Dallas
Glenn A. Tobleman, F.S.A., F.C.A.S.
S. Scott Gibson, F.S.A.
Cabe W. Chadick, F.S.A.
Michael A. Mayberry, F.S.A.
David M. Dillon, F.S.A.
Gregory S. Wilson, F.C.A.S.
Steven D. Bryson, F.S.A.
Bonnie S. Albritton, F.S.A.
Brian D. Rankin, F.S.A.
Wesley R. Campbell, F.C.A.S., F.S.A.
Jacqueline B. Lee, F.S.A.
Brian C. Stentz, A.S.A.
Robert E. Gove, A.S.A.
J. Finn Knox-Seith, A.S.A.
Jennifer M. Allen, A.S.A.
Josh A. Hammerquist, A.S.A.
Xiaoxiao (Lisa) Jiang, A.S.A.
Sujaritha Tansen, A.S.A.
Jay W. Fuller, A.S.A.
Sergei V. Mordovin, A.S.A.
Robert B. Thomas, Jr., F.S.A., C.F.A. (Of Counsel)

Actuaries & Consultants

Kansas City
Gary L. Rose, F.S.A.
Terry M. Long, F.S.A.
Leon L. Langlitz, F.S.A.
Anthony G. Proulx, F.S.A.
Thomas L. Handley, F.S.A.
D. Patrick Glenn, A.S.A., A.C.A.S.
Christopher H. Davis, F.S.A.
Karen E. Elsom, F.S.A.
Jill J. Humes, F.S.A.
Christopher J. Merkel, F.S.A.
Kimberly S. Shores, F.S.A.
Jan E. DeClue, A.S.A.
Patricia A. Peebles, A.S.A.

London / Kansas City
Roger K. Annin, F.S.A.
Timothy A. DeMars, F.S.A.
Scott E. Morrow, F.S.A.

Baltimore
David A. Palmer, C.F.E.

March 17, 2014

Green Mountain Care Board
State of Vermont
89 Main Street, Third Floor, City Center
Montpelier, VT 05620

Re: Connecticut General Life Insurance Company - 2014 Large Group Rate Filing (SERFF # CCGP-129378365)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Connecticut General Life Insurance Company (CGLIC) Large Group Rate Filing (1/1/2014) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description
This filing was originally submitted on 11/13/2013 with the Department of Financial Regulations. It was subsequently withdrawn and re-filed with the Green Mountain Care Board on 1/16/2014.

- CGLIC is an international, for profit health services corporation and is a subsidiary of the Cigna Corporation. This filing includes Open Access Plus (OAP), Preferred Provider Organization (PPO), Network, Indemnity, and retiree medical insurance products provided to large employers in Vermont.

- The present filing updates the CGLIC large group manual rating methodology. It incorporates changes for trend assumptions, medical area factors, and methodology. It has been 2 years since CGLIC's last approved rate filing.

- There are approximately 10,100 Vermonters affected by this filing.

- The overall proposed rate impact of this filing to the current rates is a 1.3% ($3.09 PMPM) increase[1], which is equivalent to an annualized increase of 0.6%.
  - Medical trend assumptions[2]: 15.8% trend increase to the current rates
    - 2012: 8.2%

[1] The 1.3% rate increase is based on L&E calculations. An explanation of the difference between L&E value and the 0.9% value in the Rate Information page of the filing is provided in L&E Analysis section.

[2] Medical trend assumptions include an annual decrease of 1.5% to account for expected favorable utilization.

  - 2013: 7.1%
- Medical area factors: 6.1% decrease to the current rates
  - 2012: -7.0%
  - 2013: 1.0%
- Methodology changes[3]: 6.9% decrease to the current rates
  - 2012: -3.0%
  - 2013: -4.0%

Standard of Review

Pursuant to Green Mountain Care Board Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received

CGLIC submitted a filing in 2012 for renewal in January 2013. The filing requested an overall change of -2.8%; however, that filing was eventually withdrawn and never implemented. Nevertheless, the proposed rate change of 3.8% in the current filing is relative to experience as if the -2.8% was implemented. Therefore, the average change that a Vermonter will experience is the combination of the two filings over two years, a 0.9% rate increase[4]. Please note that the above rate increases represent the average rate increases. The actual rate change experienced by each Vermonter could vary between a 14.1% rate decrease and 11.9% rate increase.

CGLIC provided the Medical and Pharmacy Manual Rating Formulas which summarize the steps taken to calculate the final rates, Medical and Pharmacy proposed claim distribution tables, manual rate adjustment factors exhibits, pricing factors exhibits, proposed trend assumptions, and rider claim cost exhibits.

