

**STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE**

IN RE:)	
HARVARD PILGRIM HEALTHCARE, INC.)	PRE-FILED TESTIMONY OF
2017 INDIVIDUAL HMO RATE FILING)	LAURA PENDERGAST
)	
HPHC INSURANCE CO., INC.)	
2017 INDIVIDUAL PPO RATE FILING)	July 15, 2016
)	
Docket no. INS-16-1003)	
(Consolidated))	

NON-CONFIDENTIAL

1 **Q. Please state your name and your position with Harvard Pilgrim Health Care (“HPHC”).**

2 A. My name is Laura Pendergast. I am the Manager of Pricing and Actuarial with HPHC. In that
3 role, I am responsible for commercial pricing in Maine for HPHC’s individual products.

4 **Q. Please describe any relevant education or experience that qualifies you as a witness**
5 **today.**

6 A. I am a Fellow of the Society of Actuaries and a member of the American Academy of
7 Actuaries. I have been a member of the Actuarial Department of HPHC and its subsidiaries
8 since 2007. During my career with HPHC I have been responsible for individual and group
9 pricing, new product development and pricing, and forecasting future results for both Maine
10 and New Hampshire. Currently, I am responsible for group and individual (under age 65)
11 product pricing for Maine.

1 Prior to joining HPHC, I worked for Private Healthcare Systems for four (4) years. During that
2 time, I provided actuarial analytics for network performance and provider contracting.

3 I earned a Bachelor's degree in Mathematics from Brandeis University in 1982.

4 **Q. Please state your reasons for testifying at this hearing.**

5 A. I am testifying in support of HPHC's proposed January 2017 individual market premium rates
6 for HPHC's HMO product.

7 **Q. Please explain any changes to the rates from the originally filed rates and the reasons for**
8 **these changes.**

9 A. HPHC is filing revised rates on July 15, 2016 which will show an average 2017 rate increase
10 of 21.1% over 2016 rates. These rates are 2.4% higher than the initially filed rates.

11 The revised rate development gives credibility to the 2015 individual experience. This

12 experience was not considered in the initial filing due to the significant growth in HPHC's

13 membership realized in 2016. HPHC's 2016 membership is now over 13,000 while in 2015

14 there were just 1,200 members. With this significant growth in membership, HPHC believed

15 that the 2015 experience was not representative of the likely experience in future years.

16 However, after the Bureau's inquiry regarding the credibility of this membership and the fact

17 that over 72% of the 2015 members renewed in 2016, we evaluated the impact of blending the

18 2015 individual HMO experience with the SG experience (manual rate) and gave 8% credibility

19 to the individual membership experience. The credibility percentage was based on the relative

1 membership of the 2015 experience period to the current 2016 membership. Giving this
2 degree of credibility to the individual membership increases the required rate increase by 2.4%.

3 **Q. What are the primary reasons that HPHC has filed for the proposed premium changes?**

4 A. There are three main drivers of the rate increases for 2017. First, medical cost trend
5 continues to be a significant source of rising claims costs. Premium rates must be increased in
6 line with emerging experience and claim cost trends to ensure that premiums are adequate to
7 cover the cost of services along with administrative costs, taxes and fees. Claim costs continue
8 to increase in all types of services and settings but especially in pharmacy costs. Claim costs are
9 increasing not only due to medical inflation in the cost of services, but due to an increasing use
10 of those services every year.

11 The second driver of the rate increase is the discontinuation of the federal reinsurance program
12 at the end of 2016. The federal reinsurance recoveries accounted for a 5.8 percent reduction in
13 the 2016 premium rates. Without these recoveries in 2017, there will be a corresponding
14 increase in premiums for 2017.

15 Finally, HPHC expects to see higher morbidity in 2017 than the level assumed in setting the
16 2016 rates. The morbidity factor for 2017 was derived using the experience of groups of one
17 and two compared to the overall SG experience. This should be a reasonable proxy as
18 insurance decisions are being made for a very small number of individuals in these cases. HPHC
19 also looked at the DxCG risk scores of the SG membership compared to the Individual
20 membership and the PLRS values from the 2015 risk adjustment data. Both of these sources
21 support the morbidity adjustment of 1.134 for 2017.

1 **Q. How does the 2015 risk transfer impact the 2017 rates?**

2 A. The 2015 risk adjustment results were favorable for HPHC with receipts of \$1.38M. With the
3 membership growth in 2016 and the introduction of the Maine's Choice tiered network plans,
4 we expect the risk of our membership to be much closer to the market average in 2016 and
5 2017. Therefore, there is no adjustment to the rates for risk adjustment in the 2017 rates.

6 **Q. Briefly summarize the proposed premium changes.**

7 A. The average requested premium increases for the HMO product is 21.1%. Rate increases at
8 the plan level vary due to changes in cost sharing between the 2016 and 2017 plans. Some
9 plans will have higher increases and other plans will have lower increases. The minimum
10 increase is 16.3%, and the maximum increase is 23.6%.

