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February 27, 2018

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

Re: Cigna Health and Life Insurance Company  
2018 Large Group Rate Filing (SERFF # CCGP-131268605)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Cigna Health and Life Insurance Company (CHLIC) 2018 Large Group Rate Filing and to assist the Green Mountain Care Board in assessing whether to approve, modify, or disapprove the request.

### ***Filing Description***

This filing was originally submitted on 12/29/2017 with the Green Mountain Care Board.

- CHLIC is an international, for profit health services corporation that is a subsidiary of the Cigna Corporation. This filing includes Open Access Plus (OAP), Preferred Provider Organization (PPO), Network (NWK), Indemnity, and retiree medical insurance products provided to large employers in Vermont.
- The present filing updates the CHLIC large group manual rating methodology. It incorporates changes for trend assumptions, area factors, and the methodology used.
- There are 5 policyholders (794 members) situated in Vermont that are affected by this filing.
- The overall proposed rate impact to the current manual rates was 6.2% in the initial submission. During the course of review, CHLIC identified an accounting error that resulted in the omission of two fully insured Vermont situses accounts. After correcting the error, the restated overall proposed rate impact is 5.8% (\$31.03 PMPM). The rate change ranges between 1.5% and 9.3%.

### ***Standard of Review***

Pursuant to Green Mountain Care Board (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***

CHLIC requested an overall rate change of 5.8% for several of its large group products, including Open Access Plus, PPO, Network, Indemnity, retiree medical insurance product, and Pharmacy products.

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

CHLIC updated its base claim assumptions. With the new base claim assumptions, the Company also evaluated the medical trend, pharmacy trend, and area factors. Along with these updates, the Company also adjusted the medical capitation percentages, medical utilization dampening adjustment and methodology, base rates for all medical riders, vision cost and service utilization, mental health/substance abuse trend and rates, and various other adjustments. Last but not least, as outlined in the actuarial memorandum, there have been changes to the methodology for rating pharmacy benefits, which includes update to average wholesale price (AWP) per script, average script per customer, and etc.

To determine the overall and range of the rate change, CHLIC took a representative sample of Vermont situated cases and determined the premiums for these samples using the current approved manual rates and methodology and the proposed 2018 manual rates and methodology. The rate impact was determined as the difference between the two rates. This analysis resulted in a rate change of 5.8%, ranging from 1.5% to 9.3%.

#### ***Company's Analysis***

CHLIC proposed a rate change of 5.8% to be implemented upon approval. This was restated from the originally filed 6.2% rate change. The restatement is a result of CHLIC correcting an accounting error that resulted in the omission of two fully insured Vermont situses accounts.

The 5.8% overall change can be broken down into the following categories that will be further outlined:

Category	Original	Restated
<b>Rating Variables</b>	-6.5%	-6.5%
<b>Trend</b>	7.8%	7.8%
<b>Experience</b>	5.4%	5.0%
<b>Total</b>	<b>6.2%</b>	<b>5.8%</b>

1. *Rating Variables*: CHLIC includes the following four major contributors in the rating variables category that result in a change of -6.5%:
  - Medical area factors: -5.5%
  - Medical trend: -0.3%
  - Pharmacy (Rx) area factors: -7.6%
  - Rx trend: -6.2%

Area factors represent the area-specific relative cost of providing medical and Rx services compared to national average, while trend factors represent the change in cost and utilization of medical and Rx services and products. Area factors below 1.0 represent lower costs than the national average, while factors above 1.0 indicate higher costs relative to the national average.

- a. *Medical Area Factors*: The medical area factors were updated as a result of CHLIC's periodic experience rate reviews, which looked at full-year 2016 experience relative to the manual

rating expectation. Generally, claims were favorable as compared to the manual, which results into lowering medical area factors. Compared to the last approved filing, the proposed area factors in the current filing decreased by 5.1% for NWK and OAP, and 4.9% for PPO. Because CHLIC's starting point for its rates is a national figure, they needed to neutralize the impact between National and Vermont to ensure that the Vermont results were representative of the experience reviews. This has an additional pricing impact of -0.4%. These changes combined result in approximately -5.5% of impact for Vermont residents.

