



**STATE OF RHODE ISLAND**  
**OFFICE OF THE ATTORNEY GENERAL**

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*Peter F. Neronha*  
*Attorney General*

August 4, 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 Neighborhood Health Plan of Rhode Island individual and small market.**

Dear Acting Commissioner King:

The Rhode Island Office of the Attorney General urges the Office of the Health Insurance Commissioner to reject Neighborhood Health Plan of Rhode Island's (NHPRI) requests for increased premium rates in both the small and individual markets. The Attorney General's suggestions for lower rate increases are based on actuarial findings and the risks that granting these rate increases poses to the consumers. Importantly, this Office, after consultation with experts, believes the best way to protect consumers is to grant a lower rate than requested. This action promotes competition in the marketplace, which in turn results in the lowest prices possible for Rhode Islanders. Our office asks that the Office of the Health Insurance Commissioner exercise its authority to deny NHPRI's requested increase.

**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 an individual market filing, which the Office of the Attorney General has a distinct role in reviewing. Insurers in that 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 of Neighborhood Health Plan of Rhode Island'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 denying or limiting NHPRI's requested increases.

### **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 NHPRI's individual and small group market filings are submitted in support of this public comment.

#### *i. Individual*

To complete its analysis of NHPRI's requested increase, the expert team of actuaries reviewed the filings submitted by NHPRI and requested further information that would allow the actuaries to make industry-standard recommendations. However, NHPRI did not respond to all inquiries as requested by this Office and its team of actuaries. Notwithstanding the unresponsiveness, the actuaries were able to determine that several areas of the filing were either incorrect or unreasonable through actuarial observations. Specifically, NHPRI's morbidity factor, which is the likely that certain people will get sick, become ill, or pass away, calculation was incorrect, and a correct calculation would decrease proposed rates.<sup>1</sup> Moreover, NHPRI assumed trend, which is a way to forecast future costs of providing care and how many services will be needed, higher than the historical data provided by the insurer.<sup>2</sup> These observations allowed the actuaries to produce a reasonable range for increased rates, which even at the highest end is lower than NHPRI's requested rate increase.<sup>3</sup> Thus, we encourage the Acting Commissioner to apply the correct morbidity calculation and the lowest reasonable trend rate to reject NHPRI's requested rate for its Individual Market plans.

#### *ii. Small Group Market.*

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<sup>1</sup> Lewis & Ellis actuarial analysis pages 3-4.

<sup>2</sup> Lewis & Ellis actuarial analysis page 7.

<sup>3</sup> Lewis & Ellis actuarial analysis of Individual Market page 7

The team of actuaries reviewed NHPRI's Small Group Market filings, and, similar to the Individual Market filings, NHPRI did not provide all of the necessary information. As with NHPRI's individual filing, the assumption regarding the utilization of health insurance trends is higher than the historical data provided by the insurer.<sup>4</sup> A lower assumption would be reasonable and result in a lower rate increase.<sup>5</sup> Thus, this Office recommends that OHIC apply the lowest reasonable trend rate to reject the requested rate increase for NHPRI's Small Group Market.

### **Unaffordability of the requested rate increases**

NHPRI has consistently offered consumers in the individual and small markets the lowest premium rates. It is the obligation of this Office to protect and represent the interests of the people of this State, which includes ensuring that there is a low-cost option in the individual and small markets.<sup>6</sup> For the 24,000 Rhode Islander enrolled in an individual or small market plan with NHPRI, the requested rate increases are unaffordable.

Notably, NHPRI is one of only two insurers in the individual market and one of only 6 in the small group market. Competition in healthcare markets benefits consumers because this helps contain costs, improve quality, and encourage innovation.<sup>7</sup> In fact, Neighborhood offers the lowest average premium for Rhode Islanders in those markets, and thus provides the most affordable coverage.<sup>8</sup> By continuously offering the lowest premium rates, other insurers need to provide affordable options in order to compete with NHPRI. To ensure that NHPRI would be able to continue to provide this valuable competition, the actuaries performed a risk-based capital analysis, which examines how NHPRI would perform under stress. NHPRI has always maintained low reserve amounts, but the risk-based capital analysis assured the actuaries that holding reserves steady with a constant contribution to reserves would not pose an immediate material threat to NHPRI because of its mix of business.

