

## **UnitedHealthcare Plan of the River Valley, Inc.**

### **Part II - Written Rate Justification for Consumers**

#### **(1) Scope and Range of the Rate Change**

The requested rate change for Small group health benefit plans sold in the state of Iowa will be effective January 1, 2021 and impact 5,906 covered lives. The rate change experienced by members will vary depending on plan selection and geographic area. The average 2021 rate increase is 10.9%, with a maximum increase of 21.3% and a minimum increase of .8%. Additional premium changes may occur upon renewal due to changes in member age, changes in plan selection, and changes in geographic location.

The rates in this filing are based on the actual claims experience of Iowa Small groups in calendar year 2019. That experience has been projected forward to the contract period starting January 1<sup>st</sup>, 2021. The rate projection process used our estimates of the expected cost per service and the frequency that our member's use service.

#### **(2) Financial Experience of the Product**

The benefit care ratio (the relationship of incurred claims to received premiums) for this product during the 2019 calendar year is 75.0%. This ratio is the portion of premium that is needed to pay medical claims. The remaining 25.0% of the benefit care ratio is the portion of premium needed for taxes and fees, administrative expenses, and profit.

Note that benefit care ratio is not the same as Medical Loss Ratio, which is projected to be over 80%.

#### **(3) Changes in Medical Service Costs**

There are many different healthcare cost trends that contribute to increases in the overall U.S. healthcare spending each year. These trend factors affect health insurance premiums, which can mean a premium rate increase to cover costs. Some of the key healthcare cost trends that have affected this year's rate actions include:

**Increasing cost of medical services:** Annual increases in reimbursement rates to healthcare providers, such as hospitals, doctors, and pharmaceutical companies.

**Increased utilization:** The number of office visits and other services continues to grow. In addition, total healthcare spending will vary by the intensity of care and use of different types of health services. The price of care can be affected by the use of expensive procedures such as surgery versus simply monitoring or providing medications.

**Higher costs from deductible leveraging:** Healthcare costs continue to rise every year. Because deductibles and copayments remain the same on many plans, a higher percentage of healthcare costs need to be covered by health insurance premiums each year.

**Cost shifting from the public to the private sector:** Reimbursements from the Centers for Medicare and Medicaid Services (CMS) to hospitals do not generally cover the cost of providing care to these patients. Hospitals typically make up this reimbursement shortfall 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 healthcare spending and utilization.

#### **(4) Changes in Benefits**

Changes in covered benefits impact costs and therefore affect premium changes. Benefit plans are typically changed for one of three reasons: to comply with the requirements of the Affordable Care Act or state law, to respond to consumer feedback, or to address a particular medical cost issue to provide greater long-term affordability of the product. Some 2021 plan benefits had to have reduced

benefits in order to qualify under the Federal government's restrictions on plan designs. Examples of reduced benefits include; higher deductibles, higher out of pocket maximums, higher copays, and or higher coinsurance. These reduced benefits allowed plans to meet the Federal government's standards for value and lead to lower cost plans than these plans would have been had they kept their more enhanced 2020 benefits.

#### (5) Administrative Costs and Anticipated Margins

UnitedHealthcare works to control administrative expenses by adopting better processes and technology and developing programs and innovations that make healthcare more affordable. Taxes and fees imposed by the State and Federal government impact healthcare spending and have to be included in the administrative costs associated with the plans. Another component of premium is profit, which is set to address expected volatility and risk in the market. The resulting federally prescribed, single- year MLR is estimated to be greater than 80%.

The requested rate change is anticipated to be sufficient to cover the projected benefit and administrative costs for the 2021 plan year.

