Federal Rate Filing Justification Part III
Actuarial Memorandum and Certification

UnitedHealthcare of Ohio
NAIC: 95186
FEIN: 31-1142815

State of Kentucky Rate Review

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Section 1: Purpose

The following is a rate filing prepared by UnitedHealthcare of Ohio. This filing has been prepared to provide the necessary information required by the Department of Health and Human Services and the state of Kentucky. The purpose of this memorandum is to provide information relevant to the Federal Part I Unified Rate Review Template (URRT).

This filing establishes rates intended to be used for non-grandfathered PPACA compliant small group health benefit plans sold off the Small Business Health Options Program in Kentucky for the 2021 plan year. A rate increase is being filed at this time. The rates and other information in this submission are based on the current regulations and guidance from HHS. Changes to this filing may be necessary if there are revisions to the regulations or updated guidance from HHS.

This memorandum is intended solely for the information of and use by the Department of Health and Human Services and the Kentucky Department of Insurance and Financial Services. It will demonstrate compliance with state and federal laws and regulations related to the development of the index rate and allowable rating factors and is not intended to be used for any other purpose.

The attached document contains confidential, proprietary information and trade secrets. This information is strictly confidential and protected from disclosure under Exemption 4 of the U.S. Freedom of Information Act, 5 U.S.C. §552, is a trade secret or confidential commercial or financial information as defined in 45 CFR §5.65, and protected from disclosure under 45 CFR §§5.1 – 5.69, and 45 CFR §154.215 (i)(2). If the prohibition against disclosure by the Department of Insurance and Financial Services is reassessed at a later date, it may not be disclosed to any other state or federal regulatory agencies unless the recipient agrees in writing prior to receipt to maintain the confidentiality of the information. This information is also protected from disclosure by KY Rev. Stat. §61.878(1)(c), Section 4 of 200 KY. Admin. Regs. 1:020, and the Kentucky Uniform Trade Secret Act, KY Rev. Stat. §§ 365.880 to 365.900.

Section 2: General Information

Company Identifying Information

Company Legal Name:	UnitedHealthcare of Ohio
State:	Kentucky
HIOS Issuer ID:	45920
Market:	Small Business, 1-50
Proposed Effective Date:	January 1, 2021

Primary Contact Information

[redacted]

Section 3: Proposed Rate Changes

The proposed change in rates for this filing is 8.4% compared to the prior filing. The change in geographic rating factors ranges from [redacted] and averages to [redacted] based on the current inforce population. These changes are applied uniformly to all plans within a rating area. The change due to plan benefit factors ranges from [redacted] and averages to [redacted] based on the current inforce population. The proposed pricing trend is [redacted] annually. At this time due to the significant uncertainty of the impact of the effects of COVID-19 on health care costs we have chosen to not reflect its impact in this proposed rate development. We thank the department for the flexibility that they have given all carriers to adjust rates during the review period and we anticipate revisiting that assumption as more data becomes available.

The primary drivers of the proposed rate changes are the following:

