



April 8, 2019

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

Re: Cigna Health and Life Insurance Company
2019 Large Group Rate Filing (SERFF # CCGP-131695464)

The purpose of this letter is to provide a summary and recommendation regarding the Cigna Health and Life Insurance Company (CHLIC) 2019 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 02/07/2019 to 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 (534 members) situated in Vermont that are affected by this filing.
- The overall proposed rate impact to the current manual rates was -3.6% in the initial submission. During the course of review, CHLIC noted an error; the 2018 rates used in determining the initial requested rate increase were not the final approved rates. After correcting the error, the restated overall proposed rate impact is 0.2% (\$1.23 PMPM). The revised rate change ranges between -3.1% (-\$17.29 PMPM) and 6.0% (\$33.46 PMPM).

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 increase of 0.2% for several of its large group products, including OAP, PPO, NWK, 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, and rider claim cost exhibits.

CHLIC updated its base claim assumptions from the 2018 filing. 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 demographic factors and aging trend, tiered benefits 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 Cigna's actuarial memorandum, there have been changes to the methodology for rating pharmacy benefits, which include updates to average wholesale price (AWP) per script and average script per customer.

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 2019 manual rates and methodology. The rate impact was determined as the difference between the two rates. This analysis resulted in an overall rate increase of 0.2%, ranging from -3.1% to 6.0%.

Company's Analysis

CHLIC proposed a rate change of 0.2% to be implemented upon approval. This was restated from the originally filed -3.6% rate change. The restatement is a result of CHLIC correcting an error that incorrect 2018 rates were used in the initial submission.

The overall change of 0.2% can be broken down into the following categories that will be further outlined:

Category	Impact
Rating Variables	-5.7%
Trend	7.3%
Experience	-0.9%
Total	0.2%

1. *Rating Variables*: CHLIC includes the following four major contributors in the Rating Variables category that result in a change of -5.7%¹:
 - Medical area factors: -1.6%
 - Medical trend: -2.0%
 - Pharmacy (Rx) area factors: -12.3%
 - Rx trend: -2.8%

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

¹ Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 81% and 19%, respectively.

$[81\% * (1 - 1.6\%) * (1 - 2.0\%) + 19\% * (1 - 12.3\%) * (1 - 2.8\%)] - 1$

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 2017 experience relative to the manual rating expectation. Generally, claims were favorable as compared to the manual, which results in lowering medical area factors. Compared to the last approved filing, the proposed area factors in the current filing decreased by 2.7% for NWK and OAP and 3.9% for PPO for Vermont residents. In pricing, Cigna uses an account's census for the group to determine the rate for that group. Therefore, both Vermont and non-Vermont area factors are used in pricing based on an individual or family's residence. The estimated impact for the changes in the medical area factors is approximately -1.6%.
- b. *Medical Trend Assumptions:* The Company is proposing a paid medical trend of 5.5% for 2018 and a paid medical trend of 6.0% for 2019 and 2020. The trends reflect the Company's prospective unit cost trends by service type, the expected utilization trends and mix trends. These trends account for approximately -2.0% of impact as compared to the prior year's assumptions.

Requested Paid Trends	
Year	Total
2018	5.5%
2019	6.0%

- 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 is 0.71, which remains the same as what was approved in the prior filing. However, the nationwide manual rate to which the Rx area factor is applied has decreased; in addition, there are improved pharmacy discounts passed back to the members. The combination of these two changes results in a rate impact of approximately -12.3%.
- d. *Rx Trend Assumptions:* The Company is proposing 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
2018	6.4%	1.5%	8.0%
2019	7.5%	0.4%	7.9%

The Rx trend changes result in a rate change of -2.8%.

The rating variable changes discussed above are weighted between medical and Rx using an 81%/19% split², respectively. The overall impact is -5.7%.

2. *Trend:* The trend category represents an increase of 7.3%, which can be broken down between medical and Rx trends for the most recently approved trends in the 2018 filing with an approximate 81%/19% split. The trends have changed and been reflected in the Rating Variables section of the

² A weight of 81% is assigned to medical, while the remaining weight of 19% is assigned to Rx.

rate change.

