). This surplus is set aside to protect consumers from unexpected adverse financial conditions realized by the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. Since 2019, BCBSRI's RBC ratio has remained above historical norms, as shown below:

**Chart 3: BCBSRI Historical RBC Ratio**



Prior to the Covid-19 pandemic, BCBSRI included a 4.0% contribution to surplus (i.e., margin) in their rates. For 2021, the Company reduced the requested margin to 2.0% in recognition of the favorable claims experience resulting from the pandemic. For 2022, BCBSRI proposed increasing

the surplus margin assumption to 2.5%; however, this was reduced to 0% by OHIC. BCBSRI filed a 1% contribution to reserve for 2023 and 2% in the current filing for 2024.

L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable. A contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

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## OBSERVATIONS

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

### 1. TRENDS

The inpatient hospital, outpatient hospital and professional unit cost trends are based on a prospective approach and utilizes BCBSRI's best estimate for contracts that are unknown at the time of pricing. L&E notes that CPI-U has been reducing in recent months, and it appears that the Company's assumption for unit costs is conservative.

Additionally, the assumed medical and Rx trends are significantly higher than what historical results would suggest is reasonable. L&E believes the current 7.1% average trend assumption could be reduced. L&E believes that a reduction in the range of -0.3% to -0.8% would be reasonable and appropriate. The 0.3% reduction is based on reducing the IP, OP and Professional 2<sup>nd</sup> year unit cost trends by 0.5%. The 0.8% reduction is derived from a combination of changes (e.g., 0.5% reduction on all Utilization trends in addition to the 0.5% reduction in 2<sup>nd</sup> year unit cost trends for all benefit categories).

These changes would produce an approximate 0.4% to 1.4% rate decrease.

### 2. RISK ADJUSTMENT:

L&E believes that the 2024 risk adjustment transfer amount be determined using the actual 2022 risk adjustment amount as published by CMS on June 30, 2023. Based on the actual 2022 risk adjustment and using the Company's current approach of blending the actual 2021 and 2022 risk adjustment, trended to 2024 results in an increase of +0.2%.

L&E observes that the most common approach in the industry is using the most recent risk adjustment results, trended to 2024. However, this approach would also increase rates by approximately +0.2% and therefore is immaterial.

### 3. CONTRIBUTION TO SURPLUS:

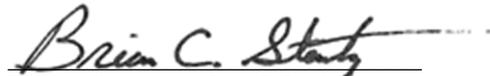
L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable, and a contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

**IMPACT ON OVERALL 2024 PROPOSED RATES**

The following table summarizes the range of reasonable 2024 rate changes based on L&E's rate review, analysis, and assessment of the underlying filing assumptions:

Component	Low	High
<b>BCBSRI Proposal</b>	+5.8%	+5.8%
<b>Trends</b>	-1.4%	-0.4%
<b>Risk Adjustment</b>	+0.2%	+0.2%
<b>Contribution to Surplus</b>	-1.0%	+1.0%
<b>BCBSRI Adjusted</b>	<b>+3.6%</b>	<b>+6.6%</b>

Sincerely,



Brian Stentz, ASA, MAAA  
Consulting Actuary  
Lewis & Ellis, Inc.



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



Josh Hammerquist, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, Inc.

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## ASOP 41 DISCLOSURES

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

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

### IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

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

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 2, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 27, 2023.

### DISCLOSURES IN ACTUARIAL REPORTS

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

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

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

- L&E is aware that there may be subsequent events which could have a material impact on our observations. These include, but may not be limited to, the Covid-19 virus.
- There are no other documents or files that accompany this report.

#### **ACTUARIAL OBSERVATIONS**

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

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

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

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

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

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

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

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

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

August 2, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Blue Cross and Blue Shield of Rhode Island  
2024 Individual Rate Filing  
SERFF# BCBS-133633817

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, Inc's (L&E) actuarial analysis regarding the proposed 2024 Individual Rate Filing for Blue Cross and Blue Shield of Rhode Island (BCBSRI or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating the proposed rates.