Company's Analysis

1. *Medical Trend Assumptions*: Experience is based on 2012 calendar year and combines CGLIC and Cigna Health and Life Insurance Company (CHLIC) data. The experience was trended two years to 2014. CGLIC provided descriptions of the internal quantitative information, including a utilization report, a bed day report, and a closed block analysis utilizing recent national data, utilized for the trend development. CGLIC used a trend value of 8.2% for the first year and 7.1% for the second year for a combined two year trend increase of 15.8%. Trend assumptions include an annual decrease of 1.5% to account for expected favorable utilization. In addition, the Company stated that the trend assumption was reduced in the second year primarily as a result of more favorable provider contracts.

2. *Medical Area Factors*: CGLIC calculates a Vermont rate by applying an adjustment to a nationwide figure. This factor is reviewed for overall reasonableness with actual Vermont experience. To determine reasonableness, CGLIC compares Vermont's average manual rate

[3] Some of the changes include updates to medical and pharmacy claim distribution tables and pharmacy pricing factors.

[4] An explanation of the difference between L&E value of 1.3% and the 0.9% value in the Rate Information page of the filing is provided in L&E Analysis section.

to the actual average claims in Vermont. Two types of analysis are performed, where one uses all data and experience and the other removes large groups that can skew the results. CGLIC provided a PMPM breakdown of the area factor analysis performed during the Fall 2012 and Spring 2013 reviews. Based on the analysis, CGLIC updated the area factors to reflect the recent claim experience. Below are the results and requested change:

- 2012 Requested Area Factor Changes: 7.0% decrease
- 2013 Requested Area Factor Changes: 1.0% increase
  - Fall Review Results (7/1/2011 - 6/30/2012): 2.9% increase
  - Spring Review Results (1/1/2012 - 12/31/2012): 1.9% decrease
- 2012 and 2013 Combined Requested Area Factor Changes: -6.1%

3. *Methodology*: CGLIC updated their claim distribution tables because recent experience shows a shift towards more outpatient services and away from other service categories such as inpatient services. The updated claim distributions result in a lower frequency for the $0 dollar claims and a slightly greater probability of low dollar claims for many of Cigna's medical plans.

   The Company updated the Rx rating tables to reflect increased generic drug usage as a result of patent expirations, growing cost of specialty drugs, and market-specific experience. The proposed Rx trend assumption is 7.2% for 2013 and 9.1% for 2014. CGLIC stated the main drivers of the new trend assumptions include approvals of new HIV drugs, utilization of Hepatitis C drugs, and patent expirations.

   The impact of the methodology changes is calculated by running the entire book of business in the rating engine with the current methodology and then again with an adjustment for the methodology changes. The two results of the rating engine are compared. If the result that is produced after the methodology changes is greater than the result of the current methodology, it would imply that the proposed methodology changes would increase the claim amounts. The current filing suggests that the methodology changes would decrease the amount of claims in the future by 6.9%.

4. *PPACA Loss Ratio*: CGLIC provided a 2014 Vermont MLR Projection after the allowed adjustments under PPACA. The projected 2014 MLR is 87.9%.

L&E Analysis

L&E received a filing for a 3.8% rate increase proposal to be implemented on 1/1/2014. Throughout the review process, it was determined that the proposed rate increase was relevant to the previous year's filing which requested a 2.8% decrease. However, the previous year's filing was never approved and never implemented; therefore, it became evident that the current filing is actually requesting a combined rate change of 0.9% over two years. The 0.9% average rate change would be the actual average rate change versus currently sold premiums.

We believe the method CGLIC is utilizing to present this rate change is unorthodox. It appears that the 3.8% rate increase is relevant to hypothetical experience that CGLIC would have experienced had their 2.8% proposed rate decrease was implemented in 2013. Therefore, it's not based on real experience of 2012 or 2013. We believe an ideal method would have been to analyze the actual experience relevant to the proposed rate change.

L&E also disagrees with the methods used by CGLIC to calculate the overall changes. The proposed rate changes are made up of medical trend, area, and methodology changes. Typically, the total rate change is a product of the subsequent parts. It appears that CGLIC used a combination of addition and multiplication to determine the overall 0.9% average rate increase. L&E recalculated the rate change using the multiplicative method and determined that the overall average rate change to the current rates would be 1.3%.

For the purpose of experience reviews and pricing analyses, CGLIC combines the data with CHLIC across the entire book of business in Vermont. The current analysis appears to be based on approximately 575,000 member months which is considered to be 100% credible book of business.