While NHPRI may be currently stable, Rhode Islanders are continuing to feel the pain from post-pandemic inflation in all sectors. Housing prices continue to rise in both ownership and rental

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<sup>4</sup> Lewis & Ellis actuarial analysis of Small Group Market page 5

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

<sup>6</sup> R.I. Gen. Laws § 27-36-1.

<sup>7</sup> FTC, "Competition in the Health Care Marketplace," last accessed July 19, 2023, <https://www.ftc.gov/advice-guidance/competition-guidance/industry-guidance/competition-health-care-marketplace>

<sup>8</sup> Money Geek, "Best Rhode Island Health Insurance (2023 Plans)," July 24, 2023. <https://www.moneygeek.com/insurance/health/best-health-insurance-in-rhode-island/#:~:text=The%20cheapest%20health%20insurance%20provider%20in%20Rhode%20Island,category%2C%20considering%20the%20trade-off%20of%20higher%20out-of-pocket%20costs.>

markets, which has resulted in an ongoing affordable housing challenge.<sup>9</sup> In fact, the State ranks 8<sup>th</sup> highest in the country for rent.<sup>10</sup> In 2020, the average rent for a 1-bedroom apartment was \$911, in 2023 that average increased to \$1,199.<sup>11</sup> Food costs in the State are 8.7% higher than the national average.<sup>12</sup> In 2022, Rhode Island ranked 32<sup>nd</sup> in the nation in real GDP growth.<sup>13</sup> While inflation is driving up prices, Rhode Islander's saw only a \$36 increase in average weekly wages.<sup>14</sup> On average, the yearly cost of health insurance in Rhode Island is \$7,903 per person.<sup>15</sup> During a time where the choice for many middle income Americans is paying for food or paying for health insurance, an increase to the lowest cost health insurance option in the market would add an additional economic burden.<sup>16</sup>

For the 24,000 Rhode Islander's enrolled in one of NHPRI's plans, being able to purchase comprehensive coverage at the lowest premium rate is of the utmost importance. The Attorney General strongly urges you to exercise your regulatory authority and discretion to reject NHPRI's requested rate increases urging **the Acting Commissioner to consider the overall impact these increased rates have on consumers and hold rates constant with last year.** In the event OHIC considers increases appropriate, in NHPRI's Individual Market rates should be increased by the lowest possible amount on an actuarial basis and no more than .3% in the Individual Market, and the Small Group market rates by no more than 4.8%, instead of the 4.4% and 9.5% NHPRI requested. These numbers take into consideration not only actuarial analysis, but the affordability of these rates to Rhode Islanders.

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<sup>9</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>10</sup> Rent Data, "Rhode Island Fair Market Rent for 2023," <https://www.rentdata.org/states/rhode-island/2023>

<sup>11</sup> Rent Data, "Rhode Island Fair Market Rent for 2023," <https://www.rentdata.org/states/rhode-island/>

<sup>12</sup> Rent, "Cost of living in Rhode Island," <https://www.rent.com/blog/cost-of-living-in-rhode-island/#housing-costs>

<sup>13</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>14</sup> Executive Office of Commerce, "2023, Overview of the Rhode Island Economy," March 31, 2023, <https://commerceri.com/wp-content/uploads/2023/04/2023-Annual-Overview-of-the-Economy.pdf>

<sup>15</sup> ValChoice, "The Cost of Health Insurance in Rhode Island," <https://www.valchoice.com/state-insurance-information/health/rhode-island/#:~:text=The%20average%20cost%20of%20health%20insurance%20in%20the,above%20the%20national%20average%20for%20health%20insurance%20coverage.>

<sup>16</sup> The Guardian, "Health insurance or food?" Americans face difficult choices amid pandemic," January 12, 2021, <https://www.theguardian.com/us-news/2021/jan/12/health-insurance-food-americans-face-difficult-choices-amid-pandemic>

