



UnitedHealthcare Insurance Company

Part III: Actuarial Memorandum

Alabama 2024 Individual Exchange Rates

July 18, 2023



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Scope and Purpose of Filing

This memorandum documents the development of Individual market health insurance premium rates for UnitedHealthcare Insurance Company (“UHC”) and the resulting rate change. UHC is offering Individual health insurance products on and off the Exchange in the Bronze, Silver and Gold metal tiers, with the premium rates documented in this memorandum effective January 1, 2024. The proposed plans are shown in Appendix A. This filing represents premium rates for new and existing products.

1 Actuarial Memorandum: Public

This version of the actuarial memorandum is considered PUBLIC and hence does not contain information determined to be TRADE SECRET. A separate actuarial memorandum was submitted and deemed TRADE SECRET, which included all proprietary information related to UHC and its consultants. TRADE SECRET information includes the following, but not limited to: UHC assumptions and methodologies that could provide insight into UHC’s pricing strategy and contract reimbursement information.

2 General Information Section

Company Identifying Information

Company Legal Name: UnitedHealthcare Insurance Company
State: Alabama
HIOS Issuer ID: 69461
NAIC Number: 79413
Market: Individual
Effective Date: January 1, 2024

Company Contact Information

Primary Contact Name: [Redacted: Trade Secret]
Primary Contact Telephone Number: [Redacted: Trade Secret]
Primary Contact Email Address: [Redacted: Trade Secret]



Brief Description of Benefits

The UHC products include Gold, Silver, and Bronze plans. The full list of plans is in Appendix A. Plan designs include 2024 state mandated benefits; plans will offer EHBs and adult dental and vision benefits. No substitutions were made from the Alabama standard EHBs. Pediatric dental will be included in all plans. All plans are EPO network plans, with emergency services and associated inpatient stays as well as trauma services to be covered when incurred out of network.

Identification of Block as Open or Closed

All plans for which rates are included in the filing will be open to new sales.

Marketing Method and Renewability Clause

UHC products will be sold through the internet, by brokers, in direct response to incoming inquiries, and through the Alabama Exchange. Products are guaranteed issue and guaranteed renewable.

3 Proposed Rate Changes

UHC will sell individual policies with an effective date of January 1, 2024. The 2024 aggregate rate change as shown on the Unified Rate Review Template (URRT) is [Redacted: Trade Secret]. Rate changes by plan are found in Worksheet 2, row 1.11 of the URRT. The composite rate change for all plans, based on projected membership, is [Redacted: Trade Secret]. The rate change by product is [Redacted: Trade Secret] for UHC IND EPO and [Redacted: Trade Secret] for UHC IND EPO ADAV. The quantitative impact for significant drivers of the proposed rate change is shown in the table below.

[Redacted: Trade Secret]

Given that the rate changes are based on the same single risk pool, the rate changes vary by plan due to plan design changes.

[Redacted: Trade Secret]



4 Market Experience

4.1 Experience and Current Period Premium, Claims, and Enrollment

Paid Through Date: April 30, 2023

Current Date: April 30, 2023

Allowed and Incurred Claims Incurred During the Experience Period

Allowed claims and incurred claims are pulled from the same source(s) and calculated using a similar methodology. Only claim amounts for members in the Individual Single Risk Pool for claims which have already been processed are included in our claims data (incomplete claims). Pharmacy rebates and capitation are processed outside the claims system and are equal on an incurred and allowed basis.

A set of completion factors is applied to the incomplete claims to develop the expected allowed and incurred claims for the experience period.

	Allowed Claims	Incurred Claims
Claims processed through issuer's claims system for experience period and paid through date above	[Redacted: Trade Secret]	[Redacted: Trade Secret]
Claims processed outside issuer's claims system for same time period	[Redacted: Trade Secret]	[Redacted: Trade Secret]
Estimate of claims incurred but not paid (IBNP) as of paid through date above	[Redacted: Trade Secret]	[Redacted: Trade Secret]
Estimated claims incurred during experience period	[Redacted: Trade Secret]	[Redacted: Trade Secret]
Experience Period Premium	[Redacted: Trade Secret]	

The same methodology was used to develop the estimate of claims incurred but not paid for both allowed claims and incurred claims in the experience period. The methodology incorporates estimates based upon developed completion factors. Model results are evaluated for reasonableness and actuarial judgment may be applied.