- Changes in medical service costs
  - Increasing Cost of Medical Services – Annual increases in reimbursement rates to health care providers – such as hospitals, doctors and pharmaceutical companies.
  - Increased Utilization – The number of office visits and other services continues to grow. In addition, total health care spending will vary by the intensity of care and/or use of different types of health services. Patients who are sicker generally have a higher intensity of health care utilization. The price of care can be affected by the use of expensive procedures such as surgery vs. simply monitoring or providing medications.
  - Higher Costs from Deductible Leveraging – Health care costs continue to rise every year. If deductibles and copayments remain the same, a greater percentage of health care costs need to be covered by health insurance premiums each year.
  - Cost shifting from the public to the private sector – Reimbursements from the Center for Medicare and Medicaid Services (CMS) to hospitals do not generally cover all of the cost of care. The cost difference is being shifted to private health plans. Hospitals typically make up this difference by charging private health plans more.
  - Impact of New Technology – Improvements to medical technology and clinical practice often result in the use of more expensive services - leading to increased health care spending and utilization.
- Administrative costs and anticipated profit
  - UnitedHealthcare works to directly control administrative expenses by adopting better processes and technology and through the development of programs and innovations that make health care more affordable. We have led the marketplace by introducing key innovations that make health care services more accessible and affordable for customers, improve the quality and coordination of health care services, and help individuals and their physicians make more informed health care decisions.
  - Additionally, UnitedHealthcare indirectly controls medical cost payments by using appropriate payment structures with providers and facilities. UnitedHealthcare's goal is to control costs, maximize efficiency, and work closely with physicians and providers to obtain the best value and coverage.
  - State and/or Federal government imposed taxation and fees are additional significant factors that impact health care spending. These fees include ACA taxes and fees which will have increased health insurance costs and need to be reflected in premium.
- Changes that vary by plan
  - All plan relativity factors have been updated to reflect UnitedHealthcare's most recent pricing model.
  - The impact of any changes to plans that have occurred due to uniform modification are also reflected in the updated plan relativity factors. Please see the "Plan Adjusted Index Rate" section of the memorandum for more detail on these changes.

We refined the medical and pharmacy plan price relativities to reflect the most recent pricing methodology and pricing models. The methodology is based on UnitedHealthcare nationwide experience data, which contains utilization frequencies and unit costs by service category, in addition to claim distributions and adjustment factors for a large number of plan design variables. Benefit design parameters such as deductibles, coinsurance, copays, out-of-pocket maximums, etc. were input for each plan. The expected paid-to-allowed relativities and expected utilization differences due to differences in cost sharing for each plan are then used to develop the plan factors for each benefit plan. All benefit plans are priced consistently with each other, with the rates differing by the estimated value of the benefits and the expected utilization differences due to differences in cost sharing. The utilization differences do not reflect differences due to health status. The net impact of all changes by plan can be found in Worksheet 2, Section I of the Unified Rate Review Template.

Significant factors driving the proposed rate changes are discussed in further detail in Section 6 (*Projection Factors*) and Section 7 (*Credibility Manual Rate Development*) of this memorandum.

Section 4: Experience and Current Period Premium, Claims and Enrollment

Paid Through Date

The experience period is 1/1/2019 through 12/31/2019, with claims paid through 2/29/2020.

Current Date

The current enrollment and premium is reported as of 12/31/2019.

Allowed and Incurred Claims Incurred During the Experience Period

Claims Description	Allowed Claims	Incurred Claims
Claims Paid as of February 29,2020	$ [redacted]	$ [redacted]
Claims Incurred but Not Reported as of February 29,2020	$ [redacted]	$ [redacted]

The claims data was available directly from company claims records.

Support for Estimate of Incurred but not Reported Claims

[redacted]

Experience Period Risk Adjustment

Risk Adjustments for the experience period are not known at this time.

Our 2019 risk adjustment transfer PMPM is estimated using data provided to UnitedHealthcare as a result of our participation in a multi-state study done by a large, independent actuarial consulting firm. Based on the results of that study, we expect that risk level of the membership insured by UnitedHealthcare of Ohio to be lower than the market. This results in an approximate adjustment of [redacted] PMPM.

Experience Period Index Rates

[redacted]

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Section 5: Benefit Categories

Claims were assigned to each of the benefit categories based on where services were administered and the types of medical services rendered. The benefit categories were defined by our claims department using standard industry definitions.

Inpatient Hospital

Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

Outpatient Hospital

Includes non-capitated facility services for surgical, emergency room, laboratory, radiology, therapeutic, observation, and other services provided in an outpatient facility setting and billed by the facility.

Professional

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

Other Medical

Includes non-capitated ambulatory, home health care, durable medical equipment, prosthetics, supplies, vision exams, dental services and other services.

Capitation

Includes all services provided under one or more capitated agreements.

