



STATE OF RHODE ISLAND  
OFFICE OF THE ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903  
(401) 274-4400 • [www.riag.ri.gov](http://www.riag.ri.gov)

*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 Harvard Pilgrim Health Care of New England, Inc. (HPHC NE) and HPHC Insurance Company (HPIC) Small and Large Group Filings**

Dear Acting Commissioner King:

The Rhode Island Office of the Attorney General objects to the rate increases of 11.9% for HPHC and 11% for HPIC Small Group plans and 12% for HPHC NE and HPIC Large Group plans proposed by Harvard Pilgrim Health Care (HPHC). These 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 the over 7,000 Rhode Islanders insured under HPHC and deny the requested rate increases for the small and large group markets.<sup>1</sup>

Although the Office of the Attorney General urges the Office of the Health Insurance Commissioner to consider the unaffordability of any increase, this Office understands the Commissioner's regulatory obligation to guard the insolvency and financial condition of health insurers. 230-RICR-20-30-4. **Notwithstanding that obligation, the Office of Attorney General recommends a -1.9% rating increase for HPIC and a -1.3% HPNE small groups, as these negative rates were deemed reasonable by the actuaries hired for this review.** These recommendations are based upon consideration of actuarial reports and impact increase health insurance rates have on the affordability of health insurance.

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<sup>1</sup> HPHC NE and HPIC Large Group plans provide coverage to 6,112 subscribers as of March 31<sup>st</sup>, 2023, with 1,229 subscribers covered via Small Group. *See* Rhode Island Office of the Health Care Commissioner "2024 Large Group Rate Review Detailed Summary" (16 June 2023), 3.

## **Preliminary Statement**

The Attorney General addresses OHIC in the Attorney General's 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. 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. 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 this mission by rejecting the unnecessary rate increase requested by HPHC.

## **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 HPHC's large and small group filings was conducted and is submitted in support of this public comment.

### *i. Small Group Markets*

The team of actuaries reviewed all filings for HPHC small group. The primary driver of the recommended Small Group rates is the unreasonableness of the HPHC's 0% credibility rating. Credibility is an actuarial term describing the degree of accuracy in forecasting future events – here, market expectations – based on statistical reporting of past events. When asked to consider what HPHC considers a reasonable standard for full credibility, HPHC was unable to establish a standard.<sup>2</sup> However, the team of actuaries found that it would be reasonable to find HPIC and HPNE Rhode Island's Small Group markets are both entitled to partial credibility.<sup>3</sup> This resulted in the actuaries creating a range of reasonable credibility assumptions, all of which are significantly lower than both HPIC and HPNE's assumptions.<sup>4</sup> This analysis by the Attorney General's actuaries of the historical trends resulted in a reasonable range of trends, the lowest reasonable number of

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<sup>2</sup> Lewis & Ellis HPHC Small Group Market analysis page 5.

<sup>3</sup> *Id.*

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

range being 4.3%, which is slightly lower than that what HPIC and HPNE proposed.<sup>5</sup> Thus, the Office of the Attorney General urges the Acting Commissioner to apply this trend calculation and reject HPIC and HPNE Small Group Market requested rates.

*ii. Large Group Markets*

Upon review of both HPIC and HPNE's Large Group Market filing, the actuaries retained by this office identified trend as the primary driver of the lower rate increase recommendation.<sup>6</sup> After review of the filings, the actuaries found that a 4.3% trend assumption would be reasonable for HPIC and HPNE.<sup>7</sup> This could result in a decrease of the overall rating by 1.1% for both filings.<sup>8</sup> Thus, the Office of the Attorney General urges the Acting Commissioner to reject HPIC and HPNE Large Group Market requested rates.

**Unaffordability of Requested Rate Increases**

As of 2021, half of Rhode Islanders received healthcare coverage from employer-sponsored insurance plans, which are purchased in Small and Large Group Markets.<sup>9</sup> Increasing the cost of already expensive coverage offered in these markets poses a threat to employers' ability to continue to sponsor plans for their employees and jeopardizes an employee's necessary healthcare. Per the National Federation of Independent Business, 56% of small businesses surveyed nationwide provided healthcare to their employees, with the two most popular plans offered being High-Deductible Preferred Provider Organization (PPO) and Health-Maintenance Organization (HMO) plans.<sup>10</sup> High-Deductible PPO and HMO Plans decrease the burden placed on employers by transferring (deferring) costs to employees. These deferred costs are reflected in higher premium contributions<sup>11</sup> and greater cost-sharing.<sup>12</sup> Even with these plans placing more responsibility on the

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<sup>5</sup> *Id.*

<sup>6</sup> Lewis & Ellis Large Group Filing analysis page 5.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> See Kaiser Family Foundation "Health Insurance Coverage of the Total Population" Accessed June 2023.