Respectfully Submitted,

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ATTORNEY GENERAL

By:

/s/ Sarah W. Rice

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August 3, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Neighborhood Health Plan of Rhode Island  
2024 Individual Rate Filing  
SERFF# NHRI-133659270

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 Neighborhood Health Plan of Rhode Island (NHPRI or Company) 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. NHPRI is a not-for-profit health maintenance organization (HMO) insurance company that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for NHPRI's Qualified Health Plans (QHPs) that will be offered on HealthSource Rhode Island (HSRI) beginning January 1, 2024.
2. NHPRI initially submitted proposed rates on May 4, 2023, with an average 3.5% rate increase. On May 24, 2023, NHPRI submitted a revised filing to correct the state assessment fee amount that was initially filed. This revision changed their proposed rate impact to an average 4.4% rate increase. This report's analysis is based on the proposed rates as revised on May 24, 2023.

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## PURPOSE AND SCOPE

Pursuant to Rhode Island Gen. Laws §§27-36-1, 27-19-6, and 27-20-6, 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.

A public rate hearing must be held for a requested rate increase of 10% or higher by an insurer covering 10,000 or more individual lives per Rhode Island Gen. Laws §§27-19-6(f) and 27-20-6(f). In the event a public rate hearing is not triggered, Rhode Island law [§§27-19-6(j)(2)-(k), 27-20-6(j)(2)-(k), and 27-36-2(a)] allows the OAG to hire actuaries to review the proposed rate filings.

The OAG has engaged L&E to perform such an actuarial review for the 2024 Individual market Affordable Care Act (ACA) rates. This letter is to assist the OAG in evaluating the proposed rates,

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

## SUMMARY OF RECEIVED DATA

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

NHPRI provided additional exhibits and information requested during the rate review process but did not respond to all inquiries as requested by the OAG.

## L&E ANALYSIS

The items outlined below are the key filing assumptions underlying the proposed 4.4% rate increase.

### 1. INCURRED BUT NOT REPORTED (IBNR) CLAIMS

NHPRI has historically underestimated the completion factor, therefore overestimating the IBNR claims (which would increase rates). The table below outlines the historical actual-to-expected results of this factor.

Base Year	Actual Completion Factor	Filed Completion Factor	Actual/Expected
<b>2018</b>	0.976	0.939	1.039
<b>2019</b>	0.988	0.977	1.011
<b>2020</b>	0.990	0.956	1.036
<b>2021</b>	0.985	0.949	1.038
<b>2022</b>		0.950	
<b>Weighted-Average</b>	<b>0.985</b>	<b>0.955</b>	<b>1.031</b>

Despite the history of underestimating the completion factor, NHPRI has assumed a lower completion factor for 2022 relative to prior experience, which directly impacts the base period claim costs used to develop the 2024 rates. NHPRI noted that the filed factor does not include an explicit provision for adverse deviation.

NHPRI stated that the 2021 actual IBNR was lower than expected due to an accrual for quality payments that were not paid out because of a change in payment methodology. Additionally, NHPRI stated that the completion factor filed is lower than prior experience because of an expected shift in claims by service category from professional/other to inpatient/outpatient. As part of the rate review, NHPRI provided an estimate of completed claims using data through May 2023 (compared to data through March 2023 as filed). The additional months of claims runout and updated remaining IBNR

<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>

estimate support the filed completion factor and demonstrate that the actual 2022 completion factor will be lower than the historical average.

## 2. CLAIMS TREND

NHRPI assumed a 9.4% average annual allowed claims trend in their initial filing. This assumption consists of a 6.4% unit cost trend and a 2.8% utilization trend. The unit cost assumption is based on anticipated contracted changes and historical cost trends. The utilization assumption is based on historical utilization trends, industry trends, Milliman Health Cost Guidelines (HCGs), and actuarial judgment.

As part of the rate review, L&E received monthly allowed claims PMPM from January 2018 through December 2022, paid through March 2023, both with and without Covid-19 claims. L&E examined the historical trends using multiple different averaging methods that resulted in a range of trends, excluding outliers, from 7.0% to 9.1%. L&E believes this analysis produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.