11 **Q. Are there rating factor changes that are impacting the premium increases?**

12 A. Yes. Area factors have been updated based on an analysis of the experience by rating region.
13 The area factor analysis was based on the experience of our total Maine market looking at the
14 provider relativities and normalized claims experience by rating region. This analysis indicated
15 that a reduction in Area 2 and an increase in Area 3 were justified. The Area 1 factor was also
16 reduced slightly since the introduction of the Maine's Choice plans are expected to lend some
17 improved performance to Area 1 where we have the majority of the Tier 1 providers. The
18 changes are intended to be revenue neutral within the individual market as we adjust for the
19 weighted average area factor in the rate development.

1 **Q. Are the proposed premium rates excessive, inadequate, or unfairly discriminatory?**

2 A. No. The proposed rates reflect the projected claim cost for the rate effective period,
3 administrative expenses, assessments and taxes plus a small margin for contribution to
4 reserves. As such, the proposed rates are not inadequate or excessive.

5 The rates are not unfairly discriminatory. In compliance with applicable State and federal law,
6 rates are developed to ensure premiums are equitably applied regardless of health status or
7 gender, and with limits on variation by age and where the enrollee resides.

8 **Trend Projection**

9 **Q. Can you provide additional support for the trend assumptions used in the rate**
10 **development?**

11 A. Yes. The medical cost trend used in the development of the 2017 rates is 9.5%. This is about
12 1 percentage point higher than the assumptions used in setting the 2016 rates. Trends have
13 increased recently due to utilization increases in outpatient procedures and outpatient
14 specialty drugs. Prescription drugs costs are also expected to continue to increase well above
15 10%. The drugs costs are driven by utilization of expensive hepatitis C drugs, such as Harvoni,
16 which costs \$60,000 to \$100,000 for a course of treatment. Also driving costs higher are
17 utilization and cost of drugs that invest heavily in direct to consumer marketing, such as Humira
18 and Enbrel. For Humira and Enbrel, manufacturers have increased their price increases in
19 recent years. Many other drugs have also had greater price increases as well.

1 **Other Rate Components**

2 **Q. What is the loss ratio permitted for these plans and, if the proposed rates are approved,**
3 **what loss ratios are anticipated for these products?**

4 A. The ACA permits a minimum loss ratio of 80 percent for Individual products. If the proposed
5 rates are approved as filed, and all projections turn out to be accurate, the expected Federal
6 loss ratio is 85.3%.

7 **Q. If the rates are approved as filed, will HPHC earn any profit on the HMO product in**
8 **calendar year 2017?**

9 A. As a non-profit organization, HPHC targets only a nominal amount for contribution to
10 reserves on our rates. For the 2017 rates, a 1% margin was added to the rates. If all
11 projections turn out to be accurate, HPHC would see 1% contribution to reserves for calendar
12 year 2017.

13 **Q. Please summarize the revisions made to and supplemental information provided in the**
14 **exhibits and memorandum.**

15 A. All exhibits and supplemental information filed initially in SERFF and through our rate
16 responses have been updated to reflect the revised rates and underlying assumptions (Exhibit
17 A). The Actuarial Memorandum (Exhibit B) has been updated with a summary of the revisions
18 made to the rates and describes the development of the individual rate based on the 2015
19 experience weighted with the credibility manual rates based on our SG experience. The URRT

1 supplement template (Exhibit C) and the URRT (Exhibit D) have been updated to reflect the
2 changes to the rates.

3 **Q. Does this conclude your testimony?**

4 A. Yes.

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DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
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IN RE:)	
HARVARD PILGRIM HEALTHCARE, INC.)	
2017 INDIVIDUAL HMO RATE FILING)	CERTIFICATE OF SERVICE
)	
HPHC INSURANCE CO., INC.)	
2017 INDIVIDUAL PPO RATE FILING)	
)	
Docket No. INS-16-1003)	
(Consolidated))	

The undersigned counsel hereby certifies that on this date I caused to be mailed by electronic and overnight mail, as indicated, copies of the Pre-filed Testimony of Laura Pendergast on the persons and at the addresses indicated below.

<p>Eric A. Cioppa, Superintendent Attn: Elena Crowley Docket No. INS-16-1003 Bureau of Insurance Maine Department of Professional and Financial Regulation 34 State House Station Augusta, Maine 04333-0034 [FedEx]</p> <p>Elena I Crowley Elena.I.Crowley@maine.gov [e-mail]</p>	<p>Thomas C. Sturtevant, Jr., Assistant Attorney General Office of the Attorney General 6 State House Station Augusta, Maine 04333-0006 Tom.Sturtevant@maine.gov [e-mail]</p>
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DATED: July 15, 2016

/s/ Kathleen G. Healy
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