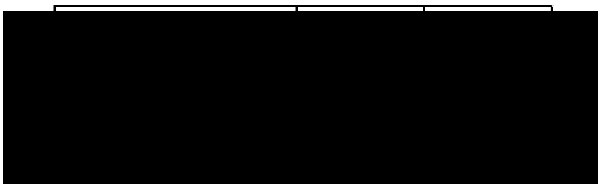
Prescription Drug

Includes drugs dispensed by a pharmacy. This amount is net of rebates received from drug manufacturers.

Section 6: Projection Factors

Trend

Two years of annual trend were applied to our 2019 experience to project it to the 2021 rating period. Our most recent analysis indicates annual trend in the state of Kentucky for the 2020 and 2021 calendar years will be [redacted] and [redacted], respectively. The table below details the components of each trend factor.



UnitedHealthcare develops forward-looking medical expense estimates based on a number of considerations. In general, recent/emerging claims experience is reviewed at the market level for several broad medical expense categories (inpatient, professional, pharmacy, etc.), with utilization, unit cost, and benefit leveraging identified for each category. Future trends are developed based on a projection of each component.

Utilization rates by category are measured and projected. Forward looking utilization levels are developed based on emerging market level data, supplemented by regional and/or national level utilization data. Macro-economic data is often used to develop assumptions regarding directional changes in national health care consumption rates. UnitedHealthcare uses same store analysis to reflect utilization.

Market-level unit cost projections are developed based on evaluations of current and anticipated provider contract economics, as well as consideration to both current and expected changes in non-contracted provider cost exposure. Unit cost projections also consider the estimated cost impact of new technologies, service availability/mandates, or other factors that might influence the mix of procedures. Unit cost is based on our contractual changes with providers.

In addition, market-level healthcare affordability activities that are expected to impact forward-looking medical costs are recognized. Depending on the nature of individual initiatives, the impact may be recognized in one or more of the component cost items discussed above. Only incremental activities are recognized for this purpose in the expected trend impact for any particular period.

Morbidity Adjustment

The total Morbidity Adjustment is [redacted]. It is comprised of:

Demographic Shift

The total Demographic Shift Adjustment is [redacted] It is comprised of the following factors:

Age Shift:

The claims were adjusted by 0%, which was calculated using the HHS standard age curve (Avg. Age Factor projected / Avg. Age Factor experience – 1) to align with the rating period expected age distribution.

The HHS-specified age curve was used in rating.

Geographic Shift:

An adjustment of [redacted] was made to account for the shift in the distribution of members by rating area between the experience period and the rating period. The factor reflects the change in the average geographic rating area factor from the experience period to the rating period, weighted by the respective membership distributions, using the proposed geographic rating area factors. The formula is calculated as: Avg. Geographic Rating Area Factor projected / Avg. Geographic Rating Area Factor experience – 1.

Plan Design Changes

The total Plan Design Adjustment is [redacted] It is comprised of the following factors:

Shift in Benefit Plan Distribution:

An adjustment of [redacted] was made to account for the expected change in allowed claims due to the shift in the distribution of benefit plans between the experience period and the rating period.

Other Adjustments

The total other adjustments are [redacted] and it is comprised of the following factors:

Catastrophic Claims Adjustment:

An adjustment was made to account for catastrophic claims experience in the experience period. The claims were adjusted by [redacted] to align with expected catastrophic claim levels in the rating period.

Trend Adjustment

An additional trend adjustment of [redacted] is applied to trend our rates to the mid-point of the quarter rather than the beginning of the quarter

All Other

An additional adjustment of [redacted] is applied to align the Index Rate with the projected premium for each plan using the projected membership and rating factors.

Section 7: Credibility Manual Rate Development

Source and Appropriateness of Data Used

The combined Kentucky experience of [redacted] was used for rate development.

Adjustments Made to the Data

Adjustments similar to the ones described in Section 6 were applied to the experience of the credibility manual to project it to the projection period. In addition, the credibility manual was adjusted to reflect the average age, geography, plan design and morbidity of the adjusted experience period claims.

