

## NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND

### Individual 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 individual market. An overview of the filing is described below.

#### **Scope and range of increase:**

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

- **Essential Health Benefits Base Rate Increase:** After considering all the pricing assumptions except for benefits and cost sharing, the average rate increase for a theoretical plan that provides 100% coverage for all Essential Health Benefits would be 8.0%. Since this EHB increase uses a theoretical plan, it allows for comparisons across health insurance carriers and across years.
- **Weighted Average Rate Increase:** However, consumer plans have adjustments to reflect the benefits selected, including modifications to prior year benefits and pricing. The average premium increase to consumers, before reflecting changes in age is expected to be 5.8%.

The range of rate increases, before reflecting changes in age, which consumers will experience is: 1.4 – 10.5%.

Key drivers of this rate increase, further described below, include increases in mandatory state and federal taxes and fees, as well as increases in medical service costs.

#### **Financial experience of product:**

In January 2014, Neighborhood for the first time offered individual insurance coverage through HealthSource RI (HSRI). Market experience and low enrollment in the first year on HSRI provided insignificant financial experience for premium rate development. Neighborhood retained actuarial expertise who utilized published data models along with Neighborhood's extensive Medicaid experience to prepare the premium rates for individual market plans to be offered on HSRI in 2016.

Reserves have been established that allow Neighborhood to continue serving our members and maintain financial stability. Since offering our first products on HSRI, Neighborhood's reserves

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have increased by 50% but are still below the recommended level. Neighborhood will continue to grow our reserves by including a 2% contribution in this filing.

#### **Changes in Medical Service costs:**

One key driver of premium increases includes increased medical costs on paid claims for our members, resulting in a 5.1% medical 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 providers 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.

#### **Changes in Benefits:**

Under the Affordable Care Act (ACA), plans offered in the individual market must include a comprehensive benefit package of essential health benefits (EHBs). These EHBs are identified at the state level and may change through new or updated regulations. Neighborhood has updated the benefit packages in 2016 to fulfill state and federal requirements. These benefit changes impacted the rate increase by less than 2%.

#### **Administrative costs and anticipated profits:**

Neighborhood is committed to high quality, cost-effective health care which involves managing administrative costs by increasing operating efficiencies and reducing unnecessary expenditures. Administrative costs positively impacted the 2016 filing as Neighborhood has reduced its administrative expenses by almost 2% from the 2015 filing. This is a result of streamlining internal operations as well as higher membership than expected for the current plan year.

A second key driver of increased premiums includes a nearly 5% increase in taxes and fees relative to 2015, associated with mandatory state and federal regulations for each health insurer offering individual coverage. The increase includes a state assessment which funds programs that benefit all Rhode Island residents. Also, new for 2016, a 3.5% HSRI premium assessment is included in the filing to finance HSRI.

Neighborhood anticipates that 86.6% of premium dollars 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. This assumption meets the federal requirements under

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the ACA, which states at least 80% of premium dollars need to be utilized for medical expenses. If less than 80% of premium dollars go towards medical expenses in 2016, members will receive a premium rebate based on the difference.