

Matthew Danziger, FSA, MAAA
Actuarial Director



July 21st, 2015

The Green Mountain Care Board
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CHLIC memorandum in response to HCA Memo for GMCB 6-15rr

RE: GMCB-006-15rr

Dear Ms. Henkin,

Cigna Health and Life Insurance Company (CHLIC) has reviewed the memorandum from HCA regarding CHLIC's rate filing (the "**Memorandum**") and requests that the Green Mountain Care Board (the "**Board**") consider the following points prior to making a final determination.

In the Memorandum, the HCA determined that CHLIC's proposed profit assumption is "excessively high" and it recommended to the Board that CHLIC reduce its profit assumption from 3.5% to 1.0%. For the following reasons, we do not believe the recommendation is appropriate:

The Memorandum's primary bases for challenging the profit assumption in CHLIC's proposed rate are that:

- (i) *"the 3.5% profit level is excessively high compared to other Vermont filings, and*
- (ii) *"CHLIC has not demonstrated a need for the high profit level."*

With respect to the first point, we point out that a particular assumption (such as a profit assumption) in a proposed rate should not be the focus of the Board when reviewing a rate proposal. As pointed out in the Memorandum:

*"When 'deciding whether to approve, modify, or disapprove each rate request, the Board shall determine whether the requested **rate** is affordable, promotes quality care, promotes access to health care, protects insurer solvency, is not unjust, unfair, inequitable, misleading, or contrary to law, and is not excessive, inadequate, or unfairly discriminatory'"*

There is no mention in the law or rules regarding the components of a "rate." The question for the Board is whether the requested "rate," not some component of the "rate," satisfies the criteria specified in the law and rules.

Whether a "rate" is excessive or not cannot be determined simply by examining a small component of the overall rate. For example, if an insurer has by far the best provider discounts in the market, it can still have the lowest premium rates in the market even with a profit margin that is higher than any competitor's in the market. Could anyone reasonably conclude a premium "rate" is excessive when it is

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the lowest premium rate in the market?” All that a group policyholder is concerned about is the total overall “rate” it pays for insurance coverage, not whether any component of the rate is high or low compared with that of any other insurer’s. The law requires this same consumer-oriented focus on the overall “rate.” We submit that pointing to the fact that *“the 3.5% profit level is excessively high compared to other Vermont filings”* not only misses the point, but is inappropriate under the very legal requirements cited in the Memorandum. The law requires that the specified criteria be applied to a “rate,” not a component of a rate. Accordingly, CHLIC’s overall “rate” must be compared to the overall “rate” of CHLIC’s competitors as reflected in their rate filings to determine whether the “rate” is “excessive.” In this regard, it should be noted that the actuarial memorandum submitted by Lewis & Ellis concluded that CHLIC’s proposed “rate” submission was “reasonable and appropriate.”

The second factor identified in the Memorandum is that *“CHLIC has not demonstrated a need for the high profit level.”* We point out that Vermont law requires that the premium rate not be “inadequate.” The fact that CHLIC’s Vermont membership is small (~5280 covered individuals), means that it is vulnerable to a high level of claim volatility and that CHLIC’s actual resulting margin is likely to deviate significantly from the margin assumption built into its pricing model. The 3.5% profit margin assumption is appropriate and necessary to protect CHLIC from adverse unfavorable swings in claims experience that may result from the small number of covered lives and which could cause CHLIC’s premium rates to be “inadequate.”

Any concern about an issuer’s premium “rates” being excessive should largely be put to rest by Section 2718 of the Affordable Care Act. This provision is intended to curb excessive premiums and thereby limit the profitability of insurers by requiring that insurers rebate to their large group policyholders in a state if their medical loss ratio is lower than 85% (i.e., the issuer’s profit and expenses cannot exceed 15% of the premium). The Memorandum points to the fact that in 2012, CHLIC had to extend rebates to its large group policyholders in Vermont. This was done ostensibly to underscore the point that CHLIC’s low proposed rate increase *“may be a result of overcharging its policyholders in the past.”* However, per Objection #1, responses #4, 6, and 7, CHLIC has demonstrated that it did not pay rebates in 2013. Moreover, based on experience to date, CHLIC does not project that it will be required to pay a rebate in 2014 or 2015 thereby evidencing the fact that even with its recent rate increases, Vermont policyholders in the large group market are receiving value for their CHLIC premium.

CHLIC competes for health insurance coverage for large employers in a highly competitive and price sensitive marketplace. The fact that the large employer insurance marketplace is competitive and highly price sensitive alone helps to assure that premium rates will not be excessive; if premium rates are excessive, no one will purchase the coverage. The competitive marketplace coupled with the MLR requirement in the ACA which is designed to ensure that policyholders receive value for their premium dollars provides adequate protections against excessive premium “rates.”

Finally, while we believe it is inappropriate for the Board to focus upon anything other than the overall “rate” as it is required to do under the law and rules, we wish to point out that the 3.5% profit assumption in CHLIC’s rate submission is set nationally. Vermont is the only state I am aware of that has challenged this profit assumption as “excessive.”

For the foregoing reasons, CHLIC requests that the Board approve the original “rate” submitted by CHLIC in the above-captioned filing.

Thank you for your consideration,

Matthew Danziger
July 21, 2015
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A handwritten signature in blue ink that reads "Matthew Danziger". The signature is written in a cursive, flowing style.

Matthew Danziger

Cc: Kaili Kuiper (via email KKuiper@vtlegalaid.org)
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