

# Actuarial Memorandum and Certification

## General Information

### Company Identifying Information:

- Company Legal Name: HPHC Insurance Company
- State: Maine
- HIOS Issuer ID: 11593
- Market: Merged/Individual
- Effective Date: January 1<sup>st</sup>, 2026

### Company Contact Information:

- Primary Contact Name: Wesley Tucci
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## Proposed Rate Increase(s)

Harvard Pilgrim is filing updated plans for 2026 to comply with the 2026 Clear Choice Designs published by the Bureau of Insurance in accordance with Rule 851. The existing 2025 enrollees have been mapped to the most similar 2026 plan in considering the rate increases for 2026. With these changes the increases by plan will vary, with some plans receiving higher increases and some receiving lower increases than the average. The average increase for renewing members is 17.7%.

The primary drivers of the rate increase include:

- Medical and pharmacy cost trend reflecting anticipated increases in unit cost, utilization, and service mix
- Difference in actual to projected experience
- Impact of the enhanced advanced premium tax credits (APTCs) set to expire after 2025
- Changes in benefit design and product mix
- Anticipated changes in risk adjustment
- Changes in administrative expenses

## Experience and Current Period Premium, Claims, and Enrollment

### Paid Through Date:

The experience period for incurred claims is 1/1/2024 through 12/31/2024 paid through 3/31/2025. Completion factors were applied to project ultimate claims liability for the experience period.

### Premiums (net of MLR Rebate) in Experience Period

The premiums earned during the experience are reported on Worksheet 1, Section I of the URRT. Earned premium is based on premium billed to members for coverage during the experience period.

**Allowed and Incurred Claims Incurred During the Experience Period:**

The claims amounts were retrieved from HPHC's Enterprise Data Warehouse (EDW) which captures paid claims, member cost sharing, and paid amounts for each claims record. Allowed claims shown in Worksheet 1 were calculated by adding claims amounts paid by HPHC and member cost sharing. Medical expenses that are not processed directly through HPHC's claims system are uploaded in the EDW based on calculations performed by the Finance area. These expenses are also included in the allowed and incurred claims amounts of the experience period.

Liabilities for incurred but not reported claims, as well as liabilities for reported but unpaid claims (collectively unpaid claims liability (UCL)), are estimated using the traditional Loss Development Method. This method (generically called a reserve model) is based on the assumption that, for a given date-of-service, future claim payments will emerge in a pattern similar to that indicated by past experience. By using the Loss Development Method to project ultimate incurred claims from historic paid claims data, a preliminary liability estimate is determined as the difference between the projected ultimate incurred claims estimate and the claims paid to date.

Further refinement is made to adjust for factors that could impact the expected claims emergence pattern as compared to the pattern in the underlying data. This would include changes in claims processing practices and backlog, provider billing practices, mail and suspended claims variability, atypical levels of known high cost claims, seasonal variations, as well as actual to expected changes in the cost and use of health insurance services. Also, because of the high volatility of paid versus ultimate incurred claim relationships for the less credible months immediately preceding the valuation date, the results of the reserve model described above are compared to trended per member per month costs to ensure that the results produced appear reasonable relative to emerging experience.

The claims used to develop the completion factors reflect the experience period claims for the information submitted.

**Benefit Categories**

HPHC's Cost and Utilization report was used to map services into the different benefit categories in section II of Worksheet 1 according to the following definitions:

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

***Outpatient Hospital:*** Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation, behavioral health, and other services provided in an outpatient facility setting and billed by the facility.

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

***Other Medical:*** Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services, behavioral health, and other services.

**Capitation:** Includes all services provided under one or more capitated arrangements. This includes pediatric dental services.

**Prescription Drug:** Includes drugs dispensed by a pharmacy net of rebates received from drug manufacturers.

## **Projection Factors**

### **Overview:**

Trend forecasting at Harvard Pilgrim Health Care is based on a projection of average claim cost per member per month (PMPM) for calendar years 2025, 2026, and 2027. The projections are developed on an allowed basis, prior to the application of cost sharing. A leveraging assumption is then applied to yield a trend applicable to normalized paid claims.

Trend forecasting includes independent projections of unit price (i.e., the increase in fees assuming no change in services), and utilization / service severity mix for Fee-for-Service (FFS) claims.

Pharmacy trend forecasting uses combined projections of unit price/service mix and utilization.

Capitated services are not included in the trend forecast.

### **Medical Unit Cost:**

Medical unit price increases are provided by the Provider Contracting department, representing a mix of known contractual rate increases in provider fees and estimated increases for contracts in negotiation by provider group. These unit price projections are then aggregated to the market level relying on historical allowed claims experience by state and provider. Cost changes due to mix of services are included with utilization (discussed below).

### **Medical Utilization / Service Severity Mix:**

Utilization/service mix trends are developed separately for medical and pharmacy. The experience data on which the projection is based have been normalized for large claim activity and changes in unit price, age/gender, induced utilization/selection, region (medical only), and seasonal variation.

