

Responses to Objections

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Objection 1

Comment:

As shown under “Rate Review Detail” of SERFF submission, the weighted average prior rate is \$579.62 PMPM. Please illustrate how this amount reconciled to the approved rate from the prior filing.

Response:

We filed our original 2019 SERFF using the data from our first iteration of the December 2017 filing of 2018 rates. For the 2018 filing, there were objections from the Board that lead to a reduction in Cigna's rates. We have updated our prior data in the current SERFF so that the revised and approved rates from 2018 are used appropriately and align to the \$552.87 that was in the prior SERFF. We are filing a new SERFF with the 2019 filing using this corrected historical data to align to the approved rates in the March 2018 filing.

There is still a slight difference in the Projected PMPM in the SERFF for prior rates and what we are showing in the 2019 SERFF because of case mix. The 2018 projected PMPM in the 2018 filing is based on the 2017 case mix, while the 2018 actual PMPM in the 2019 filing (prior data) is based on the current case mix. The cases sold in 2018 had slightly higher premiums due to richer benefits than we had forecasted at the time of the prior approved filing. This led to greater utilization of benefits and slightly higher than forecasted medical claims.

The difference between the projected premium and actual premium is \$4.86., primarily due to higher medical costs (\$3.97 PMPM) and slightly higher Admin/Marketing/Profit (\$0.89 PMPM) as compared to our expectations at the time of the 2018 filing.

2018 Projected Premium	\$	552.87
Claim Cost Increase		\$3.97
Admin/Marketing/Profit		\$0.89
Total Premium Increase beyond Projection		\$4.86
2018 Actual Premium		\$557.73

Objection 2

Comments:

The VT trend assumptions shown in Table 27 and Table 28 are different from those shown in the Supplemental Exhibits. Which set of medical trend assumptions is correct?

Please confirm that the correct trend assumptions are being used in pricing, if not, please provide updated supporting documentation and rate manual with the corrected medical trend assumptions.

Response:

The trend assumptions in table 27 & 28 are correct. We will submit a new supporting documentation file. The error in the Supplemental exhibits did not affect other rate buildup assumptions.

Vermont In-Network Trend		
2018	Weight	Unit
IP 1	16.7%	3.9%
OP 2	44.6%	4.3%
Pro 3	24.2%	-4.1%
OMS 3	14.5%	7.2%
Unit Cost	100.0%	2.6%
Util		1.2%
Mix		1.6%
Total Trend		5.5%

Vermont In-Network Trend		
2019	Weight	Unit
IP 1	15.0%	3.6%
OP 2	45.5%	2.8%
Pro 3	24.5%	2.3%
OMS 3	15.0%	6.8%
Unit Cost	100.0%	3.4%
Util		1.1%
Mix		1.5%
Total Trend		6.0%

Objection 3

Comment:

Please provide a breakdown of the -3.60% overall rate impact by major category of change, which includes but are not limited to:

- a. Updating rating variables on a 1/1/2019 basis (e.g., area factors and trends for medical and Rx respectively);
- b. Approved trend from the prior filing;
- c. Change in proposed MLR.

In addition, please provide additional support for each of the components identified in the above breakdown with detailed sources of the referenced figures and/or derivation, as well as any other information that may be helpful with our review. For example, if there is any impact from neutralizing the methodology impact between national and Vermont rating, or if the baseline has changed, please specify.

Response:

Per response to objection 1, we had previously made an error in our SERFF submission; the prior rates in the SERFF were overstated and did not include the rate decrease that was agreed to in our March 2018 filing. This caused the rate increase calculated in the prior version to be too low because it incorrectly included the rate reduction submitted in March 2018. The true rate impact in this filing compared to prior approved rates is 0.2%

The overall rate impact of 0.2% represents the weighted average of our proposed actuarial pricing methodology for the state of VT, relative to previously filed and approved rates. This impact is calculated by comparing the filed and approved manual rates for an illustrative effective date of 3/28/2018 to the proposed manual rates for an illustrative effective date of 1/1/2019 for a representative sample of VT sitused business.

There are three main categories of change that help us analyze the 0.2%. Updated rating variables on a 1/1/2019 basis (including area factors and trend), previously filed and approved 2019/2018 trend, and the change in proposed MLR. Please see the table below for more analysis.

Category	Change
Rating Variables	-5.7%
Med+Rx Filed Trend	7.3%
MLR Impact	-0.9%
Total Impact¹	0.2%

¹Total Impact = (1+Rating Variables) * (1+Med+Rx Filed Trend) * (1+MLR Impact) - 1

Rating Variables: In this proposed filing, we are reflecting reductions to our area factors as a result of our periodic experience rate reviews, which looked at full-year 2017 experience relative to our manual rating expectation. Generally, claims were favorable as compared to the manual, which results in lowering our medical and rx area factors. Secondly, as represented in the filing, we have taken reductions to our trend assumptions relative to previous expectations. Please see the supplemental trend exhibits for more information.

