

Federal Rate Filing Justification Part III  
Actuarial Memorandum & Certification  
For UnitedHealthcare Insurance Company  
State of Kentucky Rate Review

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# FEDERAL Rate Justification PART III – Actuarial Memorandum & Actuarial Certification

## Purpose

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The purpose of this actuarial memorandum is to provide information relevant to the Part I Uniform Rate Review Template (URRT).

This document contains information that consists of confidential, proprietary trade secrets under state and federal law. Under federal law, this information is exempt 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). The attached document contains confidential, proprietary information and trade secrets. This information is 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.

## General Information

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### *Company Identifying Information*

Company Legal Name: UnitedHealthcare Insurance Company

State: Kentucky

HIOS Issuer ID: 28773

Market: Small business, 1-100

Effective Date: 1/1/2016

### *Company Contact Information*

Primary Contact Name: ██████████

Primary Contact Telephone Number: ██████████

Primary Contact Email Address: ██████████

## Proposed Rate Increase(s)

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UnitedHealthcare Insurance Company in Kentucky issues group major medical products. The overall estimated impact on 2016 rates including trend due to changes proposed in this filing is 2.8%. Please refer to Unified Rate Review Template (URRT) worksheet 2 for additional information on the rate change by plan.

### **Reason for Rate Change**

UnitedHealthcare is filing rate changes effective 1/1/2016 for existing benefit plans that meet the coverage and rating requirements of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, collectively referred to as the Affordable Care Act (ACA). Proposed changes include the following:

- **Introduction of new ACA Portfolio:** Effective 1/1/2016, we will introduce 1 new plan and carry over 1 plan from the 2015 ACA portfolio. This set of plans will be called our 2016 ACA plan portfolio.
- **Changes in Medical Service Costs:** There are many different health care cost trends that contribute to increases in the overall U.S. health care spending each year. These trend factors affect health insurance premiums, which can mean a premium rate increase to cover costs. Some of the key health care cost trends that have affected this year's rate actions include:
  - **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, while deductibles and copayments remain the same. As a result, 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 are no longer covering all of the cost of care. The cost difference is being shifted to private health plans. Additionally, Medicare and Medicaid rates to hospitals are expected to decline due to the impact of the Patient Protection and Affordable Care Act on Medicare and the effect of the recession on Medicaid. A rate increase paid by Medicaid to hospitals is often below the actual cost increase hospitals will experience.
  - **Impact of New Technology** - Improvements to medical technology and clinical practice require use of more expensive services - leading to increased health care spending and utilization.
- **Changes that vary by plan**
  - Some plan designs have changes to cost-sharing requirements solely to maintain its existing metal level.
  - The plan relativity factors are being repriced to be consistent with our most recent pricing model. In order for this repricing to be revenue neutral in aggregate, a +1.2% change to Base Rate is required.





- █ [REDACTED]

[REDACTED]

**Demographics Changes**

[REDACTED]

**Other Adjustments**

[REDACTED]

**Trend Factors (Cost, Utilization)**

[REDACTED]

# Credibility Manual Rate Development

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## ***Experience Data Used – Source and Appropriateness***

The UnitedHealthcare Insurance Company (UHIC) experience includes 3,049 member months. We generally assign full credibility at 25,000 member years, or the equivalent of 300,000 member months. For the credibility manual, we assigned partial credibility to the combined Kentucky small group experience sold by UnitedHealthcare Insurance Company (UHIC), UnitedHealthcare of Kentucky (UHC of KY), and UnitedHealthcare of Ohio (UHC of OH) (collectively, UnitedHealthcare) and blended the experience with the fully credible Indiana small group experience sold by UHIC. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## ***Data Adjustments***

[REDACTED]

[REDACTED]

[REDACTED]

## **Experience Credibility**

---

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## **Paid To Allowed Ratio**

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The paid to allowed ratio is 0.727. The paid to allowed average factor for the projection period is based on the actual paid to allowed in the experience period, adjusted for expected leveraging and migration to new plans.