An adjustment to the credibility manual was made to account for catastrophic claims experience in the experience period.

Inclusion of Capitation Payments

Capitation payments are included in both the experience and projections.

Section 8: Credibility of Experience

The experience for this legal entity contains [redacted] member months which does not exceed the total member months needed to be considered fully credible. As such the credibility of UnitedHealthcare of Ohio is set to [redacted], and the remaining uses the credibility manual described above.

Consideration was given to ASOP #25 when determining the credibility and appropriateness of the experience and the manual rate. The manual rate is sufficiently independent from the experience and can be blended with it for purposes of rate development.

Section 9: Development of Projected Index Rate

The experience period index rate is [redacted] PMPM.

[redacted]

The projected index rate of [redacted] was calculated by trending and adjusting the experience period index rate to the projection period, including blending the experience with a manual rate if the experience was not fully credible. It is established in accordance with the requirements of 45 CFR §156.80(d). See sections 6, 7, and 8 of this memo for more details.

Section 10: Development of the Market Adjusted Index Rate

Reinsurance

There is no reinsurance program in force for this business, and as a result there are no reinsurance recoveries to report.

Risk Adjustment Payment/Charge

UnitedHealthcare of Ohio anticipates paying an average of [redacted] PMPM for risk adjustment transfers in the state of Kentucky for the 2021 plan year, which has been grossed up to [redacted] PMPM on an allowed basis for purposes of calculating the Market Adjusted Index Rate. We are assuming the risk level of our business relative to that of our competitors for the 2021 plan year will be similar to what it was in the 2019 plan year. [redacted]

Exchange User Fees

There are no plans included in this filing that are offered on the exchange. Therefore, there are no exchange user fees.

The market adjusted index rate includes market-wide adjustments for reinsurance, risk adjustment transfers and exchange user fees (if any).

[redacted]

Section 11: Plan Adjusted Index Rate

Actuarial Value and Cost Sharing Adjustment

[redacted]

Provider network, delivery system and utilization management adjustment

Any adjustments for these items are included in the plan relativity factors.

Benefits in Addition to EHBs

[redacted]

Distribution and Administrative Costs

Distribution and administrative costs include premium tax, risk adjustment user fees, SG&A, quality improvements, federal income tax, and after-tax income. Risk adjustment transfers, net reinsurance recoveries and exchange fees are excluded because they are accounted for in the market adjusted index rate.

Administrative Expense Load

The administrative expense load is a long-term estimate of administrative expenses, including selling expenses and general administrative expenses. This load is consistent across most products and plans. However, a small number of plans may have different expense loads due to unique features of those plans. These assumptions are based on the general ledger actual results for 2019 with known adjustments. Known adjustments include, but are not limited to, pay increases/raises for employees and administrative expenses as a result of Healthcare Reform and compliance requirements. The administrative expense allocation methodology used in pricing is appropriate because it is consistent with how UnitedHealthcare runs its business and how it allocates administrative costs for Statutory Filings and the Healthcare Reform Exhibits.

Profit and Risk Margin

The profit and risk margin is shown in Worksheet 2, Section III of the URRT. This target does not vary by product or plan.

[redacted]

The profit and risk margin results in an anticipated MLR that is above the minimum requirements as described in the Projected Loss Ratio section.

Taxes and Fees

Taxes and fees are expected to be [redacted] and include premium tax, exchange fees (if any), risk adjustment user fees, and federal income tax. The following is a breakdown of the taxes and fees.

[redacted]

Section 12: Calibration

Plan Adjusted Index Rates need to be calibrated to apply the allowable rating factors of age and geography in order to calculate the Consumer Adjusted Premium Rates. Calibration factors are applied uniformly to all plans.

Age Calibration

The calculated age curve calibration is [redacted], which equals one divided by the average age factor of the expected member distribution by age. The age factors used in this calculation are the HHS-specified age curve.