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## FILING DESCRIPTION

1. BCBSRI is a not-for-profit insurer that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for BCBSRI's Qualified Health Plans (QHPs) that will be offered on HealthSource Rhode Island (HSRI) beginning January 1, 2024.
2. BCBSRI submitted proposed rates on May 1, 2023, with a 9.3% average rate increase. BCBSRI revised its filing during the review to address several issues, such as revising six plan designs that didn't comply with final IRS guidelines, corrections in the rating template, etc. The revisions had minimal impact on the proposed rates, and the requested average rate increase remained at 9.3%. This report's analysis is based on those proposed rates.

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## PURPOSE AND SCOPE

Pursuant to Rhode Island Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island."

The OAG has engaged L&E to perform an actuarial review of BCBSRI's 2023 filing for 2024 individual market ACA rates. This letter is to assist the OAG in evaluating the proposed rates. L&E's observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

BCBSRI provided the methodology used to develop the proposed 2024 Individual market premiums. The Company provided exhibits that demonstrated the quantitative development for each component of the premium request, including trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

BCBSRI provided additional exhibits and information as requested during the rate review process; however, BCBSRI did not provide complete responses to all inquiries as requested by the OAG.

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## L&E ANALYSIS

The items outlined below are key filing assumptions for the proposed 9.3% rate increase.

### 1. TREND

#### Utilization Trends

The base period for claims experience is calendar year (CY) 2022. Because of the various care disruptions related to the Covid-19 virus beginning in 2020, the historical claims experience must be assessed carefully.

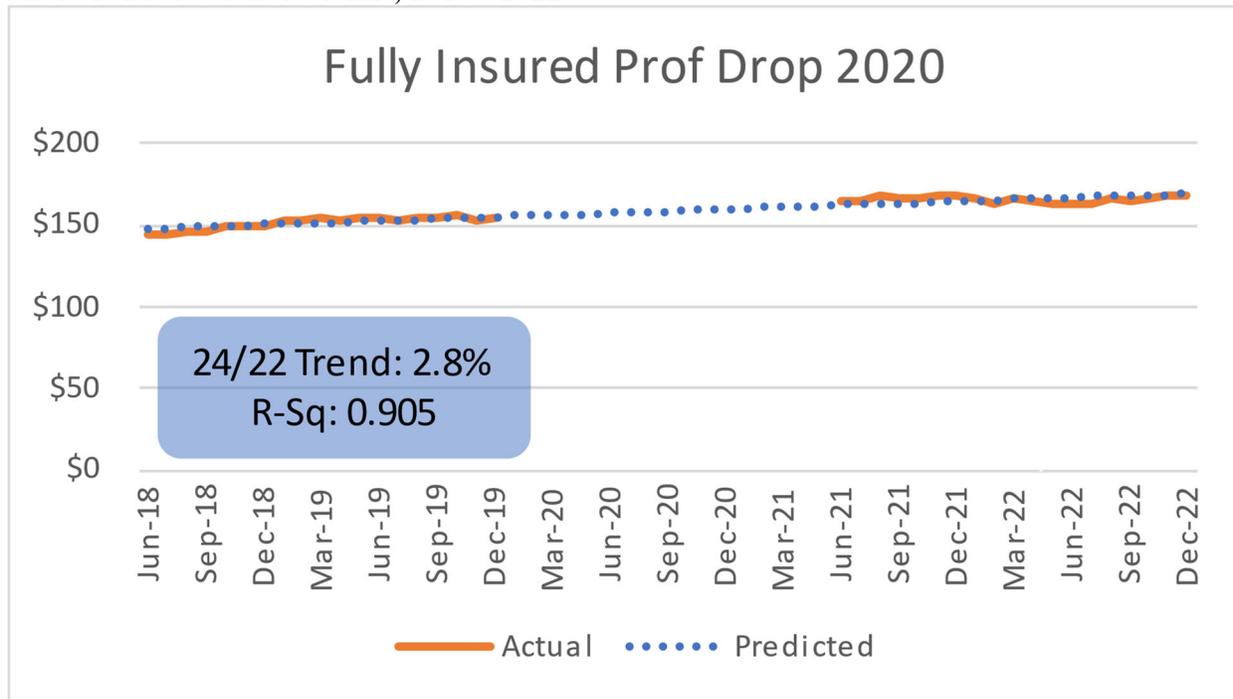
BCBSRI's typical methodology for developing utilization/mix trends is to use a linear regression model with three years of allowed claims on a per member per month (PMPM) basis. These allowed claims are normalized for changes due to influences other than utilization or mix. During the review of the 2023 plan year rates, it was discovered that the Company was not appropriately normalizing its claim data for the impact of its population's average age. This was revised prior to finalizing the plan year 2023 rates; therefore, the analysis used to develop the utilization trends for 2024 appropriately accounted for the impact of aging.

