

Federal Rate Filing Justification Part III
Actuarial Memorandum & Certification
United Healthcare Insurance Company

State of California Rate Review

Purpose

The purpose of this actuarial memorandum is to provide information relevant to the Part I Uniform Rate Review Template (URRT) and to comply with California and Federal requirements. It may not be appropriate for other purposes.

General Information

Company Identifying Information

Company Legal Name: UnitedHealthcare Insurance Company
State: California
HIOS Issuer ID: 95677
Market: Small Group
Effective Date: 01/01/2018

Company Primary Contact Information

Name:
Telephone Number:
Email Address:



Proposed Rate Increase(s)

UnitedHealthcare Insurance Company (UHIC) issues group major medical products in California.

Reason for Rate Increase(s)

UHIC is filing for a January 2018 rate change for benefit plans under policy forms COC.INS.2018.SG.CA.SLP (Select Plus), COC.INS.2018.SG.CA.Nav (Navigate), COC.INS.2018.SG.CA.NDF (Non Differential), and COC.INS.2018.SG.CA.COR (Core). The proposed rates included in this filing will be effective for new and existing members enrolling or renewing on or after January 1st 2018. The rates were developed assuming they will be in effect for six months. The proposed rates represent an increase of 2.5% on average (including a 2.8% reduction due to portfolio changes) over July 1, 2017 rates.

Experience Period Premium and Claims

Paid Through Date: The experience period used to support this filing is 01/1/2016 through 12/31/2016. Claims data includes claims incurred from 01/1/2016 through 12/31/2016 and paid through 02/28/2017.

Premiums (net of MLR Rebate) in Experience Period: Earned premium data is for the same experience period. The earned premium for the experience period, net of rebate was \$404,753,194. No MLR rebate is assumed during the experience period.

Allowed and Incurred Claims Incurred During the Experience Period: The incurred claims presented in Worksheet 1, Section I represents UHIC's best estimates of claims incurred during the experience period. Incurred claims were developed by first starting with actual claims paid through 02/28/2017. Estimates of incurred but not paid claims were added to these paid claims. The following is a description of the reserve methodology.

The United Healthcare Reserving process utilizes the Reserve Production System (RPS) to record reserves into the PeopleSoft general ledger. Fee for service and paid claim data is loaded into RPS and becomes the basis for the monthly reserve calculations at the various business unit, location, and line of business levels. The assignment of the paid claims into RPS packages is based on the mapping rules maintained by the Corporate Actuarial department. RPS calculates a preliminary best estimate Incurred But Not Reported (IBNR) for each reserving model (package) primarily using standard completion factors based on historical claim experience. The Claims Reserving Team adjusts the preliminary IBNR based on specific knowledge of the entity (i.e. catastrophic claims, pending claims, etc.) to calculate the final IBNR. In months where adjudicated claims experience is not complete enough for an estimate using completion factors, a seasonally adjusted PMPM is used to estimate incurred claims.

A description of the Sarbanes Oxley controls, audited by Deloitte & Touche, in place regarding the reserving process includes:

1. Market Paid Claim Tie-outs: To verify completeness and accuracy of financial data in RPS, paid claim data is tied out between source system (RPS) and the PeopleSoft general ledger.
2. Market Expense Tie-outs: RPS reserve changes on the income statement are tied to the PeopleSoft general ledger to ensure that information is accurate subsequent to computing the reserve.

Allowed claims by benefit category were obtained from UHIC's claim paying system reports.

Benefit Categories

Claims were assigned to benefit categories by our claims department by using standard industry definitions of services.

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

Outpatient: Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, ambulance, home health, durable medical equipment (DME), and other services provided in an outpatient facility setting and billed by the facility.

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

Pharmacy: Includes drugs dispensed by a pharmacy, and does not include drugs dispensed by the facility or administered by a physician. This amount is net of rebates received from drug manufacturers.

Capitation: Includes mental health / chemical disorder services and wellness programs provided under a capitated arrangement.

Other: Includes non-capitated, fee-for-service costs for physician procedures, inpatient stays, and outpatient procedures related to MHCD. The measurement unit of this category is Days for inpatient and Services for outpatient and physician procedures.

Projection Factors

Insured Population Morbidity Changes

No population morbidity adjustment was assumed for this filing. For this rate filing, the underlying experience includes 1-100 group size segments.

Benefit and Other Changes

Compared to the experience period, claims in the projection period are expected to increase due to factors such as the addition of added Essential Health Benefits (EHBs). The cost impact of these changes was developed using proprietary United Healthcare actuarial methodologies that utilize nationwide experience. The adjustments for EHBs are applied to the portion of claim experience attributable to non-ACA compliant plans (transitional relief plans and 51-99 plans).

Benefit changes for Essential Health Benefits (EHBs) include pediatric dental (██████), pediatric vision (██████), and obesity surgery (██████).

While the experience period underlying our projection is calendar year 2016, recent experience has deteriorated. An adjustment to our projected claims of 1.9% has been applied based on a two month shift of our experience period. We believe this is reasonable even though our adjustment for risk adjustment is based on calendar year 2016.

To establish a rate for new members effective January 2018 – June 2018, 2.5 additional months of trend has been incorporated into the “Other” column in order to bring up the total months of trend to 26.5.

Claim Pooling

Claims in the experience period exceeding \$200,000 are considered a catastrophic claim. To prevent random catastrophic claims from distorting results, the catastrophic claims are removed and replaced with an expected claim based on prior experience. The impact of pooling for this experience period is a decrease to claims of [REDACTED].