The claims used to develop completion factors reflect the experience period claims for the information submitted. The incurred but not paid claims are not unusually high or unusually low relative to the experience period claims paid.

4.2 Benefit Categories

Claims processed through UHC's systems were mapped to the benefit categories in Worksheet 1, Section II of the URRT based on where services were administered and the types of medical services rendered.



- **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.

The benefit categories were defined by our claims department using standard industry definitions.

4.3 Projection Factors

The following describes the factors used to project experience period allowed claims to the 2024 projection period.

4.3.1 Trend Factors

A trend assumption was applied to translate 2022 experience year claims costs to calendar year 2024 claims costs.

The assumptions shown in "Year 1 Trend" and "Year 2 Trend" of Worksheet 1 of the URRT represent 12 months of ongoing changes in utilization, unit costs, and technology. The combined, annualized trend assumption implied is [Redacted: Trade Secret]. This assumption is based on expected changes in unit costs and an evaluation of utilization trends observed in UnitedHealthcare's nationwide Small Group and Individual business. This trend assumption does not include any expected changes in demographics, morbidity or benefit changes.

4.3.2 Adjustments to Trended EHB Allowed Claims PMPM

This section explains adjustments other than trend that are made to the Experience Period claims in order to develop the projected Index Rate.

Morbidity Adjustment

The Morbidity Adjustment factor is [Redacted: Trade Secret] as shown on Worksheet 1 of the URRT.

[Redacted: Trade Secret]



Demographic Shift

The Demographic Shift adjustment factor is [Redacted: Trade Secret] as shown on Worksheet 1 of the URRT. The demographic adjustment was applied to account for anticipated changes in the distribution of members by age and smoking status.

Plan Design Changes

The Plan Design Changes adjustment factor is [Redacted: Trade Secret] as shown on Worksheet 1 of the URRT. The adjustment reflects anticipated changes in the demand for services due to differences in product mix and cost-sharing requirements from the experience period to the projection period. Population demographics were held constant across plan designs for this adjustment to ensure morbidity is not reflected.

Other

The Other adjustment factor is [Redacted: Trade Secret] as shown on Worksheet 1 of the URRT.

[Redacted: Trade Secret]

4.3.3 Manual Rate Adjustments

No manual rate was needed as the experience is considered fully credible.

4.3.4 Credibility of Experience

Full credibility has been assigned to the base period experience. The experience has been appropriately adjusted to reflect the material changes anticipated between the experience period and the projection period.

The following formula was used for assigning credibility to the experience period:

$$Z = \min \left[1, \left(\frac{MM}{FC} \right)^{.5} \right]$$

Where,

- Z is the credibility percentage applied to the experience data,
- MM is the experience period member months and
- FC is the member months required for full credibility

[Redacted: Trade Secret]

Consideration was given to guidance provided in Actuarial Standards of Practice #25, *Credibility Procedures*.



4.3.5 Establishing the Index Rate

As shown on Worksheet 1 of the URRT, the Index Rate for this filing is [Redacted: Trade Secret]. It estimates the total combined allowed claims PMPM for essential health benefits in the Alabama Individual market.

4.3.6 Development of the Market-wide Adjusted Index Rate

The Market-wide Adjusted Index Rate (MAIR) for the projection period is [Redacted: Trade Secret] as shown on Worksheet 1 of the URRT. The MAIR is calculated as the Index Rate adjusted for all allowable market-wide modifiers defined in the market rating rules, 45 CFR 156.80(d)(1). The Index Rate and market level adjustments are on an allowed claims basis.

Projected Index Rate for January 1, 2024	[Redacted: Trade Secret]
Reinsurance	[Redacted: Trade Secret]
Risk Adjustment Payment/Charge	[Redacted: Trade Secret]
Exchange User Fees	[Redacted: Trade Secret]
<hr/>	
Market-wide Adjusted Index Rate	[Redacted: Trade Secret]

Reinsurance

UHC does not expect any reinsurance recoveries from federal or state reinsurance programs.

