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May 18, 2020

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

Re: Cigna Health and Life Insurance Company
2020 Large Group Rate Filing (SERFF # CCGP-132206853)

The purpose of this letter is to provide a summary and recommendation regarding the Cigna Health and Life Insurance Company (CHLIC) 2020 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 03/18/2020 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 rating factors, expenses, and the methodology used.
- There are 7 policyholders (798 members) situsedin Vermont that are affected by this filing.
- The overall proposed rate impact to the current manual rates is 15.0%. The proposed rate change ranges between -0.4% (-$2.18 PMPM) and 30.8% ($167.67 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 15.0% 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.

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 2019 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 base rates for all medical riders, 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. The changes include an updated rating formula to split Preferred and Non-Preferred brand scripts and AWP into Preventive and non-Preventive categories, updating miscellaneous adjustments, and adding additional benefit adjustments. The pharmacy rating methodology changes do not impact rates.

To determine the overall and range of the rate change, CHLIC took a representative sample of Vermont situsd cases and determined the premiums for these samples using the current approved manual rates and methodology and the proposed 2020 manual rates and methodology. The rate impact was determined as the difference between the two rates, $582 (2019) and $670 (2020). This analysis resulted in an overall rate increase of 15.0%, ranging from -0.4% to 30.8%.

Company's Analysis

CHLIC proposed a rate change of 15.0% to be implemented upon approval.

The overall change of 15.0% can be broken down into the following categories that will be further outlined:

Category	Impact
Rating Variables	0.8%
Trend	6.5%
Expenses	7.1%
Total	**15.0%**

1. *Rating Variables*: CHLIC includes the following two major contributors in the Rating Variables category that result in a rate change of 0.8%[1]:
    - Medical area factors: -0.7%
    - Pharmacy (Rx) area factors: 8.0%

    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 2018 experience relative to the manual rating expectation. By design of the rate review process, changes are neutralized out at the rating area level, such that the average impact of methodology changes are 0% at the rating area level. However, at the case level, changes can cause a difference in manual rating between filings. Additionally, the VT rate increase represents the impact to the average VT situs case, which include membership inside and outside of VT. Geographic

[1] Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 83% and 17%, respectively.

[83%*(1-0.7%) + 17%*(1+8.0%)] - 1

mix at the case level (e.g. a single account having greater/lower % VT membership) can drive the overall average rate impact to be non-neutral. Generally, medical claims were favorable as compared to the manual, which results in lowering medical area factors. Compared to the last approved filing, the proposed medical area factors in the current filing decreased by -0.7% for all products (NWK, OAP and PPO) for Vermont residents. Therefore, the estimated impact for the changes in the medical area factors is approximately -0.7%.

b. *Rx Area Factor*: The Rx area factors were updated as a result of CHLIC's periodic experience rate reviews, which looked at full-year 2018 experience relative to the manual rating expectation. By design of the rate review process, changes are neutralized out at the rating area level, such that the average impact of methodology changes are 0% at the rating area level. However, at the case level, changes can cause a difference in manual rating between filings. Additionally, the VT rate increase represents the impact to the average VT situs case, which include membership inside and outside of VT. Geographic mix at the case level (e.g. a single account having greater/lower % VT membership) can drive variance to the average. Generally, Rx claims were higher than the manual, which results in increasing Rx area factors. Compared to the last approved filing, the proposed Rx area factors in the current filing increase by 8.0% for Vermont residents. Therefore, the estimated impact for the changes in the medical area factors is approximately 8.0%.

2. *Trend*: The trend category represents an annual trend increase of 6.5%[2] for 2020, which can be broken down between medical and Rx trends:

Trend				
	Utilization	Unit Cost	Mix	Total Trend
Total Medical Trend	2.2%	2.5%	1.6%	6.4%
Total Rx Trend	0.6%	6.1%	0.0%	6.8%
Total Trend	1.9%	3.1%	1.3%	6.5%

Trend factors represent the change in cost, utilization, and mix of medical and Rx services and products.

a. *Medical Trend Assumptions*: The Company is proposing a medical trend of 6.4% for 2020. In this is slightly higher than the medical trend assumption used in the previously approved (2019) rate filing, which was 6.0%. When calculating the rate increase for the state of VT, the Company forecasts local medical cost trends which are significantly influenced by the contracted rates obtained from providers within the state. Increases in provider rates increase the cost structure and require a requested increase to premium. The estimated impact of the annual medical trend for 2020 is approximately 6.4%.

b. *Rx Trend Assumptions*: The Company is proposing an Rx trend of 6.8% for 2020. This is lower than the medical trend assumption used in the previously approved (2019) rate

[2] Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 83% and 17%, respectively.