<sup>10</sup> 37% of respondents that provided health insurance to full-time employees offered a PPO plans. Another 25% of respondents offered HMO plans. See NFIB Research Center "Small Business Health Insurance Survey" (March 2023), 3.

<sup>11</sup> Employment-Sponsored Health Insurance (ESI) exhibited "increases in premiums and cost sharing for covered workers in 2021" and the average premiums for single coverage, employee-plus-one coverage, and family coverage all rose, as did the average employee contribution to their premiums. See Agency for Healthcare Research and Quality "STATISTICAL BRIEF #543: Trends in Health Insurance at Private Employers, 2008-2021."

<sup>12</sup> Cost Sharing occurs when a consumer pays out of pocket for covered services, commonly towards deductibles, coinsurance, and copayments. See Center for American Progress "Health Insurance Costs Are

insured to cover their own expenses, the continually increasing cost of providing coverage is still a challenge for small businesses. While 65% of small businesses offering health insurance recognize the importance of employer-sponsored plans to employees and desire to continue offering coverage, there is rising concern that rate increases are unsustainable, precluding employers from offering health insurance in the near future.<sup>13</sup>

The results of the NFIB national survey are reflective of the experience in Rhode Island. In OHIC's annual Health Care Spending and Quality in Rhode Island report, the Office of the Healthcare Commissioner found health care spending increasing at a rate beyond individual wages.<sup>14</sup> OHIC's report also determined that employers in Rhode Island facing the higher cost of health coverage were decreasing their expenses through a combination of actions: increasing employee premium contributions, cost sharing, employment reduction, and limiting wage growth.<sup>15</sup> In 2021, the average income for a private sector employee in Rhode Island was \$60,633 compared to a national average of \$68,030.<sup>16</sup> Already, this low average salary is being stretched thin by other economic realities. The cost of housing has continued a dramatic increase making Rhode Island the 8<sup>th</sup> most expensive state in which to rent property,<sup>17</sup> and food costs are 8.7% higher than the national average.<sup>18</sup> As costs of living continue to rise, further hikes to health insurance would constitute an undue hardship on consumers.

With a projected recession looming,<sup>19</sup> Rhode Island Commerce anticipates a reduction in capital for businesses and an increase in unemployment, identifying those as the most significant impacts on the State.<sup>20</sup> Rate increases akin to those proposed by HPHC are another challenge to small businesses which make up a vast majority of employers in Rhode Island and are responsible

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Squeezing Workers and Employees,” <https://www.americanprogress.org/article/health-insurance-costs-are-squeezing-workers-and-employers/>

<sup>13</sup> See NFIB Research Center “Small Business Health Insurance Survey” (March 2023), 6.

<sup>14</sup> See Office of the Health Insurance Commissioner “Annual Report Health Care Spending and Quality in Rhode Island” (2023), 5.

<sup>15</sup> *Ibid.*

<sup>16</sup> See Rhode Island Department of Labor and Training “Rhode Island Employment Trends and Workforce Issues 2021-2022” (Apr. 2023), 6.

<sup>17</sup> Rent Data, “Rhode Island Fair Market Rent for 2023,” <https://www.rentdata.org/states/rhode-island/2023>

<sup>18</sup> Rent, “Cost of living in Rhode Island,” <https://www.rent.com/blog/cost-of-living-in-rhode-island/#housing-costs>

<sup>19</sup> 58% of panelists surveyed by the National Association for Business Economics believe a recession to be likely within the next year as of February 2023. See NABE “The February 2023 NABE Outlook” (27 February 2023), 2. <https://subscriber.politicopro.com/f/?id=00000186-90a6-de7f-a9ee-b4f6380e0000>

<sup>20</sup> See RI Commerce “2023 Overview of the Rhode Island Economy” (Apr. 2023), 25-26.

for a significant portion of jobs in the State.<sup>21</sup> Thus, increased rates in small and large group markets place a burden on employers and employees in the State.