By design of the rate review process, methodology 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 methodology changes can cause a difference in manual rating between filings. Additionally, the 0.2% 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. Methodology changes and geographic mix are the main drivers behind the range between the minimum and maximum filed rate changes.

Med+Rx Filed Trend: This number is the filed and approved trend that was submitted within last year's filing.

MLR Impact: Please refer to Objection 5 below for the changes from the prior filing to the current filing. The major changes include removing the PPACA fee charges from 3% to 0.0%, and increasing the profit from last year's approved 1.0% to 3.5%. Within objection 5 contains our position backing our request for a higher profit margin.

The above view is helpful, in that, it demonstrates that 'point-in-time' (i.e. excluding the baseline impact of previously approved trend), the requested change in our premium rating is $(1 + (-5.7\%)) * (1 + (-0.9\%)) - 1 = -6.6\%$. As noted, our filing includes previously approved trends to illustrate the year over year change with 12 months of trend, which yields 0.2%.

Objection 4

Comments:

Provide the derivation of the projected federal MLR for 2019, starting with your target loss ratio.

Response:

Projected MLR	87.2%
- TPV Admin	-0.3%
+ QI Expenses	0.8%
+ PPACA Fees	0.0%
+ Premium Tax	1.8%
+ Fed Income Tax	1.1%
Federal MLR	90.6%

The following assumptions apply to the projected federal MLR for 2019:

1. Third Party Vendor administrative expenses are deducted from claims in the federal MLR. Assumption of -0.3% of premium based on final 2017 results.
2. QI expenses set to 0.8% of premium, based on HHS guidance.
3. PPACA fees assumptions:
 - a. Reinsurance PMPM of \$0 since the reinsurance assessment is only applicable from 2014 through 2016.
 - b. HII Fee set to 0% of premium due to the HII fee removal in 2019.
4. Premium and other state income, excise, and business taxes are in total of 2.1% of premium based on VT historical results.
5. Federal income tax is based on a 21% tax rate on projected taxable income.

Objection 5

Comments:

Please explain any significant changes in the retention assumptions from the prior filing and explain how the retention assumptions in this filing compare to experience.

Response:

	Prior Filed	Proposed	Change
Administrative Expenses	4.8%	5.5%	0.7%
Optional Buy-ups	0.1%	0.1%	0.0%
PPACA Fees	3.0%	0.0%	-3.0%
Risk Charge	0.5%	0.0%	-0.5%
Premium and Income Taxes	2.0%	2.0%	0.0%
State Assessments	1.5%	1.7%	0.2%
Commissions	0.7%	0.0%	-0.7%
Profit	1.0%	3.5%	2.5%
Total	13.6%	12.8%	-0.9%
MLR	86.4%	87.2%	

Significant Changes:

- Administrative expense: Admin fees increased 1% or \$0.50 y/y due to inflation. Admin is expected to increase as a percent of premium year over year driven by absolute claims dollars forecast to be lower compared to last year, combined with the removal of the HIF.
- PPACA Fees: PPACA fees were removed due to the temporary suspension of the HII fee.
- Risk Charge: Risk charge is applied to our Experience Rated (or Shared Returns clients) given the one-sided risk on the claims. Last year we had approximately 2,332 member months in our Shared returns product and this year we have 0.
- Commissions: Commissions are only applied to Shared Returns clients given we have the Broker Advisory Fee turned on for GC in VT. Since our Shared Returns business in VT is expected to decrease from 2,332 member months to 0, we do not expect to pay commissions in 2019 rates.
- Profit: The profit assumption in our filed and approved rating methodology is 1.0%. In this proposed filing, we are submitting assumptions for retention which includes a profit assumption of 3.5% (consistent with our requested profit in prior filings). Please see reference to Cigna's position regarding this assumption in the below link:

http://ratereview.vermont.gov/sites/dfr/files/2016/Other/GMCB_001_16rr/Cigna%20Motion%20of%20Consideration.pdf

It should be noted that due to the size of Cigna's book of business, historic loss ratio and profitability results should not be considered credible. Loss ratios are not used as a basis for

adjusting rates. Actuarially, 95% of cohorts with ~10,000 MMOS are expected to result in a loss ratio within +/- 29.3% of the expected loss ratio.

CHLIC did not pay a rebate in 2015, 2016 or 2017 and does not anticipate paying a rebate in 2018 or 2019.