Geographic Calibration

The geographic factor calibration is [redacted], which equals one divided by the expected average area factor. A table of the geographic rating factors is below.

[redacted]

Geographic rating factors are reviewed periodically versus UnitedHealthcare claims data that reflects unit cost differences by county. Such a review was conducted as part of our January 1, 2021 rate development.

[redacted]

For any of the above rating factors that are unchanged, our analysis did not indicate that there were credible, material differences indicated by the comparison of currently approved area factors and the UHC data reflecting unit cost differences.

Population morbidity by area was not considered when determining geographic area factors.

Tobacco Calibration

[redacted]

Calibrating the plan adjusted index rate to the age curve and geographic distribution results in the calibrated premium rate for each plan. The calibrated premium rate represents the preliminary premium rate charged to an individual before applying the consumer specific rating adjustments for age and area.

Section 13: Consumer Adjusted Premium Rate Development

The consumer adjusted premium rate is the final premium rate that is charged to an individual. It is developed by calibrating the plan adjusted index rate, and applying the consumer specific age and geographic rating factors. The calculation is provided below.

Plan Adjusted Index Rate
x Age Calibration Factor
x Geographic Calibration Factor
x Consumer Specific Age Rating Factor
x Consumer Specific Geographic Rating Factor
x Small Group Trend Adjustment
= Consumer Adjusted Premium Rate

Section 14: Projected Loss Ratio

The projected loss ratio using the federally prescribed MLR methodology for calendar year 2021 is [redacted]

UHC has elected to report a single quality improvement activity (QIA) amount of [redacted] of premium in lieu of actual QIA expenditures. This action is allowed per the 2020 Final Notice of Benefit and Payment Parameters (NBPP). Issuers electing to use the [redacted] must do it consistently across all states and markets subject to MLR, including amongst all affiliated issuers.

Section 15: AV Metal Values

The AV calculator used to calculate the AV metal values is based on a prescribed methodology and, therefore, does not necessarily reflect a reasonable estimate of the portion of allowed costs covered by the associated plan.

Some plans within this portfolio have cost sharing features that differ between individual and family coverage (i.e., when two or more people are covered by the plan). For all plans, consistent with the Actuarial Value Calculator inputs, we have used only the cost sharing provisions applicable for individuals in the actuarial value calculation.

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. Some of our plan designs are not directly compatible with the AV calculator. The values were developed in accordance with generally accepted actuarial principles and methodologies. Additional details are provided below to describe the types of adjustments that were made for plan designs that are not directly compatible with the AV calculator.

[redacted]

[redacted]

Section 16: Membership Projections

The 2021 plan year membership projection was developed utilizing the experience period plan level membership distribution along with sales and persistency targets. Member distribution by plan was then based on current enrollment, taking into consideration changes in the portfolio of plans to be offered in 2021. Strictly for purposes of the URRT, we have projected membership by plan.

Section 17: Terminated Plans and Products

There are no products being terminated in this rate filing.

Historically, the prescription drug list (PDL), also referred to as a formulary, was not considered to be a component of a Product's "covered benefits," and plans covering the same package of benefits but using different PDLs could be considered part of the same Product and use a common HIOS Product ID. However, HHS revised its guidance, expanding a Product's covered benefits to include the PDL. Therefore, plans with different PDLs will now belong to different Products and have different HIOS Product IDs.

Our plan offerings in prior years included a mix of plans with the Advantage and Essential PDLs within the same HIOS Product ID. In light of the revised HHS guidance, UnitedHealthcare of Ohio is assigning new HIOS Plan IDs to plans with the Essential PDL to give them a separate HIOS Product ID. The change in HIOS Product ID and HIOS Plan ID does not indicate that the benefits covered by the plan have changed; it is merely an administrative change to align with HHS's clarification regarding PDLs and covered benefits.

See the appendix for a list of plans that were assigned a new HIOS Plan ID.