We encourage the Office of the Health Insurance Commissioner to consider the wider market context when evaluating whether the request rates increases are in the public interest. The Attorney General strongly urges you to exercise your regulatory authority and discretion to reject the requested rate increases. If the Acting Commissioner deems that an increase rating is warranted for the HPIC and HPNE large groups, then on an actuarial basis the Office of the Attorney General recommends no greater than 10.4% and 11.2%, respectively. With respect to small groups, the Office of Attorney General recommends a -1.9% for HPIC and a -1.3% HPNE.

PETER F. NERONHA  
ATTORNEY GENERAL

By:

/s/ Sarah W. Rice

Sarah W. Rice  
Assistant Attorney General  
Deputy Chief, Civil Division  
401-274-4400, Ext. 2054  
srice@riag.ri.gov

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<sup>21</sup> Businesses with less than 20 employees constituted 92% of RI employers, responsible for 27% of RI's labor force. *See* Rhode Island Department of Labor and Training "Rhode Island Employment Trends and Workforce Issues 2021-2022" (Apr. 2023).



6600 Chase Oaks Blvd, Suite 150  
Plano, TX 75023-2383  
972-850-0850  
lewisellis.com

August 3, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: HPHC Insurance Company, Inc. (PPO)  
Harvard Pilgrim Health Care of New England, Inc. (HMO)  
2024 PPO and HMO Small Group Rate Filings  
SERFF# HPHC-133655334 & HPHC-133654011

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 PPO and HMO Small Group Rate Filings for HPHC Insurance Company (HPIC) and Harvard Pilgrim Health Care of New England (HPNE) and to assist the Rhode Island Office of Attorney General (OAG) in the evaluation of the proposed rates.

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## FILING DESCRIPTION

1. HPIC and HPNE are both a part of Point32Health, Inc. and will be referred to collectively in this report as "HPHC" or "Company". Point32Health sold commercial health insurance policies through Tufts Insurance Company (PPO) and Tufts Associated Health Maintenance Organization (HMO), collectively referred to in this report as "Tufts", in Rhode Island from 2009 to 2023. Starting in 2024, Point32Health will transition these commercial health insurance policies to be sold through HPIC and HPNE. All 2023 Tufts small group plans have been mapped to similar 2024 HPHC plans. Historical experience data mentioned in this report refers to the Tufts historical experience that is transitioning to HPHC.
2. HPHC is a not-for-profit organization that provides health insurance coverage to Rhode Islanders. These filings propose premiums for HPIC's PPO Qualified Health Plans (QHPs) and HPNE's HMO QHPs that will be offered beginning January 1, 2024.
3. HPIC and HPNE initially submitted proposed rates on May 1, 2023, with an average rate increase of 11.0% for HPIC and 11.9% for HPNE. HPHC submitted revised filings on May 22, 2023, but the rate increases remained unchanged. This report's analysis is based on the proposed rates as submitted on May 22, 2023.
4. The rating development methodology used for HPIC and HPNE is the same. The numerical results differ due to the claims experience, statistical credibility, risk adjustment, claim type distribution, membership distribution, etc, of each specific block. This report discusses the rating methodology used in both filings and discloses the numerical results for each entity separately.

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## PURPOSE AND SCOPE

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

Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island."

The OAG has engaged L&E to perform such an actuarial review for the 2024 Small Group market Affordable Care Act (ACA) rates. This letter is to assist the OAG in evaluating possible changes to the proposed rates, if applicable. L&E's observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

HPHC 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 the manual rate, trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

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

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## L&E ANALYSIS

The items outlined below are the filing assumptions that are key to the proposed 11.0% rate increase for HPIC and the proposed 11.9% rate increase for HPNE.

### 1. EXPERIENCE CREDIBILITY

Even though HPIC has approximately 8,000 member months of experience and HPNE has approximately 12,000 member months, HPHC assigned 0% credibility to the 2022 experience period. HPHC has stated that, in practice, they develop rates based on experience and it has produced a wide range of rate increases that were erratic and would have been disruptive to members. L&E agrees that assigning 100% credibility to the experience would not be appropriate. However, L&E also finds it unreasonable to assign 0% credibility to the experience.

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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>

When the Company was asked what they would consider to be a reasonable standard for full credibility, the Company did not provide one, stating that considering the volatility and recent changes in the experience and enrollment, the Company was not able to establish a standard. The most common and frequently used credibility standard for health insurance products is 24,000 member months, which is based on Center of Medicare & Medicaid Services (CMS) guidelines. However, L&E acknowledges HPHC's statement that the CMS standard for full credibility is not intended to be relied upon for all purposes.