[83%*(1+6.4%) + 17%*(1+6.8%)] - 1

filing, which was 7.9%. Pharmacy trends are composed of several pieces –

- Cost Trend: the change in the average ingredient cost per script of drugs due to:
  i. Inflation – the change in cost per unit for medications used in both the base period and current period isolating against changes in days' supply and mix shift.
  ii. Mix Shift – the changes in cost due to patients filling different medications in the current period versus the prior period. This is cause by a loss of exclusivity (patent expirations) which results in a shift from brand utilization to generic utilization, as well as a shift in utilization from existing generic medications to new generics after patent expirations.
  iii. Pipeline – The approval and launch of pipeline drugs causes a shift in utilization from older therapies to novel therapies and causes the emergence of new claims from previously untreated populations
- Utilization Trend: the change in the number of prescriptions filled on a per member per month (PMPM) basis.

The pharmacy trend for 2020 is lower than the previous filing due to lower expected utilization for non-specialty drugs and drug mix shifting towards generic as a result of the Company's efforts to better manage their drug lists and steer customers to lower cost drugs. The estimated impact of the annual Rx trend for 2020 is approximately 6.8%.

3. *Expenses*: The retention as a percent of premium increase to 16.4% compared to the 10.4% assumed in the previously approved (2019) rate filing. The rate impact of expense change is 7.1%[3]. The following table outlines each retention category's change:

Retention Category	Proposed 2020/2021	Approved 2019	Change
Administrative Expenses	6.3%	5.3%	1.0%
Optional Buy-ups	0.2%	0.1%	0.1%
PPACA Fees	2.5%/0.0%	0.0%	2.5%
Risk Charge	0.0%	0.0%	0.0%
Premium and Income Taxes	2.0%	2.0%	0.0%
Profit	3.5%	1.0%	2.5%
State Assessments	1.9%	2.0%	-0.1%
Total	16.4%/13.9%	10.4%	6.0%

- Administrative Expense: 1.0% increase due to an increase in expenses driven by cost inflation and added provider fees. The added fees include a behavioral health access fee and medical management. These were not included in prior filings.
- Optional Buy-ups[4]: 0.1% increase due to including the average cost of One Guide and Health Advisor buy ups, which had not been included in prior filings.

[3] [1/(1-16.4%)] / [1/(1-10.4%)] - 1

[4] Option to buy additional benefit(s) for the plan.

- PPACA Fees: PPACA fees are primarily associated with the Health Insurance Industry Fee (HIIF), which is assumed to be 2.5% for 2020 calendar months, and 0% for 2021+ calendar months due to recent legislative changes. The remainder is for the PCORI, which is currently a small amount (<0.1%) and assumed to continue for 2020 and beyond.
- State Assessments: Decrease of 0.1% driven by the Removal of General Agent fees for <200 lives.
- Profit: The profit assumption in the previously filed and approved rating methodology is 1.0%. In the proposed filing, we the Company is submitting assumptions for retention which include a profit assumption of 3.5% (consistent with the requested profit in prior filings).

L&E Analysis

The overall rate change is 15.0%, and the actual rate change experienced by each Vermonter impacted by the filing could vary between -0.4% and 30.8%. The range of the rate change is due to various reasons, such as case level rating and geographic mix. The 15.0% overall rate change represents the average impact to VT situs cases, which include membership inside and outside of VT (i.e. a single account having greater/lower % VT membership causes variance). L&E notes that the average rate change is 15.0%, which means that most non-credible or partially credible Vermont groups could experience a rate increase due to the increase in the manual rate[5].

1. *Rating Variables:* CHLIC includes the following major contributors in the rating variables category that result in a pricing impact of 0.8%[6]:
    - Medical area factors: -0.7%
    - Rx area factors: 8.0%

    a. *Medical Area Factors:* CHLIC decreased the medical area factors by -0.7% for all products (NWK, OAP and 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. The changes to the medical area factor assumptions result in an approximate -0.7% of overall rate impact for both Vermont residents and non-Vermont residents.

Area Factors	NWK	OAP	PPO
Approved in Last Filing	0.72	0.72	0.74
Requested in This Filing	0.71	0.71	0.73
Change	**-0.7%**	**-0.7%**	**-0.7%**

Area factors represent the area-specific relative cost of providing medical and Rx services compared to national average. 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.

[5] 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.

[6] Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 83% and 17%, respectively.

[83%*(1-0.7%) + 17%*(1+8.0%)] - 1

The area factor changes appear to be reasonable and appropriate.

b. *Rx Area Factor*: CHLIC increased the pharmacy area factors 8.0%. These changes were a result of claims being unfavorable as compared to the manual rates. The table below shows the area factors approved in the prior filing and requested in this filing in Vermont. The nationwide Rx area factors filed by CHLIC range from 0.65 to 1.14. 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	0.76
Change	8.0%

Area factors represent the area-specific relative cost of providing medical and Rx services compared to national average. 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.

The Rx area changes appear to be reasonable and appropriate.

The rating variable changes represent a total impact of 0.8% when applying the 83%/17% split between medical and Rx.

2. *Trend*: The trend category represents an increase of 6.5%, which is the 83%/17% weighted average trend between medical and Rx trends.

Trend				
	Utilization	Unit Cost	Mix	Total Trend
Total Medical Trend	2.2%	2.5%	1.6%	6.4%
Total Rx Trend	0.6%	6.1%	0.0%	6.8%
Total Trend	1.9%	3.1%	1.3%	6.5%

a. *Medical Trend Assumptions*: The previously approved trend assumption was 6.0% for 2019. In the current filing, the Company's prospective trend assumption for 2020 is projected to be 6.4%. Therefore, the estimated impact of the annual medical trend for 2020 is approximately 6.4%.

