

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 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 1.9%. 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 2.4%.

The range of rate increases, before reflecting changes in age, which consumers will experience is: -0.1 – 3.7%.

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

Financial experience of product:

In January 2014, Neighborhood for the first time offered small group 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 small group market plans to be offered on the 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 RIHBE, 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), health plans offered in the small group 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 by approximately -1.5%.

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. A key driver in premium rates include increased administrative costs of 4% relative to 2015. This is a result of fixed costs spread over a small membership base, resulting in higher administrative costs per member.

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 small group 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 79.4% 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 is directly due to low enrollment levels which do

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not meet federal standards for assessing premium tax rebates. Neighborhood is in compliance with ACA regulations.