- b. *Medical Trend Assumptions:* The Company is proposing a paid medical trend of 6.5% for 2017 and a paid medical trend of 6.8% for 2018 and 2019. The trends reflect the Company's prospective unit cost trends by service type, the expected utilization trends and mix trends. These changes result in approximately -0.3% of impact for Vermont residents.

Requested Paid Trends	
Year	Total
2017	6.5%
2018	6.8%

- c. *Rx Area Factor:* CHLIC updated the Rx base claim assumptions and area factors to reflect the cost of specialty drugs, planned revisions to the drug lists, and market-specific experience. The Rx area factor increases by 3% from 0.69, which was approved in the prior filing, to 0.71, the proposed factor in the current filing. Also, the baseline that the Rx area factors are applied to has decreased by 9.9% since the prior filing. The combination of these two changes results in approximately -7.6% rate impact, which is due to CHLIC's retrospective Rx rate review.
- d. *Rx Trend Assumptions:* The Company proposes lower Rx trend factors than those approved in the last filing. The total Rx trends are shown below:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2017	6.3%	1.1%	7.4%
2018	7.8%	1.5%	9.4%

The Rx trend changes result in a rate change of -6.2%.

The rating variable changes discussed above are weighted between Vermont and non-Vermont residents and between medical and Rx. The overall impact is -6.5%.

2. *Trend:* The trend category represents an increase of 7.8%, which can be broken down between medical and Rx trends for the most recently approved trends in the 2017 filing with an approximate 80/20 split. The trends have changed and been reflected in the Rating Variables section of the rate change.

Approved in Prior Filing	
Total Medical Trend	6.8%
Total Rx Trend	11.9%

3. *Experience:* In the initial submission, CHLIC utilized a projected medical loss ratio (MLR) of 84.1% (including the 0.5% risk charge<sup>1</sup>). During the course of review, CHLIC identified an accounting error that resulted in the omission of two fully insured Vermont situses accounts. The correction of this error led to a change in the projected MLR due to mix of accounts. The restated projected MLR is 84.4% (including the 0.5% risk charge) and is a decrease from the previously approved MLR of 88.1% in the last filing. The rate impact of MLR change is 5.0%.

### **L&E Analysis**

The restated overall rate change is 5.8%, and the actual rate change experienced by each Vermonter could vary between 1.5% and 9.3%. The range of the rate change is due to various reasons, such as trend, methodology changes and geographic mix. L&E notes that the average rate change is 5.8%, which means that most non-credible or partially credible Vermont groups could experience a rate increase due to the increase in the manual rate<sup>2</sup>.

1. *Rating Variables:* CHLIC includes the following major contributors in the rating variables category that result in a pricing impact of -6.5%:
- Medical area factors: -5.5%
  - Medical trend: -0.3%
  - Rx area factors: -7.6%
  - Rx trend: -6.2%
- a. *Medical Area Factors:* CHLIC decreased the area factors by 5.1% for NWK and OAP, and 4.9% for PPO. These changes were a result of claims being favorable as compared to the manual. The table below shows the area factors by product approved in the prior filing and requested in this filing in Vermont, while the medical area factors filed by CHLIC for other states range from 0.48 to 1.33. L&E notes that the medical area factors are lower than 1.0, which indicates that the average medical costs in Vermont are lower relative to the national average. In addition, neutralizing the methodology impact between National and Vermont rating has an additional -0.4% pricing impact. The changes to the medical area factor assumptions in conjunction with the neutralization result in approximately -5.5% of overall rate impact.

Area Factors	NWK	OAP	PPO
<b>Approved in Last Filing</b>	0.78	0.78	0.81
<b>Requested in This Filing</b>	0.74	0.74	0.77
<b>Change</b>	<b>-5.1%</b>	<b>-5.1%</b>	<b>-4.9%</b>

The area factor changes appear to be reasonable and appropriate.

- b. *Medical Trend Assumptions:* The previously approved trend assumptions were 7.9% for 2016 and 6.8% for 2017. In the current filing, the Company's prospective trend assumptions for future years are projected to be 6.5% for 2017 and 6.8% for 2018 and 2019. These projected trends are slightly lower than the prior filing's. The changes to

<sup>1</sup> The risk charge is a component of the policyholder's product design within the shared returns product. If a clients' claims experience runs at or better than set expectations inclusive of the risk charge, then the client shares in the favorable experience up to 100%.