**Federal Rate Filing Justification Part III  
Actuarial Memorandum and Certification**

**UnitedHealthcare Plan of the River Valley, Inc.**

**NAIC: 95378**

**FEIN: 36-3379945**

**State of Iowa Rate Review**

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## Section 1: Purpose

The following is a rate filing prepared by UnitedHealthcare Plan of the River Valley, Inc. This filing has been prepared to provide the necessary information required by the Department of Health and Human Services and the state of Iowa. 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 Iowa 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 Iowa Insurance Division. 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 by Iowa Code 505.17. If the prohibition against disclosure by the Iowa Insurance Division 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.

## Section 2: General Information

### Company Identifying Information

Company Legal Name:	UnitedHealthcare Plan of the River Valley, Inc.
State:	Iowa
HIOS Issuer ID:	56610
Market:	Small Business, 1-50
Proposed Effective Date:	January 01,2021

### Primary Contact Information

Name:	[REDACTED]
Telephone Number:	[REDACTED]
Email Address:	[REDACTED]

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## Section 3: Proposed Rate Changes

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.

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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.

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## 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



The claims data was available directly from company claims records.

### Support for Estimate of Incurred but not Reported Claims

Historical claims are categorized both by the month in which they were incurred and the month in which they were adjudicated. For incurral months with sufficient adjudicated claim experience, incurred claims are estimated by applying completion factors derived from the historical claims. Adjustments are made based on specific knowledge of the entity (e.g., catastrophic claims, pended claims, etc.). For incurral months where adjudicated claim experience is not sufficient to rely on completion factors, a PMPM is used to estimate incurred claims. PMPM estimates are based on expected claim seasonality patterns, monthly calendar days and work days, emerging claim trends, and other factors. The same completion factors are applied to both incurred and allowed claim amounts.

The same completion factors are applied to both incurred and allowed claims amounts.

### 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.



### Experience Period Index Rates

Experience Period Index Rates are defined as the allowed claims PMPM for Essential Health Benefits during the Experience Period. With the breakout of service level EHB claims, the information provided reflects a reasonable estimate of the EHBs.



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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

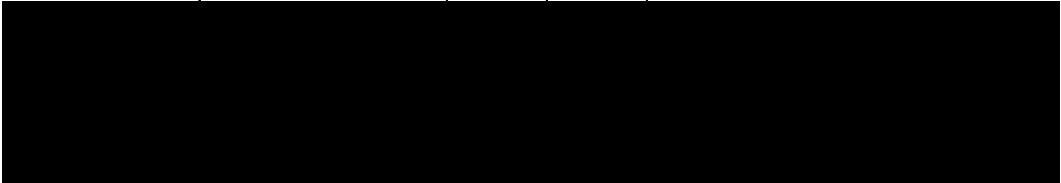
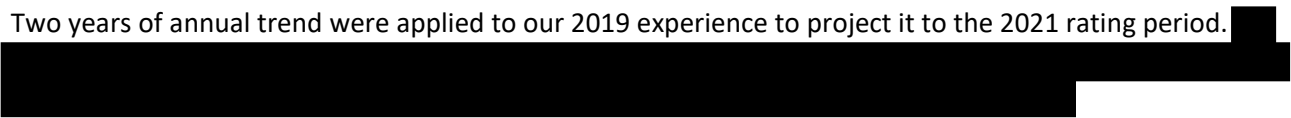
Includes drugs dispensed by a pharmacy. This amount is net of rebates received from drug manufacturers.

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## Section 6: Projection Factors

### Trend

Two years of annual trend were applied to our 2019 experience to project it to the 2021 rating period.




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.



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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

**Section 7: Credibility Manual 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**

[REDACTED]

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**

[REDACTED]

The Index Rate for the experience period is equal to the allowed claims PMPM. Benefits that are in excess of EHBs are estimated to be a de minimis amount. Therefore, the allowed claims were not adjusted to exclude these benefits.

