

Actuarial Memorandum and Certification

General Information

Company Identifying Information:

- Company Legal Name: Harvard Pilgrim Health Care, Inc
- State: Maine
- HIOS Issuer ID: 96667
- Market: Individual
- Effective Date: January 1st, 2022

Company Contact Information:

- Primary Contact Name: Laura Pendergast
- Primary Contact Telephone Number: 617-509-6065
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Proposed Rate Increase(s)

Reason for Rate Increase(s):

Changes reflected in this submission:

The rates have been updated to reflect a 1.1% average increase which is 6.5% lower than the originally filed rates. The lower increase results from the updates of the updated risk adjustment to reflect actual 2020 results, favorable emerging experience, and a revised estimate of MGARA impact. These changes are highlighted red in the updates made below.

Harvard Pilgrim will be offering seventeen EHB-compliant plans on the Federal Marketplace and three EHB-compliant plans off exchange in 2022. The 2022 plans have been updated to comply with the Clear Choice Designs for the 2022 Individual Health Insurance Market (Bulletin 458), and the existing 2021 enrollees were mapped to their most similar 2022 plan offered. With these changes the increases by plan will vary, with some plans receiving higher increases and some receiving lower increases than the average. The average increase for renewing members is 1.1%.

The primary drivers of the rate increase include:

- Medical cost trend reflecting anticipated increases in both unit cost and use of services for inpatient, and outpatient settings
- Difference in actual to projected experience
- Changes in benefit mix in the experience period and the projected period
- Impact of MGARA reinsurance program
- Anticipated changes in the single risk pool morbidity between the experience period and the projection period.

The rates for Silver plans offered on the Exchange include a load of 15% to cover the cost of CSR which is no longer being funded by the Federal Government.

Experience and Current Period Premium, Claims, and Enrollment

Paid Through Date:

The experience period for incurred claims is 1/1/2020 through 12/31/2020 paid through 4/30/2021. Completion factors were applied to project ultimate claims liability for the experience period.

Current Date:

The current enrollment and premium are reported on 4/30/2021.

Allowed and Incurred Claims Incurred During the Experience Period:

The claims amounts were retrieved from HPHC's Enterprise Data Warehouse (EDW) which captures paid claims, member cost sharing, and paid amounts for each claims record. Allowed claims shown in Worksheet 1 were calculated by adding claims amounts paid by HPHC and member cost sharing. Medical expenses that are not processed directly through HPHC's claims system are uploaded in the EDW based on calculations performed by the Finance area. These expenses are also included in the allowed and incurred claims amounts of the experience period.

Liabilities for incurred but not reported claims, as well as liabilities for reported but unpaid claims (collectively unpaid claims liability (UCL)), are estimated using the traditional Loss Development Method. This method (generically called a reserve model) is based on the assumption that, for a given date-of-service, future claim payments will emerge in a pattern similar to that indicated by past experience. By using the Loss Development Method to project ultimate incurred claims from historic paid claims data, a preliminary liability estimate is determined as the difference between the projected ultimate incurred claims estimate and the claims paid to date.

Further refinement is made to adjust for factors that could impact the expected claims emergence pattern as compared to the pattern in the underlying data. This would include changes in claims processing practices and backlog, provider billing practices, mail and suspended claims variability, atypical levels of known high cost claims, seasonal variations, as well as actual to expected changes in the cost and use of health insurance services. Also, because of the high volatility of paid versus ultimate incurred claim relationships for the less credible months immediately preceding the valuation date, the results of the reserve model described above are compared to trended per member per month costs to ensure that the results produced appear reasonable relative to emerging experience.

The claims used to develop the completion factors reflect the experience period claims for the information submitted.

Benefit Categories

HPHC's Cost and Utilization report was used to map services into the different benefit categories in section II of Worksheet 1 according to the following definitions:

Inpatient Hospital: Includes non-capitated facility services for medical, surgical, maternity, behavioral health, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

Outpatient Hospital: Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, behavioral health, and other services provided in an outpatient facility setting and billed by the facility.

Professional: Includes non-capitated primary care, specialist, therapy, the professional component of laboratory and radiology, behavioral health, and other professional services, other than hospital based professionals whose payments are included in facility fees.

Other Medical: Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, behavioral health, and other services.

Capitation: Includes all services provided under one or more capitated arrangements. This includes pediatric dental services.

Prescription Drug: Includes drugs dispensed by a pharmacy net of rebates received from drug manufacturers.

Projection Factors

Trend Factors (cost/utilization):

Trend forecasting at Harvard Pilgrim Health Care is based on a projection of average claim cost per member per month (PMPM) for the rating period. The projections are developed on an allowed basis, prior to the application of cost sharing.

Trend forecasting includes independent projections of unit price (i.e., the increase in fees assuming no change in services), and utilization/service mix for Fee-for-Service (FFS) claims. Capitated Services are not included in the forecast.