<sup>2</sup> Partially credible or fully credible groups have their own experience evaluated and combined with the manual rate. This will influence the actual rate change seen by each group.

the trend assumptions result in a rate change of approximately -0.3%<sup>3</sup> overall.

Approved in Prior Filing	
Year	Total Trend
2016	7.9%
2017	6.8%

Requested in This Filing	
Year	Total Trend
2017	6.5%
2018	6.8%

The Company provided unit costs changes and additional support for these trend assumptions in the submission.

The medical trend is lower than previous filing, and the Company has provided sufficient documentation to demonstrate the development of the medical trend for this block of business. The medical trend assumptions appear to be reasonable and appropriate.

- c. *Rx Area Factor*: Generally, Rx makes up approximately 20% of the total rate. CHLIC updated the Rx base claim assumptions and area factor to reflect the change in methodology for rating pharmacy benefits, cost of specialty drugs, planned revisions to the drug lists, and market-specific experience.

The table below shows the area factors approved in the prior filing and requested in this filing in Vermont, while the Rx area factors filed by CHLIC for other states range from 0.60 to 1.08. We note that the Vermont Rx area factor falls on the lower end when compared to other states.

Rx Area Factors	
Approved in Last Filing	0.69
Requested in This Filing	0.71
Change	3.0%

While the Rx area factor increases by 3.0% from last year, the baseline that the Rx area factors are applied to has decreased by 9.9% since the prior filing. The combination of these two results in approximately -7.6% of overall rate impact.

The baseline is calculated as the product of retail average wholesale price (AWP) per script and retail script count per member per year. We have reviewed the support as filed and confirm that the baseline was \$2,369 in the prior filing and \$2,133 in the current filing, which indicates a roughly 10.0% decrease.

The Rx area changes appear to be reasonable and appropriate.

- d. *Rx Trend Assumptions*: Total Rx trend is comprised of unit cost and utilization. The

<sup>3</sup> Calculated as  $(1+6.5%)*(1+6.8%)/((1+6.8%)^2) - 1$

unit cost trend was broken down between inflation, mix shift, and launching of new, pipeline drugs.

The last approved Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
<b>2016</b>	9.0%	1.8%	11.0%
<b>2017</b>	10.0%	1.7%	11.9%

The Requested Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
<b>2017</b>	6.3%	1.1%	7.4%
<b>2018</b>	7.8%	1.5%	9.4%

The total Rx trend requested in the current filing is lower than that approved in the last filing. The changes to the pharmacy trend assumptions result in approximately -6.2%<sup>4</sup> of overall rate impact.

CHLIC also provided a breakdown of the Rx trend into non-specialty and specialty trends. While Rx trends are at a lower level than the previous filing due to lower expected non-specialty and specialty inflation, both non-specialty and specialty trends are projected to increase year-over-year reflecting a limited reversion towards historical pharmacy trends.

	2017	2018
<b>Non-Specialty</b>	5.8%	7.6%
<b>Specialty</b>	12.4%	14.6%
<b>Total Rx Trend</b>	7.4%	9.4%

The Rx trend changes appear to be reasonable and appropriate.

The rating variable changes discussed above are weighted between Vermont and non-Vermont residents. The numbers above represent a total impact of -7.2% when applying the 80/20 split between medical and Rx and are applicable to Vermont residents. Similarly, the same method can be used to derive a -5.7% impact for non-Vermont residents. The total overall impact of rating variable changes is -6.5% when applying a 57/43 weight between Vermont residents and non-Vermont residents.

- Trend:* The trend category represents an increase of 7.8%, which is the 80/20 weighted average trend between medical and Rx trends for the most recently approved trends in the prior filing. The

<sup>4</sup> Calculated as  $(1+7.4%)*(1+9.4%) / ((1+11.9%)^2) - 1$

trends have changed and been reflected in the Rating Variables section of the rate change.