Due to Covid-19 disruptions impacting inpatient, outpatient, and professional services, BCBSRI revised its methodology to use claims from 2018 to 2022, with 2020 excluded. The Company analyzed the adjusted claims by using rolling 6-month averages. An example of this analysis is shown for the professional category in Chart 1, and the analysis results for all service categories are summarized in Table 1.

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<sup>1</sup> This is based on Actuarial Standards of Practice No. 8  
<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

**Chart 1: Professional Claims, 2018 - 2022**



BCBSRI used this adjusted regression analysis for all service categories except for pharmacy. For pharmacy claims, a rolling 12-month average approach was used. By reviewing Chart 2 below, it is clear that the pandemic had a minimal impact on pharmacy utilization trends. L&E believes BCBSRI’s proposed pharmacy trend assumption is consistent with the historical data and reasonable for 2024.

**Chart 2: Pharmacy Claims, 2020 – 2022**

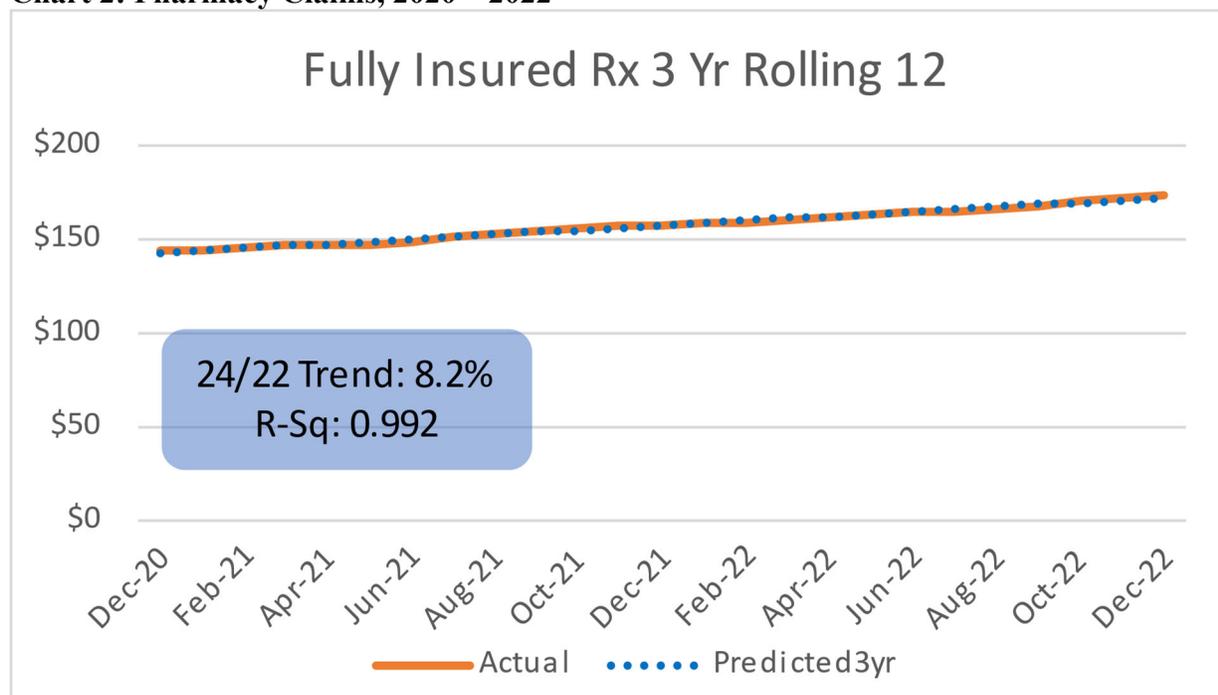


Table 1 shows the results of the regression analysis by service category.