Approved in Prior Filing	
Total Medical Trend	6.8%
Total Rx Trend	9.4%

3. *Experience*: The projected MLR is 87.2% in the current filing and is an increase from the previously approved MLR of 86.4% in the last filing. The rate impact of MLR change is -0.9%.

L&E Analysis

The overall rate change is 0.2%, and the actual rate change experienced by each Vermonter impacted by the filing could vary between -3.1% and 6.0%. 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 0.2%, which means that most non-credible or partially credible Vermont groups could experience a slight rate increase due to the increase in the manual rate³.

1. *Rating Variables*: CHLIC includes the following major contributors in the rating variables category that result in a pricing impact of -5.7%⁴:
- Medical area factors: -1.6%
 - Medical trend: -2.0%
 - Rx area factors: -12.3%
 - Rx trend: -2.8%
- a. *Medical Area Factors*: CHLIC decreased the area factors by 2.7% for NWK and OAP and 3.9% for PPO. These changes were a result of claims being favorable as compared to the manual rates. The table below shows the area factors by product approved in the prior filing and requested in this filing for Vermont residents. In addition, for non-Vermont residents, who account for roughly 35% of the total membership, the corresponding states' area factors were used. The changes to the medical area factor assumptions result in approximately -1.6% of overall rate impact for both Vermont residents and non-Vermont residents.

Area Factors	NWK	OAP	PPO
Approved in Last Filing	0.74	0.74	0.77
Requested in This Filing	0.72	0.72	0.74
Change	-2.7%	-2.7%	-3.9%

The area factor changes appear to be reasonable and appropriate.

- b. *Medical Trend Assumptions*: The previously approved trend assumptions were 6.5% for 2017 and 6.8% for 2018. During the course of the review, the Company confirmed that the trends submitted in the initial upload were not the final trends. They

³ 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.

⁴ Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 81% and 19%, respectively.

$[81\% * (1 - 1.6\%) * (1 - 2.0\%) + 19\% * (1 - 12.3\%) * (1 - 2.8\%)] - 1$

resubmitted updated filing documentation and support for the medical trends. In the current filing, the Company's prospective trend assumptions for future years are projected to be 5.5% for 2018 and 6.0% for 2019 and 2020. These projected trends are slightly lower than the prior filing's trends. The changes to the trend assumptions result in a rate change of approximately -2.0%⁵ overall.

Approved in Prior Filing	
Year	Total Trend
2017	6.5%
2018 and 2019	6.8%

Request in Current Filing				
Year	Total Trend	Utilization	Mix	Total Trend
2018	2.6%	1.2%	1.6%	5.5%
2019 and 2020	3.4%	1.1%	1.5%	6.0%

The Company indicated that medical utilization and mix trend is set nationally through a combination of multiple factors, including retrospective study of their closed block of business, knowledge of prospective factors, industry trends, as well as competitive insights. The previous four years' projected mix trends for VT were provided, which decrease year-over-year.

Support for the unit cost has also been provided, including a breakdown of the unit cost by main facility category.

The medical trend is lower than previous filing mainly due to lower projected utilization. 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*: In this filing, Rx makes up approximately 19% 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, which remained steady at 0.71. The nationwide Rx area factors filed by CHLIC range from 0.62 to 1.13. 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	0.71
Requested in This Filing	0.71
Change	0.0%

⁵ Calculated as $(1+5.5\%)*(1+6.0\%)/((1+6.8\%)^2) - 1$

While the Rx area factor has not changed from last year, the nationwide manual rate to which the Rx area factor is applied has decreased; in addition, there are improved pharmacy discounts passed back to the members. The combination of these two changes results in approximately -12.3% rate impact.

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 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
2017	6.3%	1.1%	7.4%
2018	7.8%	1.5%	9.4%

The Requested Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2018	6.4%	1.5%	8.0%
2019+	7.5%	0.4%	7.9%

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 -2.8%⁶ of overall rate impact.