Unit Price

Unit price increases are provided by the Provider Contracting area based on their knowledge of the various contracting arrangements by provider group and service category (i.e., IP Facility, OP Facility, Professional, or an Ancillary service). These unit price projections are then aggregated to the market level weighted by provider incurred claims experience in these categories. Cost changes due to mix of services are included with utilization (discussed below).

Utilization/Service Mix

Utilization/service mix trends are developed separately for Total Medical and Pharmacy. The experience data on which the projection is based have been standardized to reflect changes in unit price, age/gender, segment (e.g., individual, small group, large group), product mix (e.g., HMO vs PPO), induced utilization/selection, large claim activity (excess amounts over \$100K), and seasonal variation. Except for Seasonality, this standardization adjusts the data to account for the impact of these variables on the data from the time the claims were incurred to the most recent month in the projection. Adjustments for changes in health status/morbidity are handled separately with an explicit morbidity adjustment.

Source data includes monthly medical and pharmacy claims experience for the Maine Fully Insured Individual book of business incurred from January 2019 through December 2020 and paid through March 2021 (i.e., a three-month lag). In addition to the adjustments described above, claims are adjusted for outstanding payments (i.e., IBNR) attributed to the incurred period.

Once the data have been normalized and completed, claims are projected using an Excel based time series regression model. The results from the projection along with the impact of the normalization are combined to calculate the Utilization/Service Mix trends.

HPHC does not rely exclusively on the results of the analysis and considers other adjustments in the process. Other adjustments take into consideration issues such as outlier that may inappropriately skew the projection, competitive data, consulting firm and government data, future covered benefit changes, and overall reasonableness.

COVID-19 Impact

HPHC is actively monitoring the potential impact of COVID-19 on future claim liability under several modeled scenarios. Given the nature of the pandemic and the level of uncertainty, these scenarios include many assumptions with a wide range of potential values. Our modeling has been based on HPHC claims data as well as publicly available studies. Based on this work, we expect an impact of 1.5% to 2.5% to 2021 claims as a result of the rate of return of deferred elective services. Our 1Q22 rates do not explicitly reflect any impact related to COVID-19, except to cover the expected vaccine costs which have been included by increasing claims by 1%. Additionally, because our experience includes 2020 claims with the impact of deferred services, we are adjusting that experience to reflect expected claim levels in the absence of COVID-19. Aside from the impact of the vaccine, our process is geared toward setting rates as they would have been absent the COVID-19 pandemic.

Adjustments to Trended EHB Allowed Claims PMPM

Morbidity Adjustment:

No adjustment made for the impact of Morbidity shifts between the experience period and the projection period.

Demographic Shift:

No adjustments made for the change in age, area, and tobacco user demographics of the population between the experience period and the projection period.

Plan Design Changes:

No benefits have been changed as a result of the implementation of the Essential Health benefits plans.

Other Adjustments:

The following adjustments were made to reflect expected changes in the population in the projection period:

1. New state and Federal mandates – Effective in 2021, HPHC will limit any and all forms of cost-share for Insulin to comply with Maine Public Law Chapter 666, with an estimated PMPM impact of \$0.45. This cost mentioned above was not reflected in the experience period and has been included in the 2022 rates to reflect the anticipated cost to HPHC of covering these benefits.
2. A small adjustment of 0.4% is added to offset the cap on billable member months for

- subscribers with more than three children under the age of 21.
3. An adjustment of -1.0% is added to reflect the observed favorable emerging experience since the initial filing.
 4. Other adjustment also includes an adjustment to the experience period to reflect claim levels absent COVID-19.

Manual Rate Adjustments N/A

Credibility of Experience

The HMO experience used in the development of the 2022 individual rates is considered 100% credible.

Establishing the Index Rate

The Index Rate for the projected period is \$765.12. Harvard Pilgrim Healthcare develops its rates using the fully credible HMO experience. A small adjustment of 0.997 was made to adjust the allowed claims in the experience period to the index rate for the experience period. These adjustments account for benefits covered in the experience period that are not part of the Essential Health Benefits.

The index rate for the projection period is the projected allowed PMPM adjusted by a factor of 0.997.

Development of the Market-wide Adjusted Index Rate

The market adjusted index rate reflects the impact of reinsurance, risk adjustment and exchange user fees.

Reinsurance:

Net recoveries from the MGARA reinsurance program are expected to be **\$108.73** PMPM.

Risk Adjustments:

Under the single risk pool pricing requirements, HPHC has made a market-wide adjustment to the pooled market level Index Rate to account for Federal risk adjustment payments. Consistent with this adjustment, anticipated risk adjustment revenue is allocated proportionally for all plans within the risk pool by applying the risk adjustment transfer adjustment as a market level adjustment.

Harvard Pilgrim expected to receive a total of **\$12.6M** in risk adjustment for CY 2020. This amount was adjusted by the paid to allowed ratio in the URRT. We expect a similar payout in the projected period and have reflected this in the URRT.