With limited HPHC data, L&E utilized its experience reviewing QHP filings across 10+ states. L&E most commonly observed full credibility standards between 60,000 to 150,000 member months. Using this range and the square root of member months divided by the standard for full credibility method produces a 23% to 37% partial credibility for the HPIC experience and a 29% to 45% partial credibility for the HPNE experience.

## 2. MANUAL RATE

HPHC utilized its 2022 Massachusetts ACA business as the primary data source for calculating the manual rate. The data was normalized to represent the medical cost for a representative member with rating factors equal to 1.0 enrolled in a hypothetical plan with a benefit adjustment value equal to 1.0. The manual data was then trended and adjusted for morbidity differences, provider reimbursement differences, Covid-19, and changes in state assessments and mandates. L&E believes this approach is reasonable and appropriate.

## 3. TREND

To report trend in the URRT, HPHC assumed an average annual experience trend assumption that varies slightly between HPIC (5.1%) and HPNE (4.4%) due to different claim category weightings. The trend assumption is composed of an average annual medical unit cost trend of 2% to 3% and an average annual utilization trend of approximately 2.3%.

Unit cost trend for medical services is based on the Company's knowledge of various contracting arrangements for their contracted providers. Utilization trends for medical services are based on Massachusetts historical utilization trend experience. Pharmacy trends are based on historical and emerging utilization and AWP cost increases, changes in the contractual AWP discount percentage from year to year through updates to the PBM arrangement, and upcoming launches for both generic and brand/specialty drugs.

During the rate review process, HPHC provided three years of historical trends for the Rhode Island (Small Group and Large Group) business, both with and without Covid-19 claims. L&E examined the historical trends using multiple different averaging and regression methods, resulting in a range of trends, excluding outliers, from 4.3% to 5.7%. L&E believes this analysis produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.



#### 4. RISK ADJUSTMENT

A company's risk adjustment transfer payment (payable or receivable) is dependent on the Company's morbidity relative to the small group market and the small group market's average premium rate.

HPHC applied a morbidity adjustment to both the manual rate (Massachusetts small group market experience) reflecting the difference between the morbidity within the data source and the estimated average small group market morbidity. By making these assumptions, HPHC's small group rates are developed assuming the morbidity level of the composite small group market. Therefore, assuming no risk adjustment transfer is consistent with the morbidity level in the claims cost development. L&E believes this approach is reasonable and appropriate.

#### 5. CONTRIBUTION TO SURPLUS

After paying for claims and administrative costs, HPHC, 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 any unexpected adverse financial conditions for the Company.

A common metric to assess surplus is the risk-based capital (RBC) ratio. The RBC ratios for each entity from 2019 to 2022 are shown in the table below. HPHC is a subsidiary of Point32Health, Inc. and may have access to additional capital through the parent organization. However, L&E has not assessed the financial position of the parent organization, and the Company's surplus levels have been materially declining from 2020 to 2022. Therefore, surplus levels should continue to be closely monitored each year.

	2019	2020	2021	2022
<b>HPIC</b>	511%	643%	558%	441%
<b>HPNE</b>	493%	368%	320%	353%

For plan year 2023, HPHC proposed a contribution to surplus assumption of 1.0%; however, this was reduced to 0.5% by OHIC. For the plan year 2024, HPHC proposed a 0.0% contribution to surplus.

L&E believes that the Company's recent RBC levels and the proposed contribution to surplus are not unreasonable.

## OBSERVATIONS

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

### 1. EXPERIENCE CREDIBILITY

L&E finds it unreasonable to assign 0% credibility to the experience. When the Company was asked what they would consider to be a reasonable standard for full credibility, the Company did not provide one, stating that considering the volatility and recent changes in the experience and enrollment, the Company was not able to establish a standard. With limited HPHC data, L&E utilized its experience reviewing QHP filings across 10+ states. L&E most commonly observed full credibility standards between 60,000 to 150,000 member months. Using this range and the square root of member months divided by the standard for full credibility method produces a 23% to 37% partial credibility for the HPIC experience and a 29% to 45% partial credibility for the HPNE experience.

### 2. TREND

L&E examined the historical trends using multiple different averaging methods that resulted in a range of trends, excluding outliers, from 4.3% to 5.7%. L&E believes this produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.