## 3. MORBIDITY FACTOR

The morbidity factor applied to NHPRI's experience is to account for the impact of Medicaid redeterminations and market morbidity improvement. NHPRI expects Medicaid redeterminations to occur between May 2023 to April 2024. NHPRI expects approximately 3,400 members to move from the Medicaid market to the ACA market, based on internal data from NHPRI's large block of Medicaid business in Rhode Island. As part of the rate review, NHPRI provided support for the calculation of the morbidity factor adjustment outlined below.

	Redetermined During Special Enrollment Period (SEP)	Redetermined Passively	Total
<b>Expected Redetermined Members</b>	1,446	1,991	3,437
<b>Morbidity Factor</b>	1.046	1.018	1.030
<b>Expected Months</b>			0.333
<b>Morbidity due to Redetermination</b>			1.010
<b>2022 to 2024 Market Morbidity Improvement</b>			0.995
			<b>1.005</b>

L&E observed that this calculation was incorrect for two reasons:

- There are no Medicaid redetermined enrollees in the base period, while all of the Medicaid redetermined enrollees are expected to be enrolled for 9 to 12 months of the rating period. The 1/3, or 0.333, adjustment is not supported.
- The Medicaid redetermination morbidity impact does not appear to be blended with the other enrollment.



L&E utilized NHPRI’s expectation for Medicaid redetermination and calculated a revised morbidity adjustment as follows:

Month(s)	Redetermined During SEP	Redetermined Passively
Jan 2022 – Apr 2023	0	0
May-23	121	166
Jun-23	241	332
Jul-23	362	498
Aug-23	482	664
Sep-23	603	830
Oct-23	723	996
Nov-23	844	1,161
Dec-23	964	1,327
<b>Jan-24</b>	<b>1,085</b>	<b>1,493</b>
<b>Feb-24</b>	<b>1,205</b>	<b>1,659</b>
<b>Mar-24</b>	<b>1,326</b>	<b>1,825</b>
<b>Apr-24</b>	<b>1,446</b>	<b>1,991</b>
<b>May-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Jun-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Jul-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Aug-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Sep-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Oct-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Nov-24</b>	<b>1,446</b>	<b>1,991</b>
<b>Dec-24</b>	<b>1,446</b>	<b>1,991</b>
<b>2024 Total</b>	<b>16,629</b>	<b>22,897</b>

	Redetermined During SEP	Redetermined Passively	Other Enrollment	Total
<b>Expected 2024 Member Months</b>	16,629	22,897	221,127	260,652
<b>Morbidity Adjustment (compared to 2022 population morbidity)</b>	1.046	1.018	0.995	<b>1.000</b>

Reducing the Morbidity adjustment from 1.005 to 1.000 would decrease the proposed rates by 0.5%.

#### 4. RISK ADJUSTMENT

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

NHPRI consistently transfers payments into the risk adjustment program since the Company has a disproportionately healthy population relative to their competitor in the Rhode Island Individual market.

Neighborhood uses the estimated 2022 transfer payment as the basis for the developing the estimated 2024 transfer amount. NHPRI's actual 2022 transfer payment was \$1.1M more than the estimated 2022 payment used to project the 2024 transfer. After accounting for the actual 2022 transfer amount, the updated estimate of the risk adjustment payment increases rates by 0.9%.

#### 5. CONTRIBUTION TO SURPLUS

After paying for administrative and claims costs, NHPRI, 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. The historical RBC ratios are shown in the table below.

2019	2020	2021	2022
211%	253%	236%	224%

L&E notes that the actual 2022 risk adjustment payment was approximately \$1.1M more than the Company expected, reducing the Company's RBC ratio further, to about 222%<sup>2</sup>. L&E notes that if the RBC ratio drops below 200%, the Company will have to file an action plan with the Insurance Commissioner and defend what it intends to do to improve its capital position. L&E also notes that due to the specifics of the RBC formula, if NHPRI were to gain membership, this would lower its RBC ratio.

