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June 30, 2015

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

Re: Cigna Health and Life Insurance Company - 2015 Large Group Rate Filing (SERFF # CCGP-129725944)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Cigna Health and Life Insurance Company (CHLIC) Large Group Rate Filing (1/1/2015) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

This filing was originally submitted on 5/1/2015 with the Green Mountain Care Board.

- CHLIC 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 (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, medical area factors, and methodology.
- There are 22 policy holders (5,280 members) situated in Vermont that are affected by this filing.
- The overall proposed rate impact of this filing to the current rates is an increase of 6.0% (\$18.88 PMPM). The rate increase ranges between the minimum of -3.0% and the maximum of 24.9%.

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 6.0% for several of its large group products, including Open Access Plus, PPO, Network, Indemnity, retiree medical insurance product, and Pharmacy products. There is an increase in the number of affected lives from the prior filing because the CGLIC book recently migrated to the CHLIC legal entity. These lives are now included in this filing.

The Company 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.

CHLIC is updating its base claim assumptions and the Claim Probability Distribution (CPD) tables. With the new base claim assumptions, the Company also evaluated the area factors. Along with these updates, the Company also adjusted the industry factors (SIC), credibility formula, mental health/substance abuse products, and various other adjustments outlined in the actuarial memorandum.

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 manual rates and methodology as of 1/1/2015. The rate increase was determined as the difference between the two rates. This analysis resulted in a rate change of 6.0%, ranging from -3% to 24.9%.

Company's Analysis

CHLIC proposed a rate increase of 6.0% to be implemented upon approval. Throughout the review process, CHLIC found an issue in the original calibration of the rate increase. To correct for the calibration issue, CHLIC proposed to reduce VT medical rating area factors by -10%. This change reduced the overall average rate increase to 0.5%. The actual rate change experienced by each Vermonter could vary between -8.6% and 16.8%.

1. *Medical Base Claim Assumptions & Claim Probability Distribution (CPD)*: CHLIC updated the medical base claim assumptions and the CPD. The base claim assumptions represent the allowed claims amounts. Then, CHLIC uses the CPD tables to determine the impact of deductibles, coinsurance, and out of pocket maximums. The impact of the base claim assumption changes was -6.7%. The impact of the updated CPD tables accounts for the cost sharing is an increase of 7.5%. This results in a combined rate increase 0.3%.

The base claim assumptions and the CPD were developed using CY 2013 data, using actual experience from their members. In years past, Cigna has used the Milliman CPD to support their analysis, but this year, the Company data was credible enough to develop the CPD table with expanded buckets of average claim amounts and frequencies. It appears that the updated claim distributions results in a higher frequency for the \$0 dollar claims and a slightly lower probability for claims below \$1,000 as compared to their previous table.

2. *Medical Trend Assumptions*: The Company is using a paid medical trend of 10.1% for 2014 and a paid medical trend of 10.0% for 2015 and 2016. The trends reflect the Company's prospective unit cost trend rates by service type and the expected utilization trends.
3. *Medical Area Factors*: Because of the adjustment to the base medical claims, it was necessary for the Company to also update the area factors for each product. The impact of the area factor changes increased for OAP by 11.7% and decreased for PPO and NWK by -18.0% and -17.3%, respectively.

4. *Industry Load Factors*: CHLIC developed the industry load factors from a study of the OAP book of business for FY2013. The impact of this change was -0.1% with changes ranging from -5.3% to 5.3%.
5. *Rx*: CHLIC updated the Rx base claim assumptions and area factors to reflect the growing cost of specialty drugs, planned revisions to the drug lists, and market-specific experience. The Company provided significant detail on the breakdown of the script counts and Average Wholesale Price (AWP) for different drug tiers. The impact of these changes to pharmacy manual rates is an increase of 3.0%.

The Rx trends were developed using the changes to the script counts, AWP, and changes in network discounts.

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2014	12.2%	0.5%	12.8%
2015	11.0%	1.0%	12.1%

6. *Administrative Costs and Anticipated Loss Ratio*: CHLIC utilized a pricing loss ratio of 81.6% (including risk charges) with a total retention of 18.4%. The Company provided a breakdown of the 18.4% for administrative costs.

Retention	%
Administrative Expenses	7.0%
PPACA Fees	3.8%
Premium and Income Taxes	2.0%
State Assessments	0.9%
Commissions	1.2%
Profit	3.5%
Total	18.4%

L&E Analysis

The result of CHLIC's correction reduced the overall average rate increase to 0.5%. The actual rate change experienced by each Vermonter could vary between -8.6% and 16.8%. The range of the rate increase is due to the industry load changes combined with the CPD changes. L&E notes that the average rate increase is 0.5%, which means that most Vermonters will not experience a large rate increase.

1. *Medical Base Claim Assumptions & Claim Probability Distribution (CPD)*: Both the medical base claim assumptions and the CPD utilized CY 2013 data in the development, using actual experience from their members. The base claim assumptions represent the experience of the large group block of business. The development of the CPD requires a large data set to ensure that all claim dollar buckets are represented appropriately. For the CPD, CHLIC utilized national data for its development, and the Company used to supplement their analysis with Milliman's CPD tables. However, the Company determined that the national data was statistically credible to develop the CPD table.

L&E compared CHLIC's new Claim Distribution tables to its internal pricing model. Compared to L&E values, CHLIC's table assumes a higher frequency for the lower claim levels. CHLIC assumes that about 21% of the covered beneficiaries will not have any claims, which is higher than the frequency in the L&E tables. CHLIC also assumes a slightly higher frequency for the claims below \$1,000; however, CHLIC assumes a significantly lower frequency for claims above \$10,000. As a result, the average annual cost based on the CHLIC claim distribution tables is lower than the annual estimated cost using L&E tables.