Section 18: Plan Type

A plan type of POS & HMO has been selected, which describes the plans exactly.

Section 19: Reliance

Due to responsibility allocation, I have relied upon other individuals within the UnitedHealthcare organization to provide certain assumptions. Although I have performed a limited review of the information and have not found it unreasonable or inconsistent, I have not reviewed it in enough detail to fully judge the reasonableness of the information due to the substantial amount of additional time required. I have therefore relied upon the expertise of those individuals who have developed the assumptions, and am providing the information required by Actuarial Standard of Practice 41, section 4.3. A list of reliances is included below.

UnitedHealthcare Finance Department

- Projected SG&A Assumption

UnitedHealthcare National Pricing Team

- Plan Relativity Modeling

UnitedHealthcare Healthcare Economics Department

- Projected Trend
- Claims Reserves
- ACO/Premium Designation Provider Cost Savings Estimates

Section 20: Actuarial Certification

I, [redacted] I meet the Academy's qualification standards for rendering statements of actuarial opinion with respect to the filing of rates for health insurance products.

To the best of my knowledge and judgment, I certify that:

- The projected index rate is:
  - In compliance with state and federal statutes and regulations related to the development of the index rate and allowable rating factors (such as 45 CFR 156.80 and 147.102).
  - Developed in compliance with the applicable Actuarial Standards of Practice.
  - Reasonable in relation to the benefits provided and population anticipated to be covered.
  - Neither excessive, deficient, nor unfairly discriminatory.

- The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.

- The geographic rating factors reflect only differences in the costs of delivery and do not include differences for population morbidity by geographic area.

- 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. Some of our plan designs are not directly compatible with the AV calculator. The values were developed in accordance with generally accepted actuarial principles and methodologies. The unique plan design actuarial certification required by 45 CFR Part 156.135 has been separately attached.

- The Part I Unified Rate Review Template does not demonstrate the process used by the issuer to develop their rates. Rather, it represents information required by federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated exchanges, and for certification that the index rate is developed in accordance with federal regulation and used consistently and only adjusted by the allowable modifiers.
- This filing was prepared in accordance with ASOPs 8, 23, 26, 41 and other applicable ASOPs.

[redacted]

Appendix - HIOS Plan ID Updates due to Administrative Fix

State: KY | | Market Segment:Small Group ||Company: UnitedHealthcare of Ohio

HIOS Issuer ID: 45920 | | Proposed Effective Date: 1/1/2021

Original Plan ID/SCID	Current Plan ID/SCID	Plan Code	Original Effective Date of Plan
45920KY0010029	45920KY0060003	CC-CF	1/1/2018
45920KY0010027	45920KY0060001	CC-BK	1/1/2018
45920KY0010025	45920KY0060002	CC-B9	1/1/2018
45920KY0010004	45920KY0060009	CC-CQ	1/1/2015
45920KY0010009	45920KY0060010	CC-CR	1/1/2016
45920KY0010010	45920KY0060008	CC-CN	1/1/2016
45920KY0010014	45920KY0060012	CC-DE	1/1/2017
45920KY0010015	45920KY0060011	CC-DD	1/1/2017
45920KY0020041	45920KY0070002	CC-CP	1/1/2015
45920KY0020043	45920KY0070001	CC-CO	1/1/2015
45920KY0020052	45920KY0050003	CC-B6	1/1/2016
45920KY0020053	45920KY0050004	CC-B7	1/1/2016
45920KY0020010	45920KY0050001	CC-BG	1/1/2014
45920KY0020051	45920KY0050002	CC-B5	1/1/2016
45920KY0020069	45920KY0050012	CC-BX	1/1/2020
45920KY0020071	45920KY0050013	CC-BY	1/1/2020
45920KY0020072	45920KY0050014	CC-BZ	1/1/2020
45920KY0020073	45920KY0050011	CC-CA	1/1/2020
45920KY0040001	45920KY0060019	CC-CG	1/1/2019