The following tables summarize 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>HPIC Proposal</b>	+11.0%	+11.0%
<b>Credibility</b>	-10.3%	-6.5%
<b>Trend</b>	-1.5%	+1.1%
<b>L&amp;E Range</b>	<b>-1.9%</b>	<b>+4.9%</b>

Component	Low	High
<b>HPNE Proposal</b>	+11.9%	+11.9%
<b>Credibility</b>	-11.6%	-7.4%
<b>Trend</b>	-0.2%	+2.5%
<b>L&amp;E Range</b>	<b>-1.3%</b>	<b>+6.2%</b>

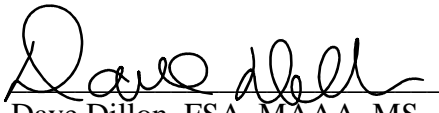
Sincerely,



Traci Hughes, FSA, MAAA  
Vice President & Senior Consulting Actuary  
Lewis & Ellis, Inc.



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



Dave Dillon, FSA, MAAA, MS  
Senior 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:

- Traci Hughes, FSA, MAAA, Vice President & Senior Consulting Actuary.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 3, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 13, 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 HPHC. 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 HPHC 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 ongoing 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 4, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: HPHC Insurance Company, Inc. (PPO)  
Harvard Pilgrim Health Care of New England, Inc. (HMO)  
2024 PPO and HMO Large Group Rate Filing  
SERFF# HPHC-133655859

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 PPO and HMO Large Group Rate Filings for HPHC Insurance Company (HPIC) and Harvard Pilgrim Health Care of New England (HPNE) and to assist the Rhode Island Office of Attorney General (OAG) in the evaluation of the proposed rates.

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## FILING DESCRIPTION

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2. HPHC is a not-for-profit organization that provides health insurance coverage to Rhode Islanders. These filings propose premiums for HPIC's PPO and HPNE's HMO large group major medical plans that will be offered beginning January 1, 2024.
3. HPIC and HPNE initially submitted proposed rates on May 1, 2023, with an average rate increase of 11.6% for HPIC and 12.4% for HPNE. HPHC submitted revised filings on May 25, 2023, but the rate increase remained unchanged. This report's analysis is based on the proposed rates as submitted on May 25, 2023.
4. The rating development methodology used for HPIC and HPNE is the same. The numerical results differ due to the claims experience, statistical credibility, risk adjustment, claim type distribution, membership distribution, etc, of each specific block. This report discusses the rating methodology used in both filings and discloses the numerical results for each entity separately.

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## PURPOSE AND SCOPE

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

Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take "all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island."

The OAG has engaged L&E to perform such an actuarial review for the 2024 Large Group market Affordable Care Act (ACA) rates. This letter is to assist the OAG in evaluating possible changes to the proposed rates, if applicable. L&E's observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory<sup>1</sup>. Premium affordability is not within the scope of L&E's actuarial review.

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## SUMMARY OF RECEIVED DATA

HPHC 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 the manual rate, trend, morbidity adjustments, federal programs, administrative costs, and taxes and fees.

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

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## L&E ANALYSIS

The items outlined below are the filing assumptions that are key to the proposed 11.6% rate increase for HPIC and the proposed 12.4% rate increase for HPNE.

### 1. EXPERIENCE RATE

For experience rating, which is used for partially or fully credible groups, HPHC uses two consecutive 12-month experience periods, trended and adjusted for the rating period. The two periods are blended, generally giving 70% weight to the most recent experience period, adjusted for member month exposure differences between the periods. L&E believes this approach is reasonable and appropriate.

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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>

## 2. MANUAL RATE

HPHC utilizes 2021 and 2022 combined experience for the Tufts HMO and PPO entities as the primary data source for calculating the manual rate. The data was normalized to represent the medical cost for a representative member with rating factors equal to 1.0 enrolled in a hypothetical plan with a benefit adjustment value equal to 1.0. The manual data was then trended and adjusted for Covid-19 and changes in state assessments and mandates. L&E believes this approach is reasonable and appropriate.

## 3. PROJECTION ASSUMPTIONS

HPHC adjusts base experience and manual claims for trend, benefit design, age, industry, and underwriting. HPHC assumes a 4.9% average annual trend based on historical experience. During the rate review process, HPHC provided three years of historically observed trends for the Rhode Island (Small Group and Large Group) business, both with and without Covid-19 claims. L&E examined the historical trends using multiple different averaging methods, resulting in a range of trends, excluding outliers, from 4.3% to 5.7%. L&E believes this produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.