For plan year 2023, NHPRI proposed a contribution to surplus assumption of 3.0%; however, this was reduced to 1.0% by OHIC. For plan year 2024, NHPRI has proposed a 1.0% contribution to surplus.

L&E believes that the Company's recent RBC levels are low considering regulatory standards, and the Company is at risk of financial distress which could impact consumers. To evaluate the Company's surplus risk, L&E performed an RBC analysis using the Company's historical RBC report and NAIC annual statements.

<sup>2</sup> This is based on the latest information available, which is the 2022 RBC.

L&E determined, because the commercial major medical business is only approximately 9% of the Company's total business, it is not an immediate material threat to the Company's RBC ratio or solvency. However, L&E notes that the Company's Surplus levels should continue to be closely monitored each year.

Considering the results of L&E's RBC analysis, L&E finds the 1.0% proposed contribution to surplus to be reasonable.

## OBSERVATIONS

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

### 1. TREND

The trend assumption NHPRI has assumed is higher than the historical data provided. L&E examined the historical trends and believes that a trend of 7.0% to 9.1% would be reasonable.

### 2. MORBIDITY FACTOR

L&E observed that the filed calculation of the morbidity factor was incorrect for two reasons:

- There are no Medicaid redetermined enrollees in the base period, while all of the Medicaid redetermined enrollees are expected to be enrolled for 9-12 months of the rating period. The 1/3, or 0.333, adjustment is not supported.
- The Medicaid redetermination morbidity impact does not appear to be blended with the other enrollment.

The corrected calculation of the morbidity factor reduced the factor from 1.005 to 1.000.

### 3. RISK ADJUSTMENT

L&E observed that the actual 2022 risk adjustment transfer amount materially differed from the estimated 2022 risk adjustment transfer amount used in the development of the 2024 risk adjustment transfer assumption. Reflecting the actual 2022 transfer amount would increase rates by 0.9%.

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>NHPRI Proposal</b>	+4.4%	+4.4%
<b>Trend</b>	-4.3%	-0.5%
<b>Morbidity</b>	-0.5%	-0.5%
<b>Risk Adjustment</b>	+0.9%	+0.9%
<b>L&amp;E Range</b>	<b>+0.3%</b>	<b>+4.3%</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>3</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>4</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 28, 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 NHPRI. 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 NHPRI 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>3</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>4</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 3, 2023

State of Rhode Island Office of the Health Insurance Commissioner

Re: Neighborhood Health Plan of Rhode Island  
2024 Small Group Rate Filing  
SERFF# NHRI-133659277

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 Neighborhood Health Plan of Rhode Island (NHPRI or Company) 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. NHPRI is a not-for-profit health maintenance organization (HMO) insurance company that provides health insurance coverage to Rhode Islanders. This filing proposes premiums for NHPRI's Qualified Health Plans (QHPs) that will be offered on HealthSource Rhode Island (HSRI) beginning January 1, 2024.
2. NHPRI initially submitted proposed rates on May 4, 2023, with an average 8.7% rate increase. On May 24, 2023, NHPRI submitted a revised filing to correct the state assessment fee amount that was initially filed. This revision changed their proposed rate impact to an average 9.5% rate increase. This report's analysis is based on the proposed rates as revised on May 24, 2023.

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

## SUMMARY OF RECEIVED DATA

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

NHPRI provided additional exhibits and information requested during the rate review process but did not respond to all inquiries as requested by the OAG.

## L&E ANALYSIS

The items outlined below are the key filing assumptions that are underlying the proposed 9.5% rate increase.

### 1. INCURRED BUT NOT REPORTED (IBNR) CLAIMS

NHPRI has historically underestimated the completion factor, therefore overestimating the IBNR claims (which would increase rates). The table below outlines the historical actual-to-expected results of this factor.