1. *Medical Trend Assumptions*: CGLIC used a trend value of 8.2% for the first year and 7.1% for the second year. CGLIC provided a breakdown of the trend assumption by unit cost and utilization for major categories. According to the breakdown, utilization trend is mostly unchanged and the reduction in the trend assumption is primarily due to the expected lower unit costs. We also received CGLIC experience PMPM trend analysis which illustrated the historical experience trend for 2013 as 5.9%.

   CGLIC trend assumptions appear to be high based on historical experience and lack adequate quantifiable justification for the proposed trend assumptions. We recommend the trend assumption be reduced to 5.9% in both years for a combined trend of 12.1%.

2. *Medical Area Factors*: The area factor review exhibits provided by CGLIC covered 18 months of experience (7/1/2011-12/31/2012). However, both reviews included the first 6 months of 2012. It is unclear how the final results were adjusted to account for the correlation between the two reviews. In addition, CGLIC stated that the Spring review is more rigorous with methodology changes in preparation for the January 1 cases.

   Since the Spring review includes more recent experience and is based on a more rigorous review, we recommend the 2013 area factor change be based solely on the Spring Review results, which would produce an overall area factor decrease of approximately 8.8% to the current rates.

3. *Methodology*: We compared CGLIC's new Claim Distribution tables to our internal pricing model. Our values were similar to those used by CGLIC with minor differences at the lower claim levels. The proposed Claim Distribution tables appear to be reasonable and appropriate.

   We also compared CGLIC's Rx cost breakdown to our internal pricing models. It appears that CGLIC average wholesale price (AWP) for generic drugs is higher than our data; however, that price is offset by greater discounts. Therefore, the overall prices after discounts are similar and appear to be reasonable and appropriate.

   The proposed Rx trend assumptions (7.2% for 2013 and 9.1% for 2014) have increased from the 2012 Rx trend assumption of 4.4%. CGLIC stated the main drivers of the new trend assumptions include approvals of new HIV drugs, utilization of Hepatitis C drugs, and patent expirations. However, CGLIC did not provide quantitative analysis to support the increase in

their trend assumptions. We have concluded that the 2014 trend assumption of 9.1% appears to be high based on historical experience and lacks adequate quantifiable justification for the proposed trend assumption. Even though CGLIC did not provide any quantitative support for the 7.2% trend assumption, it is consistent with other assumptions seen by other Vermont carriers. Therefore, we recommend the same Rx trend assumption of 7.2% be used for both 2013 and 2014.

We believe using the rating engine to determine the rate impact for methodology changes appears to be reasonable and appropriate.

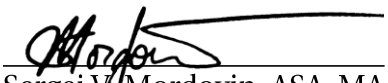
4. *PPACA Loss Ratio*: The loss ratio exhibit supports the overall 1.3% rate increase for the current in-force population because it is 87.9% which is above the PPACA required minimum loss ratio of 85%. Any decreases to this requested rate increase will result in a higher loss ratio. The projected loss ratio appears to be reasonable and appropriate.

Recommendation
L&E believes some of the assumptions in this filing have not been supported by quantitative analysis and should be modified. We propose:

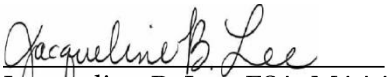
- Medical Trend reduction from 8.2% for the first year and 7.1% for the second year to 5.9% in both years,
- Utilize only the Spring review for the area adjustment reductions to the Medical and Pharmacy trend assumptions and a reduction to the area factor changes.

Incorporating these adjustments would decrease the current rates by approximately 4.7% as compared to CGLIC's proposed 1.3% increase.

Sincerely,



Sergei V. Mordovin, ASA, MAAA
Associate Actuary
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA
Vice President &Consulting Actuary
Lewis & Ellis, Inc.

David M. Dillon, FSA, MAAA
Vice President & Principal
Lewis & Ellis, Inc.

ASOP 41 Disclosures
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[5], promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct[6], to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary
The responsible actuaries are:

- Sergei V. Mordovin, ASA, MAAA, Associate Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

These actuaries are available to provide supplementary information and explanation. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents
The date of this document is March 17, 2014. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is March 14, 2014.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but we have not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.

[5] The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

[6] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- We are not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

Actuarial Findings
The actuarial findings of the report can be found in the body of this report.

Methods, Procedures, Assumptions, and Data
The methods, procedures, assumptions and data used by the actuary can be found in body of this report.

Assumptions or Methods Prescribed by Law
This report was prepared as prescribed by applicable law, statues, regulations and other legally binding authority.

Responsibility for Assumptions and Methods
The actuaries do not disclaim responsibility for material assumptions or methods.

Deviation from the Guidance of an ASOP
The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.