Sample rating factors for benefit design, age, and industry were provided as part of the rate review process and considered reasonable.

The underwriting factor allows the Company to modify each group's claims projection based on the characteristics of the group. This practice is common in the large group market. HPHC limits the underwriting adjustment to +/- 40%. However, L&E notes that an additional negative underwriting adjustment may be applied as part of implementing a rate increase cap. HPHC provided underwriting adjustment ranges applied to large groups renewing within the prior year and demonstrated adherence to these underwriting guidelines.

L&E believes the assumed trend, rating factors, and underwriting guidelines are reasonable and appropriate.

## 4. RETENTION

HPHC applies the following retention load to projected claims:

<b>Administrative Expenses</b>	11.7%
<b>Taxes &amp; Fees</b>	2.0%
<b>Contribution to Surplus</b>	0.0%
<b>Total Retention</b>	<b>13.7%</b>

This retention load is consistent with the 13.6% retention load previously approved.

After paying for claims and administrative costs, HPHC, as a not-for-profit entity, places any excess funds into an unassigned funds account (i.e., contribution to reserves or CTR). 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. The RBC ratios for each entity from 2019 to 2022 are shown in the table below. HPHC is a subsidiary of Point32Health, Inc. and may have access to additional capital through the parent organization. However, L&E has not assessed the financial position of the parent organization, and the Company's surplus levels have been materially declining from 2020 to 2022. Therefore, surplus levels should continue to be closely monitored each year.

	2019	2020	2021	2022
<b>HPIC</b>	511%	643%	558%	441%
<b>HPNE</b>	493%	368%	320%	353%

For plan year 2023, HPHC proposed a contribution to surplus assumption of 1.0%, which was approved as filed. For the plan year 2024, HPHC has proposed a 0.0% contribution to surplus.

L&E believes that the Company's recent RBC levels and the proposed contribution to surplus are not unreasonable.

## 5. CREDIBILITY BLENDING

HPHC credibility blending guidelines are outlined in the table below.

Subscribers	Credibility
0-59	45%
60-79	50%
80-99	55%
100-149	60%
150-199	70%
200-249	75%
250-299	80%
300-349	85%
350-399	90%
400-449	95%
450+	100%

This table shows an assumed full credibility standard of 450 subscribers or 5,400 subscriber months. Based on the average members per subscriber, this also translates to a full credibility standard of approximately 12,200 member months. The final rate is calculated by performing a weighted average of the projected manual rate and experience rate, where the experience is weighted based on the guidelines in the table above. L&E believes the credibility standard, and therefore the credibility percentage applied to each group's experience is reasonable and appropriate.

## OBSERVATIONS

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

### 1. TREND

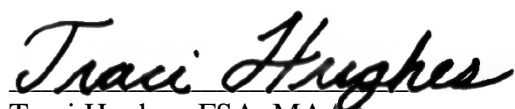
L&E examined the historical trends using multiple different averaging methods that resulted in a range of trends, excluding outliers, from 4.3% to 5.7%. L&E believes this produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.

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

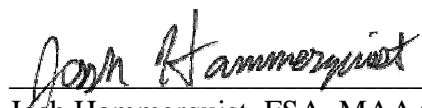
Component	Low	High
<b>HPIC Proposal</b>	+11.6%	+11.6%
<b>Trend</b>	-1.1%	+1.5%
<b>L&amp;E Range</b>	<b>+10.4%</b>	<b>+13.3%</b>

Component	Low	High
<b>HPNE Proposal</b>	+12.4%	+12.4%
<b>Trend</b>	-1.1%	+1.5%
<b>L&amp;E Range</b>	<b>+11.2%</b>	<b>+14.1%</b>

Sincerely,



Traci Hughes, FSA, MAAA  
Vice President & Senior Consulting Actuary  
Lewis & Ellis, Inc.



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



Dave Dillon, FSA, MAAA, MS  
Senior 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:

- Traci Hughes, FSA, MAAA, Vice President & Senior Consulting Actuary.
- Josh Hammerquist, FSA, MAAA, Vice President & Principal.
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 4, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is June 22, 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 HPHC. 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 HPHC 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 ongoing 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.