

District of Columbia 2017 Individual and Small Group Filings

Independent Actuarial Review Performed for DC Health Benefit Exchange Authority

September 23, 2016

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1 | Review Process

Review Process

- **Oliver Wyman was hired by DC HBX to assist with review of proposed 2017 rates**
 - Provide input to DISB during period of heavy filing volume to be reviewed during a short time period
 - Identify areas where the assumptions lack support or are inconsistent with Federal or District regulations
 - Provide DC HBX with an independent opinion regarding 2017 rates proposed by the carriers
 - Focused on appropriateness of proposed rates rather than requested rate increase level
 - Independently developed actuarial assumptions based on information included in the filing rather than comparing carrier assumptions to reasonable ranges
- **Review Process Undertaken by Oliver Wyman**
 - Reviewed filings against 15 items which are required to be examined by states as part of an effective rate review program (HHS regulation 45 CFR 154.301)
 - Considered additional District specific requirements (e.g., merged risk pool, District specific age curve)
 - Provided DISB with questions to pose to carriers requesting additional support
 - Reviewed carrier responses to determine if additional support was needed and if so, provided DISB with additional follow-up questions
 - Held weekly calls with DC HBX to discuss outstanding issues with the filings throughout the process

2 | Rate Increase Requests

Filed Increases vs. Oliver Wyman Independent Analysis

	Initially Filed Rate Changes		Current Filed Rate Changes ¹		OW Analysis	
	Individual	Small Group	Individual	Small Group	Individual	Small Group
CareFirst BlueChoice (3-Yr Phase-in)	13.3%	4.4%	22.8%	3.3%	6.4% ²	(0.2%) ²
CareFirst BlueChoice (5-Yr Phase-in)	13.3%	4.4%	22.8%	3.3%	4.2% ³	(0.3%) ³
GHMSI (3-Yr Phase-in)	0.0%	0.0%	1.8%	(2.2%)	(2.4%) ²	(1.4%) ²
GHMSI (5-Yr Phase-in)	0.0%	0.0%	1.8%	(2.2%)	(4.0%) ³	(1.5%) ³
Aetna Health, Inc.	N/A	11.0%	N/A	9.1%	N/A	7.3%
Aetna Life Insurance Co.	N/A	5.4%	N/A	3.1%	N/A	1.3%
UnitedHealthcare Insurance Co.	N/A	2.2%	N/A	(0.9%)	N/A	(2.5%)
Optimum Choice, Inc.	N/A	2.2%	N/A	(0.9%)	N/A	(2.5%)
UnitedHealthcare of the Mid-Atlantic	N/A	11.4%	N/A	8.1%	N/A	6.4%
Kaiser	12.0%	2.0%	12.0%	2.0%	12.0%	2.0%

¹ Some carriers submitted amended rate filings as a result of the rate review process, so these figures reflect the most recently filed rates.

² Includes, calculated at DC HBX's request, the additional impact of phasing in corrections for increases attributable to revised induced demand factors, elimination of HSA adjustment factors in the individual market, and corrected age calibration factors over three years. Assumes all rate decreases attributable to these changes take full effect in the 2017, however any rate increases attributable to these changes are phased in over three years.

³ Includes, calculated at DC HBX's request, the additional impact of phasing in corrections for increases attributable to revised induced demand factors, elimination of HSA adjustment factors in the individual market, and corrected age calibration factors over five years. Assumes all rate decreases attributable to these changes take full effect in the 2017, however any rate increases attributable to these changes are phased in over five years.

3 | Results of Rate Reviews

Recommended Adjustments to Filed Rate Changes - Aetna

	Aetna Health Insurance Small Group	Aetna Life Insurance Company Small Group
Most Recently Filed Carrier Rate Change¹	9.1%	3.1%
Impact of Removing Medical Utilization Trend	(1.6%)	(1.7%)
OW Recommended Rate Change	7.3%	1.3%

¹ Source: Filings as submitted in SERFF as of July 21, 2016.