## **Risk Adjustment and Reinsurance**

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### ***Projected Risk Adjustments (PMPMs)***

Based on the study by a national actuarial consulting firm for a market-majority of carriers within Kentucky, the UnitedHealthcare book of business has a relatively lower risk score than statewide average. Due to the risk adjustment on ACA rates, we need to normalize our claim cost to the statewide average. This normalization accounts for 1.9% of the claim cost. Risk transfer of \$7.05 PMPM and risk adjustment user fee of \$0.15 PMPM are assumed to be paid.

### ***Projected ACA Reinsurance Recoveries Net of Reinsurance Premium***

Since the state of Kentucky chose not to combine its individual and small group markets, reinsurance recoveries are not applicable to this rate filing. However, reinsurance premiums of \$2.25 PMPM are assumed to be charged.



## Index Rate

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The index rate for the experience period is equal to the allowed claims PMPM. No adjustments were made for payments and charges under the risk adjustment and reinsurance programs or for Exchange user fees.

The index rate for the projection period of \$530.24 is the weighted average of the projected allowed claims applicable for each effective date. The projection period (1/1/16 – 12/31/16) projected allowed experience claims PMPM is trended to the midpoint of each quarter in 2016. The trend assumption includes the same cost and utilization trend factors used in Section II of Worksheet 1. The weighted average was based on the projected member months with effective dates for policy periods beginning in each quarter of 2016. The calculation is shown below.

### Index Rate Calculation

2016 Effective Dates	Calculation	Q1	Q2	Q3	Q4	Average
Member Months	A	48	120	132	456	
Allowed Claims PMPM	B	\$504.79	\$504.79	\$504.79	\$504.79	
Trend to Midpoint of Quarter	C	1.009	1.026	1.044	1.063	
Index Rate Calculation						\$530.24

No benefits in excess of essential health benefits were projected. No adjustments for payments and charges under the risk adjustment and reinsurance programs or for Exchange user fees were made to the index rate calculation above.

## Market Adjusted Index Rate

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[REDACTED]

## Plan Adjusted Index Rate

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[REDACTED]

[Redacted text block containing multiple paragraphs and bulleted points]

## Calibration

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[Redacted text block containing multiple paragraphs]

## Consumer Adjusted Premium Rate Development

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[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

## AV Metal Values

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All Actuarial Values (AV) were based on the 2016 Actuarial Value Calculator. Some adjustments were made to plan designs in order to appropriately model the design in the AV calculator. When possible, data from the AV Calculator was used to make the adjustments. If the necessary data from the AV Calculator was not available, adjustments were developed based on UnitedHealthcare's historical experience and proprietary pricing model. These adjustments are outlined below.

- **Emergency Room Cost Sharing Effective Coinsurance Inputs**

According to the User Guide of the Actuarial Value Calculator in the FAQ section, the tool will not allow both copays and coinsurance to apply. In order to apply copays in conjunction with coinsurance, the copay was applied as an effective coinsurance rate in order to calculate an AV score appropriate for the plan designs in question.

For example, Plan 6L-9, to convert the \$300 Emergency copay amount to effective coinsurance, we divided the flat dollar copay by an average unit cost calculated using the Gold continuance table included in the AV calculator (e.g. \$2,104). Note: for Silver plans we used \$2,320 and for Bronze plans we used \$2,446 because each metallic level has different continuance tables.

For Plan 6L-9, the Emergency Room cost share was determined to be equivalent to 68.6% coinsurance.

\$300 copay = 14.3% (i.e. 300/2104)

Copay is applied first so remaining =  $20\% \times (2,104 - 300) / 2,104 = 17.1\%$

Final Emergency Room cost share =  $100\% - 14.3\% - 17.1\% = 68.6\%$

- **Specialty Drugs Copay Input**

The Actuarial Value Calculator allows the user to reflect a different level of cost sharing to apply to Specialty Pharmacy expenses than other Pharmacy costs. This may be reflected by entering a copay that applies only to Specialty Pharmacy. UnitedHealthcare's benefit designs include plans with different Specialty Pharmacy cost sharing levels depending on the tier designation of the specific script.