Approved in Prior Filing	
<b>Total Medical Trend</b>	<b>6.8%</b>
<b>Total Rx Trend</b>	<b>11.9%</b>

3. *Experience:* In the initial filing, CHLIC utilized a projected MLR of 84.1% (including the risk charge). During the course of review, CHLIC identified an accounting error that resulted in the omission of two fully insured Vermont situses accounts. The correction of error led to a change in the projected MLR due to mix of accounts. The restated projected MLR is 84.4% (including the risk charge) with a total retention of 15.6%, and it decreases from the previously approved MLR of 88.1% in the prior filing. The rate impact of MLR changes is 5.0%.

The projected federal MLR is 89.2%.

The Company provided a breakdown of the 15.6% for administrative costs.

Retention	Prior Approved	Requested
<b>Administrative Expenses</b>	6.4%	5.0%
<b>Optional Buy-ups</b>	0.6%	0.1%
<b>PPACA Fees</b>	0.0%	3.0%
<b>Premium and Income Taxes</b>	2.0%	2.0%
<b>State Assessments</b>	1.4%	1.3%
<b>Commissions</b>	0.3%	0.7%
<b>Contribution to Reserve / Profit</b>	2.0%	3.5%
<b>Total</b>	12.7%	15.6%

- The increase in PPACA fee is a result of the Health Insurance Industry Fee resuming for 2018. The fee was suspended for 2017.
- The increase in percentage of commission assumption from the prior filing is mainly due to a change in the mix of accounts. There was a shift to more Shared Returns member months in this year's filing, and commissions to brokers are only paid within the Share Returns product offering.
- The contribution to reserve / profit amount approved in the prior filing was 2.0%, which was a decrease from the originally requested 3.5%. The Company is currently requesting a contribution to reserve / profit of 3.5% in this filing.

While the Company's contribution to reserve / profit assumption and current level of reserves are beyond the scope of this review, it should be noted that the proposed contribution to reserve / profit level is consistent with the contribution to reserve / profit assumption requested in the prior filing but not consistent with the contribution to reserve / profit assumption ordered by the Board in the prior filing.

Cigna's actual contribution to reserve / profit results for the large group block of business, as calculated from the Supplemental Health Care Exhibit, were shown as follows.

Year	Actual Contribution to Reserve / Profit
2014	13.2%
2015	5.6%
2016	1.3%

Note that the above historic contribution to reserve / profit figures differ from those reported in the prior years' review summary. This is due to CHLIC identifying an accounting error that resulted in the omission of two fully insured Vermont situses accounts in the past. These two accounts had been mistakenly categorized and reported as small group, while in fact they fall under the category of large group and are now being accounted for correctly.

Results for 2017 have not been finalized, but based on internal projections, Cigna estimated the contribution to reserve / profit would be in the negative double digits. Given these volatile results and that Cigna's enrollment is very low (less than 1,000 lives), the financial statement data is not considered solely as a reliable source for setting the contribution to reserve / profit assumption.

In light of the Vermont large group market, we recommend that the contribution to reserve / profit level be reduced to 2.0% to be more in line with all other Vermont market participants. The results of the Department of Financial Regulation's (DFR) Solvency Analysis should be considered when evaluating L&E's recommendation and the proposed contribution to reserve / profit level.

All changes to the retention, with modification to the contribution to reserve / profit, appear reasonable and appropriate.



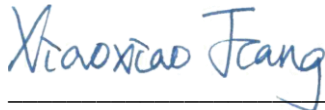
**Recommendation**

After modifications, L&E believes that this filing does not produce rates that excessive, inadequate, or unfairly discriminatory, subject to the DFR's opinion regarding the contribution to reserve / profit assumption. Therefore, L&E recommends that the Board make the following modifications:

- Reduce the contribution to reserve / profit level assumption from 3.5% to 2.0%.

After the modification, the anticipated overall rate change will reduce from 5.8% to 4.3%.

Sincerely,



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Xiaoxiao Jiang, FSA, MAAA  
Associate Actuary  
Lewis & Ellis, Inc.



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



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David M. Dillon, FSA, MAAA  
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**ASOP 41 Disclosures**

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>5</sup>, 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<sup>6</sup>, 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:

- Xiaoxiao Jiang, FSA, MAAA, Associate Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal 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 February 27, 2018. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is February 22, 2018.

**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

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Partially credible or fully credible groups have their own experience evaluated and combined with the manual rate. This will influence the actual rate change seen by each group and the Society of Actuaries.

<sup>6</sup> These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

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.

- 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.