**Table 1: Utilization Trend Regression Analysis Results**

Service Category	Utilization Trends
Inpatient	-2.4%
Outpatient	2.2%
Professional	2.8%
Pharmacy	8.2%

**Unit Cost Trends**

Cost projection factors are developed for inpatient, outpatient, and professional services. These factors represent anticipated unit price increases from the 2022 experience period to the 2024 rating period. BCBSRI’s Enterprise Analytics team estimates these price projection factors based on actual provider contract changes to date and best estimates of price changes for provider contracts not yet finalized. This methodology is consistent with the approach used in last year’s 2023 rate development.

For the 2023 filing, BCBS’s best estimate for the 2<sup>nd</sup> year unit cost trends resulted in an initial weighted average IP & OP hospital cost trend of 7.2%. This was primarily based on unknown contracts at the time of rate development being based on the Company’s best estimate of CPI-U as of October, plus 1%. The retrospective estimate for 2023 is now 6.3%. Given the conservatism

exhibited in the prior year as well as the general direction of CPI-U during 2023 (i.e., June 2023 CPI less food and energy was 4.8%), L&E believes that the current estimate for 2024 unknown contracts is conservative.

### Aggregate Trends

To analyze aggregate trends, BCBSRI provided monthly allowed claims, paid claims, and enrollment from January 2018 through December 2022. Additionally, BCBSRI provided the average age and benefit factors for each calendar year. Using this data, L&E developed historical normalized allowed claims PMPMs for 2018 to 2022. The resulting annualized medical and pharmacy allowed claims trends are significantly lower than BCBSRI's trend assumptions.

**Table 2: Normalized Medical and Pharmacy Allowed Claims PMPM**

Year	Normalized Medical Allowed (PMPM)	Normalized Pharmacy Allowed (PMPM)
2018	\$355.27	\$118.55
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2022	\$405.75	\$146.59

**Table 3: Annualized Medical and Pharmacy Allowed Claims Trend**

Year	Medical Allowed Annualized Trend	Pharmacy Allowed Annualized Trend
<b>Annualized Trend from 2018 to 2022</b>	3.4%	5.5%
<b>Annualized Trend from 2019 to 2022</b>	2.7%	6.4%

## 2. REINSURANCE:

BCBSRI assumes a \$37.15 PMPM payment from the State Reinsurance Program. This estimate was developed by adjusting BCBSRI's actual 2022 individual market claims by two years of claim cost trend and applying the State Reinsurance Program's 2024 parameters. If the assumed trends are revised, the receivable under the Reinsurance Program will also be impacted.

## 3. RISK ADJUSTMENT:

A company's risk adjustment transfer payment (payable or receivable) is dependent on the Company's morbidity relative to the entire Individual market and the Individual market's average premium rate. BCBSRI has consistently received transfer payments from the federal Risk

Adjustment program because the Company has a disproportionately sicker population relative to the Rhode Island Individual market.

BCSRI developed its 2024 risk adjustment estimate by starting with the actual 2021 risk adjustment final payment and the risk adjustment from the 2022 interim transfer report. These values were then trended to 2024 using an assumed statewide premium trend assumption and an estimate for the impact of the high-cost risk pool program.

Prior to 2023, the methodology that BCBSRI used to develop its projected rating period risk adjustment did not include applying a premium trend assumption. The estimate was just an average of the prior two years of risk adjustment. In the 2023 review, L&E noted that risk adjustment is a function of the average premium in the market, so the risk adjustment payment in the experience period should be trended forward to the projection period to account for changes in the statewide average premium. BCBSRI has adopted this approach for the 2024 rating period.