Source data includes monthly medical and pharmacy claims experience for the Maine Fully Insured book of business incurred January 2021 to December 2024, and paid through February 2025 (i.e., a two-month lag). In addition to the adjustments described above, claims are adjusted for outstanding payments (i.e., IBNR) attributed to the incurred period.

Harvard Pilgrim does not rely exclusively on the results of the analysis and considers other adjustments in the process. Other adjustments take into consideration issues such as outliers that may inappropriately skew the projection, emerging experience, market data, future covered benefit changes, and overall reasonableness.

### **Pharmacy Trend:**

Total pharmacy trends are based on historical and emerging patterns for utilization and cost, including mix. AWP cost increases, pharmacy rebates, changes in the contractual AWP discount percentage from year to year through updates to the PBM arrangement, and upcoming launches for both generic and brand/specialty drugs are also evaluated and reflected in trends.

**Paid Trend:**

To convert the allowed trend to a paid trend, a leveraging assumption is used. This assumption is estimated as the difference in experience between normalized paid trends and allowed trends. Current leveraging assumptions were developed relying on historical trends between 2022 and 2024.

**Adjustments to Trended EHB Allowed Claims PMPM****Morbidity Adjustment:**

A 1.02 factor was entered in this section of URRT Worksheet 1, reflecting the anticipated change in average morbidity of the Maine Merged Market population due to the enhanced advanced premium tax credits (APTCs) set to expire after 2025.

**Demographic Shift:**

No adjustments made for the change in age, area, and tobacco user demographics of the population between the experience period and the projection period.

**Plan Design Changes:**

A 1.001 factor was entered in this section of URRT Worksheet 1, reflecting changes in breast cancer screening expenses due to the new PPACA federal coverage requirements for preventive services.

**Other Adjustments:**

Other adjustments include a small adjustment to offset the cap on billable member months for subscribers with more than three children under the age of 21.

**Manual Rate Adjustments**

The credibility manual rate shows the combined HMO (SG and Individual) and PPO (SG) experience with 100% credibility. An adjustment was made to the manual rate to reflect risk differences between the HMO and PPO products. The details underlying the development of the credibility manual rate are described below.

**Credibility of Experience**

The combined individual HMO, small group HMO and small group PPO experience for Maine is considered fully credible.

**Establishing the Index Rate**

The Index Rate for the projected period is \$1080.57, based on the combined individual and small group HMO and PPO experience. A small adjustment of 0.998 was made to adjust the allowed claims in the experience period to the index rate for the experience period. These adjustments account for benefits covered in the experience period that are not part of the Essential Health Benefits.

**Development of the Market-wide Adjusted Index Rate**

The market adjusted index rate reflects the impact of reinsurance, risk adjustment and exchange

user fees.

**Reinsurance:**

Net recoveries from the MGARA reinsurance program for the merged market claims are expected to be \$62.56 PMPM after adjusting for paid to allowed ratio in the URRT.

**Risk Adjustments:**

Under the single risk pool pricing requirements, HPHC has made a market-wide adjustment to the pooled market level Index Rate to account for Federal risk adjustment payments based on the merged market and an estimate of the Risk adjustment program model changes for 2026, using actual risk adjustment for 2023 and estimated 2024.

Consistent with this adjustment, anticipated risk adjustment revenue is allocated proportionally for all plans within the risk pool by applying the risk adjustment transfer adjustment as a market level adjustment.

Harvard Pilgrim is projecting a risk adjustment receivable of \$59.12 PMPM in the projection period after adjusting for paid to allowed ratio in the URRT.

**Exchange User Fee:**

The exchange user fee does not apply since HPIC plans are not offered on exchange.

**Plan Adjusted Index Rates**

The derivation of the Plan Adjusted Index rates for each plan is shown in the URRT page 2 Section III. To arrive at the Plan adjusted index rate, the Market Adjusted Index rate is adjusted by the plan benefit factor, an adjustment for benefits in addition to EHB, and then administrative costs, taxes and fees are added.

**Administrative Expense Load:**

The estimates for non-benefit expenses were derived from budgeted 2025 administrative costs projected to 2026. Our corporate expenses are allocated to products, state and legal entities based on membership.

Administrative costs that are fixed PMPM costs have been allocated directly to each plan. The total administrative cost for each plan was then converted to a percent of premium for purposes of calculating the final rate for each plan in deriving the plan adjusted index rates in Worksheet 2 of the URRT. This means that each plan has a slightly different administrative load.

**Contribution to Surplus & Risk Margin:**

HPHC is including 2.0% load for contribution to surplus and risk margin applicable to all products and plans.

**Taxes and Fees:**

The taxes and fees included in the rates are shown in Maine Data Collection Template. Where applicable these amounts have been prorated to reflect calendar year changes as they impact the months within the policy year.

## **Calibration**

Age factors are the default factors adopted by the state of Maine. To calculate the adjustment to the plan adjusted index rate, the average age factor is calculated separately for each month in the experience period. Every member's age as of the 15<sup>th</sup> is mapped to the rating factor table and a weighted average is taken. To calculate the average factor for the entire period, a member-weighted average of each of the 12 months is calculated. Using the 2025 age factors, the average age factor in the merged market experience is 1.672, which rounds to an average age of 49.