Year	Actual Completion Factor	Filed Completion Factor	Actual/Expected
2018	0.964	0.908	1.061
2019	0.988	0.959	1.030
2020	0.965	0.989	0.976
2021	0.987	0.941	1.049
2022		0.925	
<b>Average</b>	<b>0.978</b>	<b>0.944</b>	<b>1.029</b>

Despite the history of underestimating the completion factor, NHPRI has assumed a lower completion factor for 2022 relative to prior experience, which directly impacts the base period claim costs used to develop the 2024 rates. NHPRI noted that the filed factor does not include an explicit provision for adverse deviation.

NHPRI stated that the 2021 actual IBNR was lower than expected due to an accrual for quality payments that were not paid out because of a change in payment methodology. Additionally, NHPRI stated that the completion factor filed is lower than prior experience because of a shift in claims by

<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>

service category from professional/other to inpatient/outpatient. As part of the rate review, NHPRI provided an estimate of completed claims using data through May 2023 (compared to data through March 2023 as filed). The additional months of claims runout and updated remaining IBNR estimate support the filed completion factor and demonstrate that the actual 2022 completion factor will be lower than the historical average.

## 2. CLAIMS TREND

NHRPI assumed a 9.4% average annual trend in their initial filing. This assumption is the same as their individual filing due to a lack of credulity in their small group experience data, consistent with their selected manual rate base data. This assumption consists of a 6.4% unit cost trend and a 2.8% utilization trend. The unit cost assumption is based on anticipated contracted changes and historical cost trends. The utilization assumption is based on historical trends, industry trends, Milliman Health Cost Guidelines (HCGs), and actuarial judgment.

As part of the rate review, L&E received monthly allowed claims PMPM from January 2018 through December 2022, paid through March 2023, both with and without Covid-19 claims. L&E examined the historical trends using multiple different averaging methods that resulted in a range of trends, excluding outliers, from 7.0% to 9.1%. L&E believes this analysis produces a reasonable range for the average annual trend assumption used in developing the 2024 rates.

## 3. 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.

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

## 4. CONTRIBUTION TO SURPLUS

After paying for administrative and claims costs, NHPRI, 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. The historical RBC ratios are shown in the table below.

2019	2020	2021	2022
211%	253%	236%	224%

L&E notes that the actual 2022 risk adjustment payment was approximately \$1.1M more than the Company expected, reducing the Company's RBC ratio further, to about 222%<sup>2</sup>. L&E notes that if the RBC ratio drops below 200%, the Company will have to file an action plan with the Insurance Commissioner and defend what it intends to do to improve its capital position. L&E also notes that due to the specifics of the RBC formula, if NHPRI were to gain membership, this would lower its RBC ratio.

For plan year 2023, NHPRI proposed a contribution to surplus assumption of 3.0%; however, this was ultimately reduced to 0.5% by OHIC. For plan year 2024, NHPRI has proposed a 0.5% contribution to surplus.

L&E believes that the Company's recent RBC levels are low considering regulatory standards, and the Company is at risk of financial distress which could impact consumers. To evaluate the Company's surplus risk, L&E performed an RBC analysis using the Company's historical RBC report and NAIC annual statements.

L&E determined, because the commercial major medical business is only approximately 9% of the Company's total business, it is not an immediate material threat to the Company's RBC ratio or solvency. However, L&E notes that the Company's Surplus levels should continue to be closely monitored each year.

Considering the results of L&E's RBC analysis, L&E finds the 0.5% proposed contribution to surplus to be reasonable.

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<sup>2</sup> This is based on the latest information available, which is the 2022 RBC.

## OBSERVATIONS

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

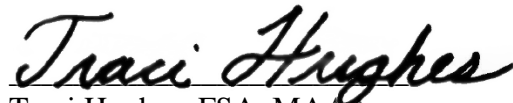
### 1. TREND

The trend assumption NHPRI has assumed is higher than the historical data provided. L&E examined the historical trends and believes that a trend of 7.0% to 9.1% would be reasonable.

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>NHPRI Proposal</b>	+9.5%	+9.5%
<b>Trend</b>	-4.3%	-0.5%
<b>L&amp;E Range</b>	<b>+4.8%</b>	<b>+9.0%</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>3</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>4</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 28, 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 NHPRI. 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 NHPRI 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>3</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>4</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.