Exchange User Fee:

The expected exchange user fee is 2.75% of premium for 2022.

Plan Adjusted Index Rates

The derivation of the Plan Adjusted Index rates for each plan is shown in the URRT page 2 Section

III. To arrive at the Plan adjusted index rate, the Market Adjusted Index rate is adjusted by the plan benefit factor, an adjustment for benefits in addition to EHB, and then administrative costs, taxes and fees are added.

Administrative Expense Load:

The estimates for non-benefit expenses were derived from our 2020 budgeted administrative costs on a PMPM basis. Our corporate expenses are allocated to products, state and legal entities based on membership. The breakdown of the administrative expense as well as the taxes and fees are shown in Table 4.

Administrative costs that are fixed PMPM costs have been allocated directly to each plan. The total administrative cost for each plan was then converted to a percent of premium for purposes of calculating the final rate for each plan in deriving the plan adjusted index rates in worksheet 2 of the URRR. This means that each plan has a slightly different administrative load.

Contribution to Surplus & Risk Margin:

HPHC is including 2% load for contribution to surplus and risk margin applicable to all products and plans.

Taxes and Fees:

The taxes and fees included in the rates are shown in Table 4. Where applicable these amounts have been prorated to reflect calendar year changes as they impact the months within the policy year.

Calibration

A tobacco user rating factor of 1.207 will be applicable in 2022. This is the same factor used for 2020 rates. The projected tobacco use calibration factor is 1.011.

Age factors are the default factors adopted by the state of Maine. To calculate the adjustment to the plan adjusted index rate, the average age factor is calculated separately for each month in the experience period. Every member's age as of the 15th is mapped to the rating factor table and a weighted average is taken. To calculate the average factor for the entire period, a member-weighted average of each of the 12 months is calculated. Using the 2022 age factors, the average age factor in our experience period is 1.78, which rounds to an average age of 50.

The area factors used in 2022 rates are the same as the ones updated in 2020. The factors are shown in Table 3. The weighted average area factor is 1.004. The range of area factors complies with the required 1.5:1 ratio.

The Plan Adjusted Index rate is calibrated by dividing by the weighted average tobacco, age and area factors. The resulting rate is used to calculate the Consumer Adjusted Premium.

Consumer Adjusted Premium Rate Development

The HPHC calculation starts with the appropriate calibrated plan adjusted index rate, adjusted for the average trend factor to arrive at the current quarter's plan rate. The appropriate area factor and age factor for each subscriber is applied to this rate. The total premium for the subscriber is

calculated by summing all these premiums, with a maximum of three dependents (under 18) included for families.

Projected Loss Ratio

The projected Medical Loss Ratio using the federally prescribed MLR methodology is estimated to be 87.4%.

AV Metal Values

The Actuarial Value Calculator was used to determine the metal tiers for the 2022 EHB plans. Adjustments were made to the AV calculator inputs to account for benefit designs not reflected in the AV calculator. The adjustments were derived by determining an actuarial equivalent benefit that could be used as input in the AV calculator, or by applying an adjustment to the final AV. The AV screen shots and documentation of the adjustments for these 2022 plans are included in this filing.

Membership Projections

Projected membership is shown in WS2 of the URRT. The expected membership as shown in the URRT is based on expected changes in enrollment by plan. Projected membership by CSR level is also included in the Supporting Memorandum.

Plan Type N/A

Reliance

In support of this rate development, various data and analyses were provided by other members from different departments of HPHC. I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data.

Actuarial Certification

I, Laura Pendergast, am a member in good standing of the American Academy of Actuaries. To the best of my knowledge:

1. The projected index rate was developed in compliance with all applicable Actuarial Standards of Practice and State and Federal Statutes and Regulations (45 CFR 156.80(d)(1) and 147.102) and is neither excessive nor deficient.
2. Plan level rates were generated using only the index rates and the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2).
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. Geographic rating factors reflect only differences in the costs of delivery and do not include differences in population morbidity by geographic area.

Please note that Part I of the Unified Rate Review Template does not demonstrate the process used by Harvard Pilgrim Health Care Inc. to develop the rates. Rather it represents information required by Federal regulation to be provided in support of the review of rate increases.

The AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template for all plans. However, some plans required additional adjustments. An actuarial certification is included for all the plans that required additional adjustments.

The rates in this filing reflect the information that Harvard Pilgrim had as of July 20, 2021, regarding 2022 federal and state regulations and market conditions. If there are changes in state or federal law, or if emerging information provides evidence that cost and utilization in 2021 will be impacted by the COVID-19 pandemic , Harvard Pilgrim reserves the right to withdraw or revise these rates.

A handwritten signature in black ink, appearing to read "Laura S. Pendergast". The signature is fluid and cursive, with a large initial "L" and a distinct "P" at the end.

Actuary Printed Name: Laura S Pendergast

Date: 7/20/2021