[REDACTED]

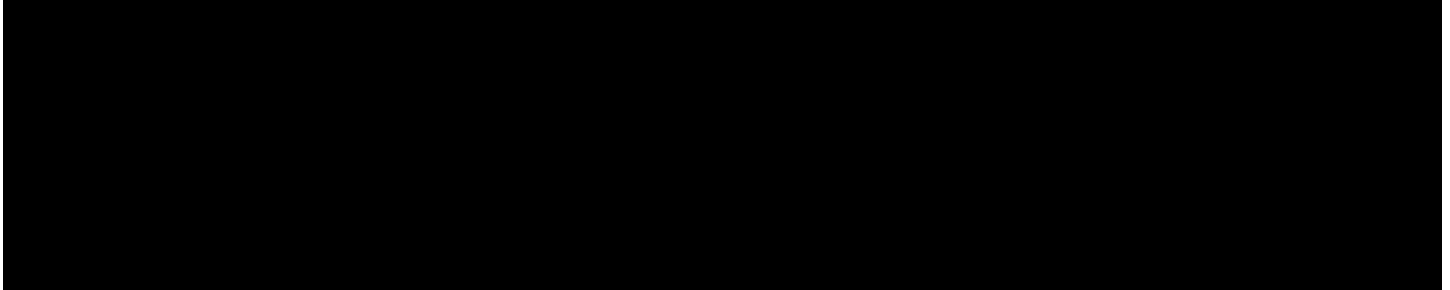
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## Section 10: Development of the Market Adjusted Index Rate

### Reinsurance

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

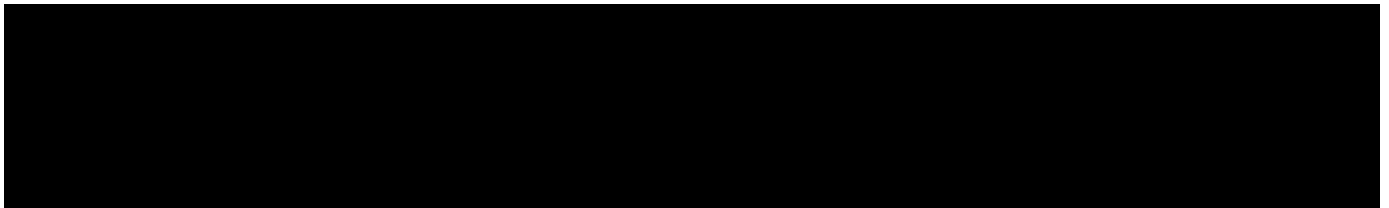
### Risk Adjustment Payment/Charge



### 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).



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## Section 11: Plan Adjusted Index Rate

### Actuarial Value and Cost Sharing Adjustment

UnitedHealthcare has a proprietary pricing model that was used in developing the actuarial value and cost sharing adjustment for each plan. The model calculates plan relativity factors for medical and pharmacy benefits. Also included under the actuarial value and cost sharing adjustment are adjustments for leveraging and the difference between the average plan relativity factor and the projected paid to allowed ratio.

UnitedHealthcare does not utilize Induced Demand factors in our rate development. Instead, our plan-specific pricing factors are based on an analysis of UnitedHealthcare's nationwide block of Small Group health insurance, which reflects over 10 million member months of experience. Our approach complies with the prohibition of rating for morbidity differences by normalizing out the cost differences attributable to morbidity as measured by HHS's risk adjustment mechanism.

Historical UnitedHealthcare experience was used to develop the actuarial value and cost sharing adjustment.

### 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

### 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.

The profit and risk margin is derived from the difference between the administrative expenses, taxes and fees, and 1 minus the target loss ratio and the administrative expenses, taxes and fees.