Risk Adjustment Payment/Charge

The projection period risk adjustment charge was developed by estimating the individual components of the risk adjustment transfer formula (e.g., PLRS, AV, etc.) for both UHC and the statewide average. A description of the development of each component is described below:

- PLRS: the average 2022 risk score adjusted for expected changes in risk score coefficients we anticipate will occur from 2022 to 2024 and the projected distribution of members by metal level and age
- IDF: the average induced demand factor based on the federal induced demand factors (i.e., 1.00, 1.03, and 1.08 for Bronze, Silver and Gold metal levels) and projected distribution of members by metal level
- GCF: the average geographic factor based on the estimated 2022 average GCF and adjusted for anticipated changes in the distribution of members by rating region
- ARF: the average age factor based on the federally prescribed 3:1 age curve and projected distribution of members by age
- AV: the average metal AV factor based on the projected distribution of members by metal level



- Statewide average premium: the estimated 2022 statewide average premium adjusted for market wide rate changes we anticipate will occur from 2022 to 2024.

The projected risk adjustment payable/receivable was converted to an allowed basis when developing the MAIR.

The risk adjustment fee of \$0.21 PMPM was incorporated into 2024 rates and included within the taxes and fees.

A high-cost risk pool fee of [Redacted: Trade Secret] PMPM on an allowed basis was included.

Exchange User Fees

The Exchange User Fee is [Redacted: Trade Secret] and was included in the development of the MAIR. We applied the fee to 100.00% of UHC's expected enrollment to come from within the Exchange.

As a percent of premium, the Exchange User Fee is 2.20% for all policies sold through the Exchange. This value is taken from the Notice of Benefit and Payment Parameters for 2024.

4.4 Plan Adjusted Index Rate

The Plan Adjusted Index Rates (PAIR) were developed by applying allowable plan level adjustments to the MAIR. The allowable plan-level adjustments are shown in Appendix C.

The following describes how each component of the adjustment was developed.

Actuarial Value and Cost-Sharing Design

UHC relied upon Wakely and the Wakely Pricing Model to develop pricing Actuarial Values (AVs). The model is updated by Wakely each year with new ACA data and refinements. Additional adjustments were made to account for expected induced utilization, driven by cost sharing differences across each plan. Induced utilization factors were applied at the metal level. These factors were developed using Alabama individual market on-exchange ACA data from the URRT. Utilization factors reflect the impact of differences in cost sharing on utilization; health status differences are not reflected in utilization factors.

CSR LOAD

We have included an adjustment to the filed plans to reflect the impact of CSRs no longer being funded by the federal government. The regulation still requires CSR variant plans to be offered to low-income members, under the same federal AV requirements (keeping similar plan design and cost sharing structures as the current regulations), but the subsidy amounts will instead be a liability to the insurers and not the government. To reflect the additional cost of the CSRs on the Silver plans to UHC, we have increased the Pricing AV's.

Benefits in Addition to EHBs

UHC will offer benefits in addition to EHBs on the select plans below in Alabama. These benefits include adult dental and vision services.



[Redacted: Trade Secret]

Administrative Costs

Non-benefit administrative costs were applied on a percent of premium basis and on a PMPM basis. They are bucketed into three categories as shown on Worksheet 2 of the URRT: (1) administrative expenses, (2) taxes and fees and (3) profit and risk load.

ADMINISTRATIVE EXPENSE

UHC expects to incur [Redacted: Trade Secret] PMPM in general administrative expenses and [Redacted: Trade Secret] PMPM in quality improvement expenses for the individual ACA block of business in Alabama for 2024. We expect to incur an additional [Redacted: Trade Secret] in broker commissions over this period.

TAXES AND FEES

Taxes and regulatory fees included in the development of 2024 rates include the following:

- Risk Adjustment User Fee: \$0.21 PMPM
- PCORI Fee: \$0.25 PMPM
- State Premium Tax: [Redacted: Trade Secret] of premium
- Health Insurer Fee: 0.00% of premium
- Federal Income Tax: [Redacted: Trade Secret] of premium

The Exchange User Fee load is not included here. It was previously built into the MAIR as discussed in Section 4.3.6.