BCBSRI estimated a \$58.13 PMPM risk transfer for 2022, using the methodology described above, which resulted in a net Risk Adjustment of \$58.00 PMPM for 2024. The table below illustrates the approach and final amount.

**Table 4: Risk Adjustment Development Exhibit**

	2021 Final	2022 Interim	Average
<b>Transfer Amount PMPM</b>	\$46.30	\$58.13	
<b>2021-2022 Statewide Premium Trend</b>	1.037		
<b>2022-2023 Statewide Premium Trend</b>	1.061	1.061	
<b>2023-2024 Statewide Premium Trend</b>	1.061	1.061	
<b>Trended Transfer Amount PMPM</b>	\$54.07	\$65.44	\$59.75
<b>High-Cost Risk Pool</b>			\$1.76
<b>Net Risk Adjustment PMPM Projection</b>			\$58.00

On June 30, 2023, the Centers for Medicare and Medicaid Services (CMS) released the final 2022 risk adjustment results. The actual 2022 risk adjustment for BCBSRI in the Individual market was \$55.45 PMPM. By using the updated risk adjustment value in the Company's current methodology, the new estimated risk adjustment transfer amount is \$56.49 PMPM. This adjustment increases the 2024 proposed rates by an additional 0.3%.

**Table 5: Risk Adjustment Development Exhibit Using Actual 2022 Risk Adjustment**

	2021 Final	2022 Final	Average
<b>Transfer Amount PMPM</b>	\$46.30	\$55.45	
<b>2021-2022 Statewide Premium Trend</b>	1.037		
<b>2022-2023 Statewide Premium Trend</b>	1.061	1.061	
<b>2023-2024 Statewide Premium Trend</b>	1.061	1.061	
<b>Trended Transfer Amount PMPM</b>	\$54.07	\$62.42	\$58.24
<b>High-Cost Risk Pool</b>			\$1.76
<b>Net Risk Adjustment PMPM Projection</b>			\$56.49

L&E notes that the most common industry approach is to use the risk adjustment for the underlying base year only as opposed to averaging with the prior year's risk adjustment. Using this approach, BCBSRI's assumed 1.061 premium trend assumption results in a 2024 risk adjustment of \$60.66 PMPM. This risk adjustment transfer would reduce 2024 premiums by approximately 0.5%.

**Table 6: Alternative Risk Adjustment Development Exhibit**

	2022 Final
<b>Transfer Amount PMPM</b>	\$55.45
<b>2021-2022 Statewide Premium Trend</b>	N/A
<b>2022-2023 Statewide Premium Trend</b>	1.061
<b>2023-2024 Statewide Premium Trend</b>	1.061
<b>Trended Transfer Amount PMPM</b>	\$62.42
<b>High-Cost Risk Pool</b>	\$1.76
<b>Net Risk Adjustment PMPM Projection</b>	\$60.66

#### 4. COVID-19 CLAIMS

BCBSRI included a Covid-19 claims adjustment of 0.988. This factor was developed by analyzing the number of Covid-19 claims present in 2022 on a PMPM basis, trending it to 2024, and comparing this to projected 2024 Vaccine/Testing Costs. The 2022 Vaccine/Testing Costs Trended to 2024 are projected to be \$8.49 compared to the Projected 2024 Vaccine/Testing costs of \$2.55 PMPM, resulting in a difference of \$5.95 PMPM. The \$2.55 PMPM costs for 2024 Covid-19 testing and vaccine administration expense used 2022 claims experience and assumed a continued decrease in utilization of vaccines by 50% and a 70% reduction in testing. Additionally, this amount included an expected cost difference of \$0.08 PMPM to account for inpatient cost sharing for Covid-19 admissions no longer being waived, as well as the expected cost difference of -\$1.44 PMPM for Prior Authorization requirements being waived during the public health emergency. The projected total costs were then divided by the trended EHB allowed claims PMPM. The 0.988 factor was then applied to the projected 2024 expected claims.

