

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND

Small Group Market Products Part II, Consumer Narrative Justification

Neighborhood Health Plan of Rhode Island's (Neighborhood) mission is to be an innovative health insurance company that, in partnership with Rhode Island's Community Health Centers, secures access to high quality, cost-effective health care for Rhode Island's at-risk populations. In service of this mission, Neighborhood has submitted its annual rate filing for the small group market. An overview of the filing is described below.

Scope and range of change:

Carriers file two average rate change amounts with OHIC: the EHB base rate change and the weighted average rate change. These two percentages reflect different calculations.

- **Essential Health Benefits Base Rate Change:** After considering all the pricing assumptions except for benefits and cost sharing, the average rate change for a theoretical plan that provides 100% coverage for all Essential Health Benefits would be 0.4%. Since this EHB increase uses a theoretical plan, it allows for comparisons across health insurance carriers and across years.
- **Weighted Average Rate Change:** However, consumer plans have adjustments to reflect the benefits selected, including modifications to prior year benefits and pricing. The average premium change to consumers, before reflecting changes in age is expected to be 1.8%.

The range of rate changes, before reflecting changes in age, which consumers will experience, is: approximately -0.2% to +4.8%.

The key drivers of this rate change, further described below, is an increase in medical services costs and the uncertainty and additional costs associated with the COVID-19 pandemic.

Financial experience of product:

In January 2014, Neighborhood for the first time offered small group insurance coverage through HealthSource RI (HSRI). Stable membership and utilization in 2015 through 2019 has allowed Neighborhood to develop rates based on both actual experience, as well as experience in the Individual market. Neighborhood retained actuarial expertise who utilized models along with Neighborhood's commercial market experience to prepare the premium rates for small group market plans to be offered on HSRI in 2021.

Reserves have been established that allow Neighborhood to continue serving our members and maintain financial stability. Since Neighborhood first started offering products on HSRI in calendar year 2014, Neighborhoods commercial reserves have contributed to total reserves on average by 7% annually. Neighborhood will continue to grow our reserves by including a 2% contribution in this filing.

Changes in Medical and Prescription Drug Service costs:

One key driver of premium changes includes increased medical and prescription drug costs on paid claims for our members, resulting in an approximate 8.3% medical and prescription drug trend assumption. Components of this trend include increases in unit costs of medical services due to inflation, increased medical utilization, increases in specialty drug expenses, technology advances in medicine, equipment and drugs, changes in network provider contracts, and other factors. To ensure members are getting the best high-quality, cost-effective health care, Neighborhood regularly reviews medical expenses to find innovative ways to decrease medical costs for our members. Neighborhood has also been able to counter the medical

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and prescription drug expense trend through optimal contracting with service vendors, securing ideal pricing in high cost areas such as prescription drugs.

Changes in Benefits:

Neighborhood has updated the benefit packages in 2021 to fulfill federal Actuarial Value (AV) requirements. These benefit changes impacted the rate change by approximately 0.5%.

Administrative costs and anticipated profits:

Neighborhood is committed to high-quality, low cost healthcare which involves managing administrative costs by increasing operating efficiencies and reducing unnecessary expenditures. Administrative cost changes resulted in an -1.6% change to the Essential Health Benefits Base Rate. This does not include broker commissions, taxes, licenses, fees, assessments or profits.

Neighborhood anticipates that 82.9% of premium dollars (net of taxes and fees) will go towards medical expenses. This is an estimate which may be subject to change based on medical trends and other adjustments under federal regulations. Enrollment levels are considered when assessing medical loss ratio rebates. Neighborhood is in compliance with ACA regulations.