In order to reflect the Specialty benefit accurately in the AV calculator, the multiple cost sharing levels were combined into a composite level based on the weights shown below. The weighting is based on

distribution of scripts for each tier. Below is an example for a \$15/\$45/\$85 plan, which has specialty copays of \$15/\$100/\$300.

	Composite Calculation		
	Copay	% Weight	Calc
Tier 1	\$15.00	32%	\$4.80
Tier 2	\$100.00	58%	\$58.00
Tier 3	\$300.00	10%	\$30.00
<b>Total</b>			<b>\$92.80</b>

The following chart outlines the adjustments by plan.

Plan Name	Plan ID	Metallic Level	AV Score Min	AV Score Max	Specialty Rx Copays	IP Facility/Professional Blend	ER Cost Sharing Converted to Effective Coinsurance	HRA or HSA Employer Funding Amount	Copay limits on PCP/SPC (combined)	HRA
6L-9	28773KY0010002-00	Gold	79.6%		Y	N	Y		N	N
AC-TH	28773KY0050001-00	Gold	78.9%		Y	N	N		N	N

## AV Pricing Values

The AV Pricing Value represents the cumulative effect of adjustments made by the issuer to move from the Market Adjusted Index Rate to the Plan Adjusted Index Rate. The AV Pricing Value is attributable to the following allowable modifiers:

- Provider network, delivery system and utilization management adjustment
- Actuarial value and cost-sharing design of the plans
- Distribution and administrative costs

Please refer to the Plan Adjusted Index Rate section for additional details.

## Membership Projections

Most recent membership data on current plans was used to estimate the projected membership. The projected membership is based on the projection period of 1/1/2016 – 12/31/2016. It was assumed current non-grandfathered membership and terminated plan membership would migrate to similar fully ACA-compliant plans offered in 2016. No persistency or new business sales assumptions were included in the projected membership.

## Terminated Products

There is 1 plan terminated on 12/31/2014. Terminated plans will not be mapped to a different plan in the projection period; therefore, no mapping has been included. All terminated single risk pool plans are included in worksheet 2 of the URRT and are listed below. All non-single risk pool plans have the Plan ID "28773KY0010000".

Effective Date	SCID	Notes
1/1/2015	28773KY0010001	Terminated

## Plan Type

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All plans fall under the POS and Indemnity plan type.

## Warning Alerts

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There are no warning alerts on Worksheet 1.

There are two warning alerts due to differences between the experience period information on Worksheet 2 section 3 and the experience period information on Worksheet 1:

- **Plan Adjusted Index Rate:** The Single Risk Pool Gross Premium Avg. Rate in Worksheet 1 is higher than the Plan Adjusted Index Rate in Worksheet 2 because the average rate PMPM in Worksheet 1 includes premiums for all members, including those on transitional plans. The Plan Adjusted Index Rate in Worksheet 2 is \$0 for members on transitional plans, but the total weighted average is based on all membership in the experience period, including those on transitional plans. This discrepancy and having no membership in single risk pool plans results in a total Plan Adjusted Index Rate of \$0 in Section III of Worksheet 2.
- **Total Premium:** The total premium in Worksheet 1 is higher than the total premium in Worksheet 2 because the Single Risk Pool Gross Premium Avg. Rate in Worksheet 1 is higher than the Plan Adjusted Index Rate in Worksheet 2. The explanation of the Plan Adjusted Index Rate warning provides further detail.