**Table 7: Covid-19 Reduction Factor Development**

COVID Adjustment	Allowed PMPM
<b>Testing and Vaccine Cost Reduction</b>	(\$5.95)
<b>Inpatient Cost Share Waiver</b>	(\$0.08)
<b>Reinstate Prior Authorizations</b>	(\$1.44)
<b>Total COVID Adjustment</b>	(\$7.47)

Covid-19 Reduction Factor Development	
<b>Total COVID Adjustment</b>	<b>(\$7.47)</b>
<b>Trended Allowed Claims PMPM</b>	<b>\$623.13</b>
<b>COVID Adjustment Factor</b>	<b>0.988</b>

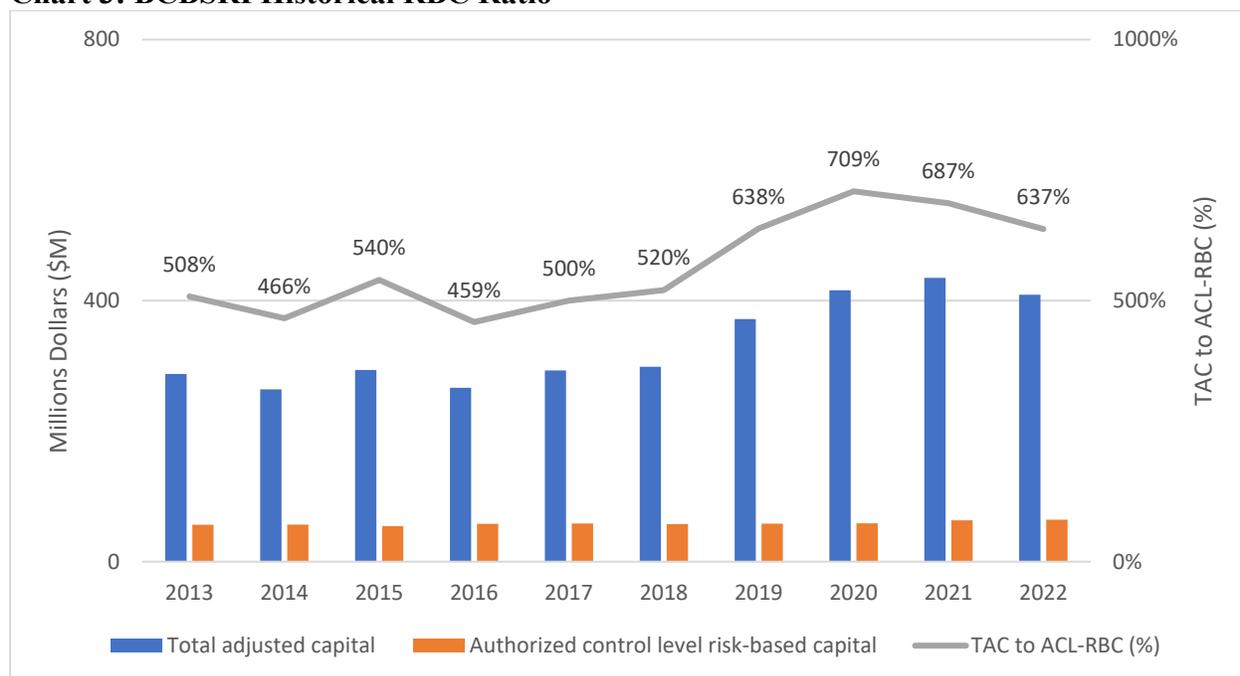
L&E reviewed changes to the reduction factor if the Covid-19 impact on 2024 was based on different assumptions than the 50% reduction in vaccines and 70% reduction in testing, and the resulting impact was minimal. Due to the limited variability, L&E considers the Company's expected decrease in Covid-19's impact on 2024 claims versus 2022 to be reasonable and appropriate.

## 5. CONTRIBUTION TO SURPLUS:

After paying for administrative and claims costs, BCBSRI, as a not-for-profit entity, places any excess funds into an unassigned funds account (i.e., surplus). This surplus is set aside to protect consumers from unexpected adverse financial conditions realized by the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. Since 2019, BCBSRI's RBC ratio has remained above historical norms, as shown below:

**Chart 3: BCBSRI Historical RBC Ratio**



Prior to the Covid-19 pandemic, BCBSRI included a 4.0% contribution to surplus (i.e., margin) in their rates. For 2021, the Company reduced the requested margin to 2.0% in recognition of the favorable claims experience resulting from the pandemic. For 2022, BCBSRI proposed increasing

the surplus margin assumption to 2.5%; however, this was reduced to 0% by OHIC. BCBSRI filed a 1% contribution to reserve for 2023 and 2% in the current filing for 2024.