PROFIT AND RISK LOAD

The proposed 2024 premiums allocate [Redacted: Trade Secret] to profit and risk margin on a post-tax basis. [Redacted: Trade Secret]

Catastrophic Plans

UHC will not offer Catastrophic plans in Alabama for 2024.

4.5 Calibration

Age Curve Calibration

The approximate age calibration factor is [Redacted: Trade Secret]. It was determined as follows:

$$ACF = \frac{\sum Members}{\sum Members * Age Factor}$$

Where:

- ACF is the age calibration factor,



- Members are the projected members and
- Age Factor is the rating factor associated with each member.

An age factor of 0 is used for members who are not expected to pay premium.

Section 4.6 demonstrates how the PAIRs and age curve are used to generate a schedule of premiums.

Geographic Factor Calibration

The geographic calibration factor is [Redacted: Trade Secret]. It was determined as follows:

$$GCF = \frac{\sum Members}{\sum Members * Area Factor}$$

Where:

- GCF is the geographic calibration factor,
- Members are the projected members and
- Area Factor is the rating factor associated with each member.

Geographic area factors are calculated based upon expected reimbursement rates UHC aims to achieve by rating area. These factors are relative to the membership-weighted average reimbursement rate for all areas UHC will service in Alabama. The state rating factor only reflects differences in the costs of delivery (which can include unit cost and provider practice pattern differences) and not differences in population morbidity by geographic area.

Section 4.6 demonstrates how the PAIRs and area factors are used to generate a schedule of premiums.

Tobacco Use Rating Factor Calibration

The tobacco calibration factor is [Redacted: Trade Secret]. It was determined as follows:

$$TCF = \frac{\sum Members}{\sum Members * Tobacco Factor}$$

Where:

- TCF is the tobacco calibration factor,
- Members are the projected members and
- Tobacco Factor is the rating factor associated with each member.

Section 4.6 demonstrates how the PAIRs and tobacco factors are used to generate a schedule of premiums.

Application of Calibration Factors

The age, geographic and tobacco calibration adjustments are not plan specific. These adjustments are applied uniformly to all plans.



The age rating curve used in this filing is not the standard age curve set by HHS. The age curve used is the state-specific age curve required for this market segment by the State of Alabama.

4.6 Consumer Adjusted Premium Rate Development

The member's premium rate is calculated by first multiplying the PAIR by the calibration factors. This is the Calibrated PAIR, which is shown on Worksheet 2, row 3.14 of the URRT. The result can then be multiplied by the member's specific age, geographic and tobacco rating factors to determine the approximate member rate.

$$CPAIR = PAIR \times ACF \times GCF \times TCF$$

$$CAPR = CPAIR \times \text{Age Factor} \times \text{Geographic Factor} \times \text{Tobacco Factor}$$

Where:

- CPAIR is the Calibrated Plan Adjusted Index Rate,
- PAIR is the Plan Adjusted Index Rate,
- ACF is the age calibration factor,
- GCF is the geographic calibration factor,
- TCF is the tobacco calibration factor,
- CAPR is the Consumer Adjusted Premium Rate and
- Age, Geographic and Tobacco Factors are the rating factors associated with each member.

The premium for family coverage is determined by summing the premiums for each individual family member, provided at most three child dependents under age 21 are taken into account.

The rate manual and a demonstration of how the allowable rating factors are applied to the Calibrated PAIR to determine the Consumer Adjusted Premium Rate are shown in Appendix B.

5 Projected Loss Ratio

The projected minimum loss ratio (MLR) for the individual line of business is [Redacted: Trade Secret]. This was calculated using the federally prescribed MLR methodology.

UHC does not anticipate paying out consumer rebates for the 2024 calendar year. Taxes and regulatory fees were excluded from premium in the calculation of this value. The calculation for the projected federal MLR is included in Appendix D.

Should UHC's population be healthier than the market, it is possible that the impact of the 50% risk adjustment dampener may result in UHC paying out consumer rebates.