Recommended Adjustments to Filed Rate Changes - United

	UnitedHealthcare Insurance Co. Small Group	Optimum Choice, Inc. Small Group	UnitedHealthcare of the Mid-Atlantic Small Group
Most Recently Filed Carrier Rate Change¹	(0.9%)	(0.9%)	8.1%
Pre-tax Profit Margin ²	(1.6%)	(1.6%)	(1.6%)
OW Recommended Rate Change³	(2.5%)	(2.5%)	6.4%

¹ Source: Filings as submitted in SERFF as of July 29, 2016

² Assumes same after-tax profit margin as the small group rate filing effective January 1, 2016; accounts for the reduction in the income tax liability associated with reducing the after-tax profit margin.

³ Calculated by multiplicatively applying each of the proposed adjustments; results using adjustments in the table above may differ due to rounding.

Additional Considerations – CareFirst and GHMSI

- CareFirst/GHMSI consistently made assumptions in three areas in their 2014, 2015, and 2016 filings that were not fully supported, and they are now proposing to correct for these in their 2017 filing:
 - Induced Utilization Curve
 - CareFirst/GHMSI previously assumed utilization at the Bronze level was 17% less than at Silver
 - Proposed factors reflect more reasonable induced demand assumptions between plans
 - Use of the revised factors is adding 12-13% to rates for Bronze plans
 - HSA Adjustment Factors
 - Rates for HDHP plans previously included an assumption that individuals in HDHP plans use significantly fewer services than those same individuals would in a similar non-HDHP plan
 - CareFirst/GHMSI never fully supported the assumption with regard to selection and morbidity. Carriers are prohibited from reflecting selection and morbidity differences by plan.
 - Eliminating the HSA adjustment factors adds 9%-19% to the rates for those members currently in HDHP plans in the individual market (the problem exists whether there are HDHP plans offered or not)
 - Age calibration
 - In prior filings CareFirst/GHMSI incorrectly calibrated rates, separately using each market's demographic distribution
 - Calibration was corrected in the current filing to recognize the single risk pool requirement in the District, and now correctly calibrates rates to the demographic distribution of the single risk pool
 - Correction is causing rates to increase 4.5 - 5.5% in the individual market and rates to decrease roughly 1% in the small group market

Additional Considerations – CareFirst and GHMSI

- 16.2% of the requested 22.8% increase for CareFirst in the individual market is due to revisions in the induced utilization curve, the HSA adjustment factor, and correction of the age calibration. These three factors add 11.6% to the increase for GHMSI in the individual market.
- The following table summarizes the portion of the average requested rate increase that is due to each of these three components.

	CareFirst		GHMSI	
	Individual	Small Group	Individual	Small Group
Induced Demand	4.1%	-0.6%	3.3%	-0.2%
HSA Adjustment	6.6%	-1.2%	2.4%	-0.2%
Age Calibration	4.6%	-1.0%	5.5%	-0.7%
Overall¹	16.2%	-2.7%	11.6%	-1.1%

- The impact that each of these three components contributes to the overall rate increase varies significantly by metal level:

	CareFirst		GHMSI	
	Individual	Small Group	Individual	Small Group
Catastrophic	39.4%	N/A	N/A	N/A
Bronze	35.1%	10.6%	19.0%	0.0%
Silver	15.0%	-0.7%	16.1%	0.4%
Gold	4.2%	-1.4%	7.0%	0.7%
Platinum	0.8%	-4.5%	3.6%	-2.5%
Overall¹	16.2%	-2.7%	11.6%	-1.1%

¹ Calculated by multiplicatively applying each of the proposed adjustments; results using adjustments in the table above may differ due to rounding

Additional Considerations – CareFirst and GHMSI (3-year Phase-in)

- If, at the metal level, rate decreases attributable to each these three components takes full effect in the 2017 but increases attributable to each of the three components are phased in over three years, the recommended adjustments to the currently filed average rate increases at each metal level are as follows:

	CareFirst		GHMSI	
	Individual	Small Group	Individual	Small Group
Catastrophic	-19.8%	N/A	N/A	N/A
Bronze	-18.3%	-7.4%	-11.1%	N/A
Silver	-9.3%	-0.4%	-11.8%	-0.8%
Gold	-3.6%	-0.7%	-4.6%	-1.1%
Platinum	-3.0%	0.0%	-3.5%	0.0%
Overall	-9.9%	-0.4%	-7.9%	-0.4%

Calculated by Oliver Wyman at the request of DC HBX.