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.

Regarding the unit cost and mix trend, the Company forecasts local medical cost trends which are significantly influenced by the contracted rates obtained from providers within the state. Increases in provider rates increase the cost structure and require a requested increase to premium.

The Green Mountain Care Board (GMCB) established a maximum Commercial growth target of 3.76% for FY2020. The Company's medical unit cost and mix trends combined are equal to 4.1%[7], which includes the trend impact for other medical services (OMS)[8]. For comparison to GMCB's growth target, the impact for OMS should be excluded. After excluding OMS, the trend impact is 3.4%, which is more comparable to the 3.76% target set by GMCB.

The past three years of Vermont observed, normalized, medical PMPM trends were provided as shown in the table below.

Vermont Medical Trends	
FY2017	-1.0%
FY2018	11.1%
FY2019	11.1%

An equally weighted average of these three years results in an observed average trend of 7.1%. We note that the proposed medical trend assumption of 6.4% falls below this average.

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.

b. *Rx Trend Assumptions*: The Company is proposing an Rx trend of 6.8% for 2020. This is lower than the medical trend assumption used in the previously approved (2019) rate filing, which was 7.9%. Pharmacy trends are lower than the previous filing due to lower expected utilization for non-specialty drugs and drug mix shifting towards generic. The estimated impact of the annual Rx trend for 2020 is approximately 6.8%.

The past two years of Vermont observed, normalized, medical PMPM trends were provided as shown in the table below. Due to data limitation a third year of historical trend was unable to be provided.

Vermont Pharmacy Trends	
FY2018	7.3%
FY2019	4.8%

An equally weighted average of these two years results in an observed average trend of 6.1%. While the proposed pharmacy trend assumption is slightly higher than this average, it does not appear unreasonable given the FY2018 pharmacy trend level.

The Rx trend changes appear to be reasonable and appropriate.

3. *Expenses*: The retention as a percent of premium increase to 16.4% compared to the 10.4% assumed in the previously approved (2019) rate filing. The rate impact of expense change is

[7] (1+2.5%)*(1+1.6%) - 1

[8] Durable Medical Equipment and Home Health Care Services

7.1%[9].

The Company provided a breakdown of the 16.4% retention load compared to the previously filed 10.4% retention load.

Retention Category	Proposed 2020/2021	Approved 2019	Change
Administrative Expenses	6.3%	5.3%	1.0%
Optional Buy-ups	0.2%	0.1%	0.1%
PPACA Fees	2.5%/0.0%	0.0%	2.5%
Risk Charge	0.0%	0.0%	0.0%
Premium and Income Taxes	2.0%	2.0%	0.0%
Profit	3.5%	1.0%	2.5%
State Assessments	1.9%	2.0%	-0.1%
Total	16.4%/13.9%	10.4%	6.0%

The majority of the 6.0% retention change is due to changes in PPACA Fees and Profit.

- PPACA Fees: The increase in the PPACA Fee retention line item is due to the return of the Health Insurer Fee (HIF) in 2020, which was suspended for calendar year 2019. The HIF is assumed to be 2.5% for calendar year 2020 and 0% for calendar year 2021+.
- Profit: 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-to-expected reserve/profit results for the large group block of business, as calculated from the Vermont Supplemental Health Care Exhibit (SCHE), were provided as follows.

Year	Expected Profit from Approved Rate Filings	Actual Profit from SCHE
2016	1%	10%
2017	2%	-18%
2018	1%	5%
2019	1%	-2%
4-Yr Avg	1.3%	-1.3%

Given these volatile results and that Cigna's enrollment is very low (approximately 800 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

[9] [1/(1-16.4%)] / [1/(1-10.4%)] - 1

to reserve/profit level.

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

4. *COVID-19:* The Company's projected impact to experience due to COVID-19 is that utilization dampening associated with elective deferrals will roughly neutralize the additional costs from COVID-19 testing and treatment.

   The assumed impact of COVID-19 appears reasonable and appropriate.

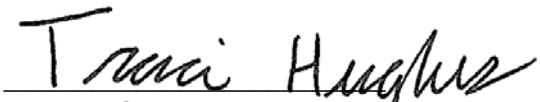
Recommendation

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:

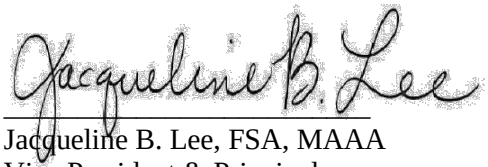
- Reduce the contribution to reserve / profit level assumption from 3.5% to 2.0%.

After the modification, the anticipated overall rate change will reduce from 15.0% to 13.5%.

Sincerely,



Traci Hughes, ASA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA
Vice President & Principal
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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[10], 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[11], 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:

- Traci Hughes, ASA, MAAA, Vice President & 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 May 18, 2020. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is May 18, 2020.

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.

[11] 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.