Area factors have been updated for 2026 to reflect the updated experience in each rating region for 2024 and projected unit cost increases between 2025 and 2027. The weighted average area factor is 1.001.

The Plan Adjusted Index rate is calibrated by dividing by the weighted average age and area factors. The resulting rate is used to calculate the Consumer Adjusted Premium.

## **Consumer Adjusted Premium Rate Development**

The HPHC calculation starts with the appropriate calibrated plan adjusted index rate, adjusted for the average trend factor to arrive at the current quarter's plan rate. The appropriate area factor and age factor for each subscriber is applied to this rate. The total premium for the subscriber is calculated by summing all these premiums, with a maximum of three dependents (under 18) included for families.

## **Projected Loss Ratio**

The projected Medical Loss Ratio using the federally prescribed MLR methodology is estimated to be 87.5%. PBM fees have been removed from claims in the calculation of this MLR.

## **AV Metal Values**

The Actuarial Value Calculator was used to determine the metal tiers for the 2026 EHB plans. Adjustments were made to the AV calculator inputs to account for benefit designs not reflected in the AV calculator. The adjustments were derived by determining an actuarial equivalent benefit that could be used as input in the AV calculator, or by applying an adjustment to the final AV. The AV screen shots and documentation of the adjustments for these 2026 plans are included in this filing.

## **Membership Projections**

Projected membership is shown in WS2 of the URRT. The expected membership as shown in the URRT is based on expected changes in enrollment by plan.

## **Terminating Plans**

Effective 1/1/2026, HPHC will be terminating all POS plans. The below table summarizes the name and HIOS ID for each plan that will be terminated prior to the effective date under the HMO license, and the 2026 HIOS ID and plan name that each of these terminated plans will map to in the projection period under the PPO license. Note that in some cases, multiple 2025 plans will be mapped to the same 2026 plan.

These plan terminations are shown in Worksheet 2 of the Individual HMO URRT. In Worksheet 2, Section 1 of the Individual PPO URRT, the impact of these plan terminations and mappings are reflected in the Cumulative Rate Change to provide a complete view of the average 2026 rate increase.

2025 HIOS ID	2025 Plan Name	2026 HIOS ID	2026 Plan Name
96667ME0360016-00	Clear Choice POS Silver 3500	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0370016-00	Clear Choice POS Silver 3500	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0360017-00	Clear Choice POS Silver 4200	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0370017-00	Clear Choice POS Silver 4200	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0360018-00	Clear Choice POS Bronze 7500	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000
96667ME0370018-00	Clear Choice POS Bronze 7500	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000
96667ME0360019-00	POS Silver 5700	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0370019-00	POS Silver 5700	11593ME0160045-00	Clear Choice PPO Access Silver 4000
96667ME0360020-00	Clear Choice POS HSA Silver 4500	11593ME0160047-00	Clear Choice PPO Access HSA Silver 4500
96667ME0370020-00	Clear Choice POS HSA Silver 4500	11593ME0160047-00	Clear Choice PPO Access HSA Silver 4500
96667ME0360021-00	Clear Choice POS HSA Bronze 6300	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000
96667ME0370021-00	Clear Choice POS HSA Bronze 6300	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000
96667ME0360022-00	Clear Choice POS HSA Bronze 7200	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000
96667ME0370022-00	Clear Choice POS HSA Bronze 7200	11593ME0160048-00	Clear Choice PPO Access HSA Bronze 8000

## Reliance

In support of this rate development, various data and analyses were provided by other members from different departments of HPHC. I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data.

## Actuarial Certification

I, Wesley Tucci, am a member in good standing of the American Academy of Actuaries. To the best of my knowledge:

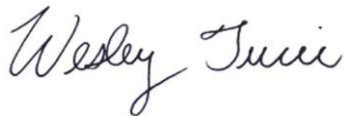
1. The projected Index Rate is
  - a. In compliance with all applicable State and Federal Statutes and Regulations

- (45 CFR 156.80 and 147.102)
- b. Developed in compliance with the applicable Actuarial Standards of Practice
  - c. Reasonable in relation to the benefits provided and the population anticipated to be covered
  - d. Neither excessive nor deficient
2. 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.
  3. The percent of total premium that represents EHB included in Worksheet 2, Sections III and IV, was calculated in accordance with actuarial standards of practice.
  4. The geographic rating factors, if applicable, 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.
  5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the URRT for all plans. However, some plans required additional adjustments. An actuarial certification was provided to the NHID for all of the plans that required additional adjustments.

Please note that Part I of the Unified Rate Review Template does not demonstrate the process used by Harvard Pilgrim Health Care Inc. to develop the rates. Rather it represents information required by Federal regulation to be provided in support of the review of rate increases.

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. However, some plans required additional adjustments. An actuarial certification is included for all the plans that required additional adjustments.

The rates in this filing reflect the information that Harvard Pilgrim had as of June 5, 2025, regarding 2026 federal and state regulations and market conditions. If there are changes in state or federal law, Harvard Pilgrim reserves the right to withdraw or revise these rates.



Actuary Printed Name: Wesley Tucci

Date: 6/5/2025