The adjustments to the base claim assumptions and the CPD appear to be reasonable and appropriate.

2. *Medical Trend Assumptions*: The trend assumptions are 10.1% for 2014 and 10.0% for 2015 and 2016. These trend assumptions are the Company's prospective trend for future years. The projected trends appear to be higher than prior filings and as compared to other carriers.

Year	Total Trend
2014	10.1%
2015	10.0%

Based on discussions with the Company, the primary driver of the increase in trend is less favorable contract negotiations. In confidential responses, Cigna has provided sufficient documentation to support this requested trend.

Additionally, the Company provided an analysis of the historical experience from FY2012-FY2014, normalized for benefit changes and demographics. The normalized trend factor is over 16%; however, this includes a large normalization factor. The greatest change was driven by the demographic changes from losing a large account in 2014.

While the medical trend is higher than previous filings, the Company has provided sufficient documentation to show that the medical trend for this block of business has been increasing. The medical trend assumptions appear to be reasonable and appropriate.

3. *Medical Area Factors*: Originally, CHLIC increased the area factors by 24.2% for OAP and reduced the area factors by 8.5% for PPO and 7.9% for NWK. However, because CHLIC discovered the issue in the original calibration of the rate increase, the VT medical rating area factors were reduced by -10%. Therefore, the new proposed area factors have increased for OAP by 11.7% and decreased for PPO and NWK by 18.0% and 17.3%, respectively.

The Company used FY2014 claims experience for Vermonters with the OAP product. This claims experience is compared to the manual rates to determine the necessary area factor changes.

The area factor changes appear to be reasonable and appropriate.

4. *Industry Load Factors:* The overall rate change for the industry factor is immaterial at -0.1%; however, the range of these rate changes when combined with the base claim and CPD changes led to the wide range of overall rate changes for this filing. Similar to CPD table development, a large data set needs to be used to develop the industry load factors. CHLIC studied its OAP book of business which was determined to be statistically credible. The industry factor changes appear to be reasonable and appropriate.
5. *Rx:* CHLIC updated the Rx base claim assumptions, area factors, and trends to reflect the growing cost of specialty drugs, planned revisions to the drug lists, and market-specific experience. It is noted that the generic drugs and specialty drugs have increased in AWP; additionally, the lifestyle and diet drugs have also increased in AWP and script counts. These increases attribute greatly to the overall increase in pharmacy costs and trends.

The Rx trends were developed using the changes to the script counts, AWP, and changes in network discounts.

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2014	12.2%	0.5%	12.8%
2015	11.0%	1.0%	12.1%

The Company provided the national trends to compare to the Vermont figures. The 2014 Vermont total trend is lower than the nationwide total trend (14.2%), but the 2015 Vermont total trend is higher than the nationwide total trend (9.7%). The difference between the Vermont trends and the nationwide trends is due to differing costs between Vermont and nationwide.

	2014	2015
Total Pharmacy Trend	12.8%	12.1%
Non-Specialty	4.6%	6.0%
Specialty	36.5%	25.6%

The 2014 Rx trends were significantly impacted by unfavorable experience stemming from the Hepatitis C class in the specialty tier. In particular, Sovaldi and Olysio, two novel Hepatitis C drugs released in late 2013. It is expected that Rx trends to remain high in 2015 with a new drug entrant in the Hepatitis C class, Harvoni, released in late 2014. CHLIC's expected cost per treatment per person for these new drugs was about \$90,000 to \$180,000.

The Rx changes appear to be reasonable and appropriate.

6. *Administrative Costs and Anticipated Loss Ratio*: CHLIC utilized a pricing loss ratio of 81.6% (including the risk charge) with a total retention of 18.4%. The Company provided a breakdown of the 18.4% for administrative costs.

Retention	2014	2015
Administrative Expenses	7.0%	7.0%
PPACA Fees	3.0%	3.8%
Premium and Income Taxes	2.0%	2.0%
State Assessments		0.9%
Commissions		1.2%
Profit	3.0%	3.5%
Total	15.0%	18.4%

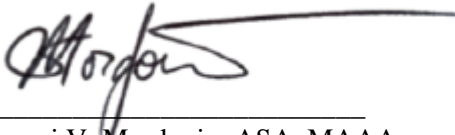
- The PPACA fees increased due to an increase in the health insurance fee.
- The state assessments increased for the VT state assessment (effective 1/1/2014) that was not included in prior rates.
- The commissions percentage changed due to a funding methodology change. In the prior year, the Company built up the retention assumption only using fully insured business, while in the current year the buildup used a blend of fully insured and shared returns business. There are commissions associated with shared returns business; therefore, this assumption is new in the current year.
- The profit increased 2.5% from the currently approved and filed amount of 1.0%. The chart above notes that the Company originally requested 3% in the prior filing.

All changes to the retention, except the profit, appear reasonable and appropriate. The profit assumption and reviewing the Company's current level of reserves are beyond the scope of this review. Therefore, the results of the Department of Financial Regulation's Solvency Analysis should be considered.

Recommendation

L&E believes that the Company's modified submission that produces an average rate increase of 0.5% is reasonable and appropriate.

Sincerely,



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Lewis & Ellis, Inc.



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Vice President & Consulting Actuary
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations¹, 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 Conduct², 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 June 30, 2014. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is June 29, 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.

¹ 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.

² 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.