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

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Taxes and Fees

[REDACTED]

[REDACTED]

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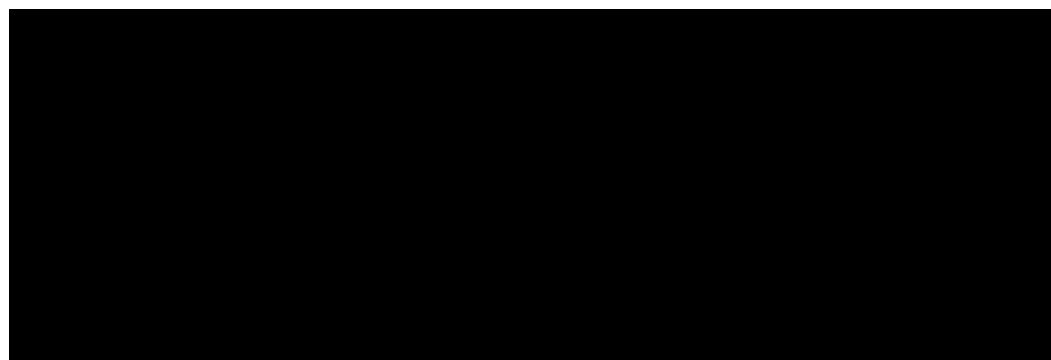
## Section 12: Calibration

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



### Geographic Calibration



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.

Based on the analysis of unit cost differences by county, the geographic factors are being adjusted by -5.0% in rating areas 1, 3, and 5 respectively and adjusted by +5.0% in rating area 7.

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

### Tobacco Calibration



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.



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## 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

[REDACTED]

UnitedHealthcare Plan of the River Valley, Inc. agrees to comply with the rebate requirements of 45 CFR Part 158 should the actual market MLR fall below the 80.0% requirement.

[REDACTED]

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## 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]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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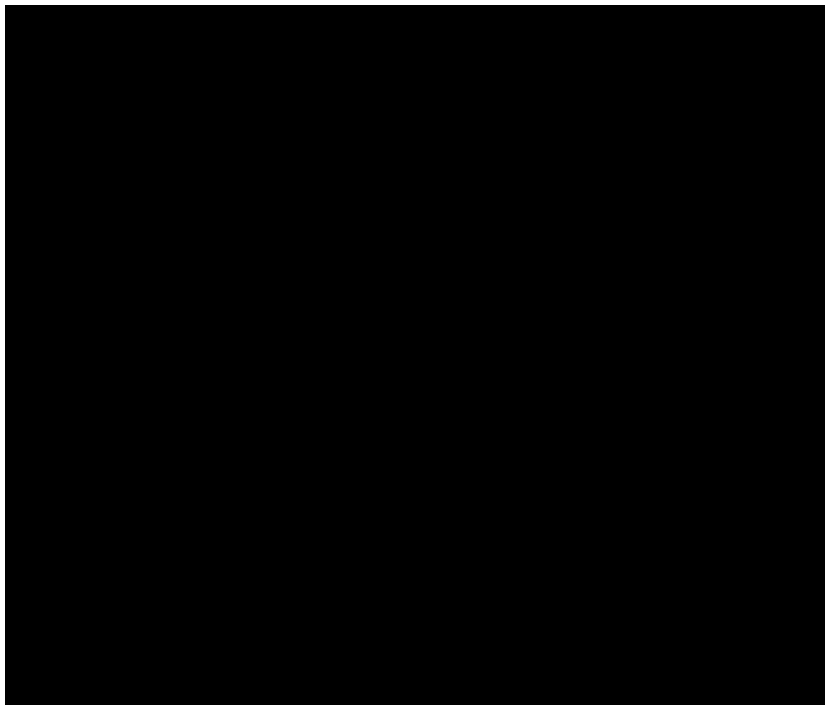
## Section 16: Membership Projections

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.

Some plans are being terminated as of the end of 2020. See below for a list of terminated plans. The terminated plans are not being mapped to specific plans. Rather, at renewal, employers are given the option to select from multiple plans.



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## Section 18: Plan Type

A plan type of POS & HMO has been selected.

## 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

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## Section 20: Actuarial Certification

I, [REDACTED], FSA, MAAA, am a Director of Actuarial Services for UnitedHealthcare, and a member of the American Academy of Actuaries. 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.