Recommended Adjustments to Filed Rate Changes – CareFirst and GHMSI (3-year Phase-in)

	BlueChoice Individual	BlueChoice Small Group	GHMSI Individual	GHMSI Small Group
Most Recently Filed Carrier Rate Change¹	22.8%	3.3%	1.8%	(2.2%)
Trend – Adjust to 6.9% for CareFirst and 8.1% for GHMSI ²	(1.6%)	(1.6%)	0.0%	0.0%
Administrative Expenses Plus Commissions ²	(1.4%)	(1.7%)	4.6%	1.2%
Remove Unsupported Small Group HSA Adjustment Factor ²	(0.9%)	0.2%	(0.5%)	0.1%
3-Year Phase in of Increase due Corrected Assumptions³	(9.9%)	(0.4%)	(7.9%)	(0.4%)
Net Rate Change⁴	6.4%	(0.2%)	(2.4%)	(1.4%)
Risk Based Capital Ratio	911%	911%	882%	882%

¹ Source: Filings as submitted in SERFF as of July 29, 2016 for CareFirst and September 2, 2016 for GHMSI.

² Adjustments recommended by Oliver Wyman as a result of their review.

³ Additional adjustments recommended by DC HBX. Oliver Wyman calculated the impact of phasing in corrections for increases attributable to revised induced demand factors, elimination of HSA adjustment factors in the individual market, and corrected age calibration factors. Assumes all rate decreases attributable to these changes take full effect in the 2017, however any rate increases attributable to these changes are phased in over **three years**.

⁴ Calculated by multiplicatively applying each of the OW recommended adjustments and the additional decrease due to phasing in the impact of corrected pricing assumptions; results using adjustments in the table above may differ due to rounding.

Additional Considerations – CareFirst and GHMSI (5-year Phase-in)

- If, at the metal level, rate decreases attributable to each these three components takes full effect in the 2017 but increases attributable to each of the three components are phased in over five years, the recommended adjustments to the currently filed average rate increases at each metal level are as follows:

	CareFirst		GHMSI	
	Individual	Small Group	Individual	Small Group
Catastrophic	-23.3%	N/A	N/A	N/A
Bronze	-21.6%	-8.8%	-13.1%	N/A
Silver	-11.0%	-0.4%	-14.0%	-0.9%
Gold	-4.3%	-0.8%	-5.5%	-1.3%
Platinum	-3.5%	0.0%	-4.2%	0.0%
Overall	-11.7%	-0.4%	-9.3%	-0.5%

Calculated by Oliver Wyman at the request of DC HBX.

Recommended Adjustments to Filed Rate Changes – CareFirst and GHMSI (5-year Phase-in)

	BlueChoice Individual	BlueChoice Small Group	GHMSI Individual	GHMSI Small Group
Most Recently Filed Carrier Rate Change¹	22.8%	3.3%	1.8%	(2.2%)
Trend – Adjust to 6.9% for CareFirst and 8.1% for GHMSI ²	(1.6%)	(1.6%)	0.0%	0.0%
Administrative Expenses Plus Commissions ²	(1.4%)	(1.7%)	4.6%	1.2%
Remove Unsupported Small Group HSA Adjustment Factor ²	(0.9%)	0.2%	(0.5%)	0.1%
5-Year Phase in of Increase due Corrected Assumptions³	(11.7%)	(0.4%)	(9.3%)	(0.5%)
Net Rate Change⁴	4.2%	(0.3%)	(4.0%)	(1.5%)
Risk Based Capital Ratio	911%	911%	882%	882%

¹ Source: Filings as submitted in SERFF as of July 29, 2016 for CareFirst and September 2, 2016 for GHMSI.

² Adjustments recommended by Oliver Wyman as a result of their review.

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⁴ Calculated by multiplicatively applying each of the OW recommended adjustments and the additional decrease due to phasing in the impact of corrected pricing assumptions; results using adjustments in the table above may differ due to rounding.