CHLIC also provided a breakdown of the Rx trend into non-specialty and specialty trends. Rx trends are at a lower level than the previous filing due to lower expected non-specialty and specialty inflation. Specialty trends have increased from the prior filing due to increased utilization. While non-specialty trends are lower than prior year's, they are projected to increase year-over-year, as these trends move back toward average historical pharmacy trends.

	2018	2019
Non-Specialty	4.7%	4.0%
Specialty	17.4%	17.8%
Total Rx Trend	8.0%	7.9%

The Rx trend changes appear to be reasonable and appropriate.

The rating variable changes represent a total impact of -5.7% when applying the 81%/19% split

⁶ Calculated as $(1+8.0\%)*(1+7.9\%) / ((1+9.4\%)^2) - 1$

between medical and Rx.

2. *Trend*: The trend category represents an increase of 7.3%, which is the 81%/19% weighted average trend between medical and Rx trends for the most recently approved trends in the prior filing. The trends have changed and been reflected in the Rating Variables section of the rate change.

Approved Trend in Prior Filing				
	Unit Cost	Utilization	Mix	Total
Medical	3.4%	2.0%	1.2%	6.8%
Rx	7.8%	1.5%	n/a	9.4%

Since these trends are based on previously approved filings, L&E does not have an opinion in this section.

3. *Experience*: The projected MLR is 87.2% with a total retention of 12.8%, an increase from the previously approved MLR of 86.4% in the prior filing. The rate impact of MLR changes is -0.9%.

The projected federal MLR is 90.6%.

The Company provided a breakdown of the 12.8% for administrative costs.

Retention	Prior Approved	Requested
Administrative Expenses	4.8%	5.5%
Optional Buy-ups	0.1%	0.1%
PPACA Fees	3.0%	0.0%/2.5% ⁷
Risk Charge	0.5%	0.0%
Premium and Income Taxes	2.0%	2.0%
State Assessments	1.5%	1.7%
Commissions	0.7%	0.0%
Contribution to Reserve / Profit	1.0%	3.5%
Total	13.6%	12.8%/15.3% ⁸

- The increase in admin expenses as a percent of premium is mainly driven by absolute claims dollars forecast to be lower compared to last year, combined with the removal of the Health Insurance Industry Fee.
- PPACA fee: PPACA fees were removed due to the temporary suspension of the HII fee for 2019. The Company assumes that the HII fee will be 2.5% of premium for 2020. For accounts with coverage that extends to months in 2020 calendar year, the fee will be included in the rates.
- Risk Charge: Risk charge is reduced to 0% as it was applied to the Experience Rated (or Shared Returns) clients, whose projected member month is 0 in the current filing.
- Commissions: Similar to risk charge, commission was applied to Shared Returns accounts only and it is projected that there will be zero member month of Shared

⁷ PPACA fees of 2.5% will be applied to accounts with coverage that extends to months in CY2020.

⁸ The Total Admin Expense of 15.3% includes the PPACA fees at 2.5% that will be applied to accounts with coverage that extends to months in CY2020.

Returns accounts in 2019. Therefore, the assumption is projected to be 0%.

- The contribution to reserve/profit amount approved in the prior filing was 1.0%, 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%
2017	-19.8%
2018	5.2%

Given these volatile results and that Cigna's enrollment is very low (approximately 500 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 are 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 0.2% to -1.3%.

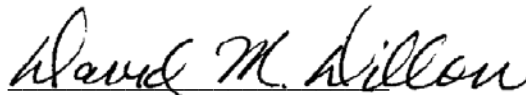
Sincerely,



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



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



David M. Dillon, FSA, MAAA
Vice President & Principal
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations⁹, 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 Conduct¹⁰, 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, Consulting Actuary at Lewis & Ellis, Inc.
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc.
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc.

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 April 8, 2019. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is April 8, 2019.

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.

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.

¹⁰ 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.