There are two warning alerts due to differences between the projection period information on Worksheet 2 section 4 and the total projected amounts on Worksheet 1:

- **Plan Adjusted Index Rate:** The Single Risk Pool Gross Premium Avg. Rate in Worksheet 1 is lower than the Plan Adjusted Index Rate in Worksheet 2 because the average rate PMPM in Worksheet 1 represents the projection period 1/1/16 – 12/31/16, whereas the Plan Adjusted Index Rate in Worksheet 2 reflects quarterly trend adjustments by accounting for rate effective dates throughout 2016.
- **Total Premium:** The total premium in Worksheet 1 is lower than the total premium in Worksheet 2 because the Single Risk Pool Gross Premium Avg. Rate in Worksheet 1 is lower than the Plan Adjusted Index Rate in Worksheet 2. The explanation of the Plan Adjusted Index Rate warning provides further detail.

## Reliance

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I have relied on data provided by Unitedhealthcare's Finance Department in determining the Non-Benefit Expenses and Risk Margin information, including administrative expenses, profit and risk margin, taxes and fees, and the projected loss ratio under the Federally prescribed MLR methodology.

## Actuarial Certification

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I, [REDACTED], am an actuary of Unitedhealthcare and a member of the American Academy of Actuaries.

I certify that the projected index rate is:

- In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)),
- Developed in compliance with the applicable Actuarial Standards of Practice,
- Reasonable in relation to the benefits provided and the population anticipated to be covered, and
- Neither excessive nor deficient

I certify that 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.

I certify that the percent of total premium that represents EHBs included in Worksheet 2, Sections III and IV was calculated in accordance with actuarial standards of practice.

I certify, with qualification, that the geographic rating factors reflect only differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area. I qualify that rate volatility was also taken into consideration in establishing the area factors. UnitedHealthcare is continuing to develop tools to better estimate differences in costs of delivery by area. The data that is currently available may have limited credibility and may not fully account for differences in provider practice patterns. As such, a business decision was made to limit some changes to area factors in an attempt to mitigate rate volatility to the members. Rate stability and minimizing disruption is preferred, particularly with the unknown impact of risk adjustment by rating region. Differences in population morbidity were not considered in developing the area factors. When risk adjustment information by rating region becomes available, this will also be analyzed to ensure that population morbidity is not reflected in the area factors.

I certify that the AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Part I Unified Rate Review Template. For plans designs that did not fit into the AV Calculator, included in this Part III Actuarial Memorandum is a description of the methodology and numerical values used to develop the AV metal values, and a certification as required by 45 CFR Part 156, §156.135.

I qualify my opinion to state that the Part I Unified Rate Review Template does not demonstrate the process used by UnitedHealthcare to develop the 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.

Sincerely,

[REDACTED]

[REDACTED]

UnitedHealthcare

# Unique Plan Design Supporting Documentation and Justification

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Please fill in the following information.

**HIOS Issuer ID:** \_\_\_\_\_

\_\_\_\_\_

**HIOS Product IDs:** \_\_\_\_\_

\_\_\_\_\_

**Applicable HIOS Plan IDs (Standard Component):** \_\_\_\_\_

\_\_\_\_\_

**Reasons the plan design is unique (benefits that are not compatible with the parameters of the AV calculator and the materiality of those benefits):**

\_\_\_\_\_

\_\_\_\_\_

**Acceptable alternate method used per 156.135(b)(2) or 156.135(b)(3):**

\_\_\_\_\_

**Confirmation that only in-network cost sharing, including multitier networks, was considered:**

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**Description of the standardized plan population data used:**

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**If the method described in 156.135(b)(2) was used, a description of how the benefits were modified to fit the parameters of the AV calculator:**

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**If the method described in 156.135(b)(3) was used, a description of the data and method used to develop the adjustments:**

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**Certification Language:**

The development of the actuarial value is based on one of the acceptable alternative methods outlined in 156.135(b)(2) or 156.135(b)(3) for those benefits that deviate substantially from the parameters of the AV Calculator and have a material impact on the AV

The analysis was

- (i) conducted by a member of the American Academy of Actuaries;
- (ii) performed in accordance with generally accepted actuarial principles and methodologies;

**Actuary signature:** \_\_\_\_\_

**Actuary Printed Name:** \_\_\_\_\_

**Date:** \_\_\_\_\_