Demographics Changes

No change was assumed in the demographics of the covered population. The HHS proposed age factors for 2018 are utilized in this filing.

Trend Factors

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, benefit leveraging, and business mix identified for each category. Future trends are developed based on a projection of each component.

Utilization rates by category are measured and projected net of business mix (employer mix, benefit mix, demographic mix, etc.). 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.

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 mix of procedures.

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.

Business mix changes that influence medical cost trends are also reviewed and projected, with appropriate input from sales and underwriting staff. These factors include changing mix of

employer groups, mix of benefits, and demographic changes. For the purposes of developing premium pricing trend projections, the component of trend attributable to business mix is excluded.

The average medical and pharmacy pricing trend is [REDACTED]. This reflects a core trend of [REDACTED] with a leveraging provision of [REDACTED]. The components of core trend are detailed below.

Benefit Category	Unit Cost Trend	Utilization Trend
Inpatient Hospital	[REDACTED]	[REDACTED]
Outpatient Hospital	[REDACTED]	[REDACTED]
Professional	[REDACTED]	[REDACTED]
Other Medical	[REDACTED]	[REDACTED]
Capitation	[REDACTED]	[REDACTED]
Prescription Drug	[REDACTED]	[REDACTED]

Credibility of Experience

The experience used for rate development contains 852,271 member months. We consider UHIC California PPO small group experience to be fully credible for developing rates, and no credibility adjustment was used.

Paid to Allowed Ratio

The average paid to allowed ratio for the projection period is based on the paid to allowed ratio in the experience period, adjusted for expected leveraging, and plan benefit changes to 2018.

Risk Adjustment and Reinsurance

Projected Risk Adjustments (PMPM)

A major actuarial consulting company simulated the impact of risk adjustment in California for 2016 membership among the various carriers who participated in this study. Most of the carriers, including UHIC California PPO, participated in the study.

According to the study, UHIC California's small group membership in 2016 had an average risk score that was [REDACTED] than the average across all small group members in the state. But, starting in 2018, HHS will reduce the statewide average premium in the risk adjustment transfer formula by 14% to account for the proportion of administrative costs that do not vary with claims. Due to the risk adjustment mechanism, we need to develop premium rates that are appropriate for the average statewide risk. Therefore, we normalized our claims experience to a 1.0 market risk by applying an adjustment of [REDACTED].

We are also adding a Risk Adjustment Administration Fee of \$0.14 pmpm in Worksheet 1.

Non-Benefit Expenses and Profit & Risk

Administrative Expenses

Administrative expense assumption is estimated at [REDACTED] of premium and commission expense at [REDACTED].

Profit & Risk Margin

The after-tax profit and risk load is 2.4%.

Taxes and Fees

The taxes and fees assumption includes premium taxes and PPACA fees.

The components are as follows:

Premium Tax / assessment of 0.0%

Health Insurer Fee of 3.15%

Reinsurance Fee of \$0.00

Income Tax of 1.3%

PCORI Fee of \$0.20 or 0.04%

Risk Adjustment Administration Fee of \$0.14 or 0.03%

Projected Loss Ratio

The projected loss ratio using the federally prescribed MLR methodology is 81.4%.

Index Rate

The index rate for the experience period is equal to the allowed claims PMPM reported in URRT Part I.

The index rate for the projection period was developed using the experience period of allowed claims which was adjusted by the mandated benefits and network savings and trended forward to the projection period. The trend assumption includes the same cost and utilization trend factors used in Section II of Worksheet 1.

The calculation is shown below.

Index Rate	2018 Q1
Allowed Claims	\$439.93
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Trend month	26.5
Index rate	\$502.19

Market Adjusted Index Rate

The Market Adjusted Index rate is calculated as the Index Rate adjusted for the Federal reinsurance program adjustment, risk adjustment and exchange user fee adjustment. The calculation is shown below.

Market Adjusted Index Rate	2018 Q1
Index Rate	\$502.19
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Exchange Fee	NA
Market Adjusted Index Rate	\$499.82

Plan Adjusted Index Rate

Plan Adjusted Index Rates (PAIR) for the projection period are provided in URRT worksheet 2, Section IV. The Plan Adjusted Index Rate is calculated as the issuer Market Adjusted Index Rate adjusted for all allowable plan level modifiers defined in the market rating rules, 45 CFR Part 156, §156.80(d)(2). The following adjustments are allowable under these rules:

- Actuarial Value and Cost Sharing
- Provider Network, Delivery System and Utilization Management

Warning Alerts

No warnings were indicated in the URRT.

Reliance

Due to responsibility allocation, I relied on United Healthcare's Finance Department to provide 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.

I relied on United Healthcare's Product Design Department for reasonable and compliant plan designs. I am not able to completely judge the reasonableness of the plan designs without performing substantial additional work beyond what is required to produce this rate filing.

I also relied on United Healthcare's Economics Department for data and estimates of historical and projected claims trend and for pricing trend going forward.

Actuarial Certification

I, [REDACTED] am a member of the American Academy of Actuaries and an employee of UnitedHealthcare. I satisfy the necessary education and experience requirements to make this certification.

I certify that the projected index rate to the best of my knowledge is:

- In compliance with all applicable State and Federal Statutes and Regulations (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 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 essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.

I certify 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 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 plan designs that did not fit into the AV Calculator inputs, the AV Metal Value was determined using generally accepted actuarial principles and followed an accepted alternate method described in 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]