6 Plan Product Information

6.1 AV Metal Values

The federal Actuarial Value Calculator was used to generate the AV metal values shown on Worksheet 2, row 1.6 of the URRT. We relied on the actuarial standards of practice (ASOP) 50: Determining Minimum Value and Actuarial Value under the Affordable Care Act in using the federal actuarial value calculator. Please refer to the Unique Plan Design Justification and Documentation document for the impact of plans and cost sharing inputs modifications made in order to enter these into the federal Actuarial Value Calculator.

6.2 Membership Projections

The total membership projections for 2024 were based upon internal modeling of market share estimates for the Alabama counties we intend to service. The percentage of membership distributions by metal tier and variant was based on the metal, cost-sharing subsidy variants and rating area/county distribution enrollments for Alabama from actual UHC enrollment and informed by current Individual ACA Open Enrollment Period reports. Refinements to this data are applied for strategic initiatives and actuarial judgment.

Projected enrollment in cost-sharing reduction subsidy eligible Silver plans was informed by actual UHC enrollment and similar distributions in the Open Enrollment Period reports. The resulting projected enrollment by plan and subsidy level is provided in Appendix E.

6.3 Terminated Plans and Products

Please see Appendix A for crosswalk of the terminated plans and products.

6.4 Plan Type

The drop downs in Worksheet 2, Section 1 of the URRT describe the issuer's plan types appropriately.

7 Miscellaneous Instructions

7.1 Effective Rate Review Information

All data and information have been provided to facilitate an effective review.

7.2 Reliance

I have relied upon financial data, summaries and analyses prepared by officers and employees of UnitedHealthcare Insurance Company ("UHC"). My analysis included such review of the assumptions as I considered necessary.



I relied upon calculation of the pricing Actuarial Values from Wakely Consulting Group, an HMA Company, for 2024 rate development.

7.3 Actuarial Certification

I, [Redacted: Trade Secret], am a Member of the American Academy of Actuaries (MAAA). I meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion as adopted by the American Academy of Actuaries for preparing premium rate filings.

This actuarial certification applies to the UnitedHealthcare Insurance Company Individual products to be offered in the federal health exchange. I certify that the projected Index Rate is:

- In compliance with all applicable state and federal statutes and regulations (45 CFR 156.80 and 147.102)
- Developed in compliance with applicable Actuarial Standards of Practice, including:
 - ASOP No. 5, *Incurred Health and Disability Claims*
 - ASOP No. 8, *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits*
 - ASOP No. 12, *Risk Classification*
 - ASOP No. 23, *Data Quality*
 - ASOP No. 25, *Credibility Procedures*
 - ASOP No. 41, *Actuarial Communications*
 - ASOP No. 42, *Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims*
 - ASOP No. 45, *The Use of Health Status Based Risk Adjustment Methodologies*
 - ASOP No. 50, *Determining Minimum Value and Actuarial Value under the Affordable Care Act*
 - ASOP No. 56, *Modeling*
- Reasonable in relation to the benefits provided and the population anticipated to be covered
- Neither excessive nor deficient.

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 cost of delivery (which can include unit cost and provider practice pattern differences) and do not include differences for population morbidity by geographic area.

The federal AV Calculator was used to determine the AV Metal Values shown in Worksheet 2 of the Unified Rate Review Template for all plans. Any alternate methodologies are described in the Unique Plan Design Justification and Documentation.

The Part I Unified Rate Review Template does not demonstrate the process used 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: Trade Secret]

July 18, 2023

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Appendix A: Proposed Plans

[Table Redacted]

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A table showing the terminated plans and products is provided below.

[Redacted: Trade Secret]

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Appendix B: Rate Manual

[Table Redacted]

[Table Redacted]

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Consumer Adjusted Premium Rate Example

Plan Name: [Redacted: Trade Secret]

Plan ID: [Redacted: Trade Secret]

Area: [Redacted: Trade Secret]

[Table Redacted]

There might be small differences between the premium rates shown above and those implied by the URRT due to rounding.

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Appendix C: Plan-Level Modifiers

[Table Redacted]

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Appendix D: MLR Calculation

[Table Redacted]

The projected MLR exceeds 80.00%.

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Appendix E: CSR Enrollment

Projected CSR Enrollment in Member Months

[Table Redacted]

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