L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable. A contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

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## OBSERVATIONS

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

### 1. TRENDS

The inpatient hospital, outpatient hospital and professional unit cost trends are based on a prospective approach and utilizes BCBSRI's best estimate for contracts that are unknown at the time of pricing. L&E notes that CPI-U has been reducing in recent months, and it appears that the Company's assumption for unit costs is conservative.

Additionally, the assumed medical and Rx trends are significantly higher than what historical results would suggest is reasonable. L&E believes the current 6.8% average trend assumption could be reduced. L&E believes that a reduction in the range of -0.2% to -0.8% would be reasonable and appropriate. The 0.2% reduction is based on reducing the IP, OP and Professional 2<sup>nd</sup> year unit cost trends by 0.5%. The 0.8% reduction is derived from a combination of changes (e.g., 0.5% reduction on all Utilization trends in addition to the 0.5% reduction in 2<sup>nd</sup> year unit cost trends for all benefit categories).

These changes would produce an approximate 0.4% to 1.6% rate decrease.

### 2. REINSURANCE:

L&E believes that the projected reinsurance receivable be increased by 0% to 0.1% in order to reflect the impact of changes to the utilization and unit cost trend assumption.

### 3. RISK ADJUSTMENT:

L&E believes that the 2024 risk adjustment transfer amount be determined using the actual 2022 risk adjustment amount as published by CMS on June 30, 2023. Based on the actual 2022 risk adjustment and using the Company's current approach of blending the actual 2021 and 2022 risk adjustment, trended to 2024 results in an increase of +0.3%. However, L&E observes

that the most common approach in the industry is using the most recent risk adjustment results, trended to 2024. This approach would decrease rates by approximately -0.5%.

#### 4. CONTRIBUTION TO SURPLUS:

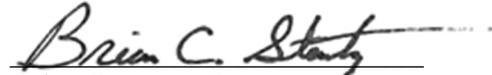
L&E believes that the Company's recent RBC levels are not unreasonable due to the level of current market uncertainty. L&E believes BCBSRI's 2024 2% surplus margin assumption is not unreasonable, and a contribution to surplus ranging from 1% to 3% is typical in the ACA marketplace.

#### IMPACT ON OVERALL 2024 PROPOSED RATES

The following table summarizes the range of reasonable 2024 rate changes based on L&E's rate review, analysis, and assessment of the underlying filing assumptions:

Component	Low	High
<b>BCBSRI Proposal</b>	+9.3%	+9.3%
<b>Trends</b>	-1.6%	-0.4%
<b>Reinsurance</b>	+0.1%	+0.0%
<b>Risk Adjustment</b>	-0.5%	-0.3%
<b>Contribution to Surplus</b>	-1.0%	+1.0%
<b>BCBSRI Adjusted</b>	<b>+6.3%</b>	<b>+10.2%</b>

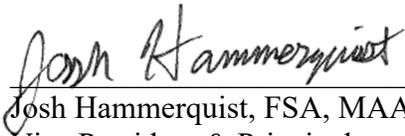
Sincerely,



Brian Stentz, ASA, MAAA  
Consulting Actuary  
Lewis & Ellis, Inc.



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



Josh Hammerquist, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, Inc.

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## ASOP 41 DISCLOSURES

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

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

### IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

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

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 2, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 27, 2023.

### DISCLOSURES IN ACTUARIAL REPORTS

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

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

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

- L&E is aware that there may be subsequent events which could have a material impact on our observations. These include, but may not be limited to, the Covid-19 virus.
- There are no other documents or files that accompany this report.

#### **ACTUARIAL OBSERVATIONS**

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

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

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

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

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

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

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

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

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