



Paul Schaeffer, FSA, MAAA
Actuarial Senior Director

Routing C5PRC
900 Cottage Grove Road
Bloomfield, CT 06002
Telephone (860) 226-8017
Paul.Schaeffer@Cigna.com

July 6, 2020

The Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

Attn:

Michael Barber,
General Counsel
Michael.barber@vermont.gov

CHLIC Reply to HCA Memo to GMCB

RE: GMCB-001-20rr

Dear Members of the Green Mountain Care Board of Vermont,

Cigna Health and Life Insurance Company (“CHLIC”) has reviewed the Green Mountain Care Board’s (the “Board”) Decision and Order dated 6/16/2020, (the “Order”) regarding CHLIC’s 2020 Large Group Manual Rate Filing. Given the current economic environment, CHLIC agrees to lower its rates in accordance with the Order from the Board, incorporating all 3 requests from the Board. Nevertheless, CHLIC has concerns relating to the content of the Order and is writing to voice these concerns to request that the Board consider them in future rate filing Orders.

The Board ordered the following changes to CHLIC’s proposed rate filing, each of which is addressed below:

1. Reduce the proposed administrative expenses from 6.3% to 5.3%
2. Reduce the proposed pharmacy trend adjustment from 6.8% to 6.1%
3. Reduce the profit assumption from 3.5% to 0.0%

CHLIC agrees to implement these changes through an aggregate adjustment to the rates, but cannot do so by adjusting each individual component. The administrative expenses and pharmacy trend forecasts are applied nationally within CHLIC’s pricing engines; therefore, it is not feasible to apply a state level change for each of these assumptions. However, CHLIC proposes to comply with the Board’s order through an aggregate adjustment to the profit assumption by decreasing the profit in order to account for all 3 items above and reduce the rate increase from 15% to 9%. We believe this complies with the spirit of the Order in reducing the overall premium while allowing the company to continue to operate, given the limitations of its pricing systems.

1) Reduce administrative expenses

The Board directed CHLIC to reduce its administrative expense pricing by 1%, to lower the rate increase for Vermont policyholders. The Board cited a lack of support for the 1% increase and encouraged CHLIC to “continue to actively and critically review its policies and procedures and institute best practices that reduce administrative burdens and inefficiencies, particularly where CHLIC’s Vermont membership is nearly doubling this year and there is the possibility of gaining some economies of scale.” Order at 7. Notwithstanding the Board’s directive, CHLIC’s position is that an administrative expense increase is supported partially by inflation as well as the fact that the federal MLR rules cap retention for large group insured business at 15%.

The annual inflation rate in the United States has stayed between 1.9% and 2.3% in each of the last 4 years¹. Additionally, inflation in the United States is expected to average 2.1% over 2020 and 2021².

¹ <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

² <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2020/survq120>

“CHLIC” is a registered service mark, and, the “Tree of Life” logo is a service mark, of CHLIC Intellectual Property, Inc., licensed for use by CHLIC Corporation and its operating subsidiaries. All products and services are provided exclusively by such operating subsidiaries and not by CHLIC Corporation. Such operating subsidiaries include Connecticut General Life Insurance Company (CGLIC), CHLIC Health and Life Insurance Company (CHLIC), and HMO or service company subsidiaries of CHLIC Health Corporation and CHLIC Dental Health, Inc

Related to the Federal MLR floor of 85%, CHLIC has executed the Vermont Large Group MLR above the threshold since its inception meaning it is controlling its costs appropriately within the federal framework.

CHLIC believes that inflation combined with the facts about the federal MLR floor provides sufficient justification for the retention amounts proposed. CHLIC would also like to point to the review conducted by the Board's own consulting actuaries, at Lewis & Ellis, which also concluded the support for the expense increase that CHLIC provided in its filing was sufficient and that the expenses were not excessive³.

Furthermore, CHLIC is constantly evaluating ways to reduce administrative burdens and inefficiencies and identifying ways to deliver these cost reductions back to the organization. CHLIC's request for a 1% increase had already taken into account the projected improvements of these efficiencies and economies of scale. Rather, at issue, is the baseline expense structure, which is higher this year due to the inclusion of expenses for certain Behavioral Healthcare products that help support an under-served Behavioral Healthcare market, especially in the state of Vermont.

Taking the above into consideration, CHLIC agrees to: (i) reduce its price by 1% to offset the expense increase for 2020 rating purposes and (ii) adhere to the request of the Board for the approved rates for 2020. For subsequent years, CHLIC respectfully asks the Board to reconsider its position on expense increases and CHLIC will commit to provide additional support for any increases it plans to recommend.

2) Reduce proposed pharmacy trend adjustments

The Board suggested that using the average of the past two years of Vermont observed pharmacy trends for FY2018 and FY2019 was appropriate to set pharmacy trend and ordered CHLIC to modify its proposed pricing assumption in accordance with this average. Order at 6. CHLIC respectfully disagrees with the approach taken by the Board and the resulting pharmacy trend adjustment ordered by the Board.

CHLIC's position is that utilizing an average of two years of observed history in a confined location is not an actuarially sound methodology. Observed (raw and/or normalized) historical trends are not directly comparable to prospective pricing trend for a variety of reasons, including but not limited to: new drug launches and patent expirations, manufacturer drug price increases, changes in benefits and/or plan designs, demographics, and geographies impacting utilization. For these reasons, the latest knowledge of the proposed drugs coming to market, as well as utilization trends of existing drugs should be the basis when creating pharmacy trend forecasts. Using a retroactive average of observed trend does not consider these changes and leads to actuarially incorrect pricing. Lowering the 2020 Pharmacy forecast from 6.8% to 6.1% leads to pricing estimates that fall below our best estimates and does not incorporate what is known in the pharmaceutical market at this point in time.

CHLIC is aware of the challenges that increasing pharmacy costs place on consumers. CHLIC has implemented new pharmacy programs and is actively working on solutions to reduce the cost of obtaining prescriptions for Vermonters, including:

1. The "Patient Assurance Program" (out of pocket insulin cost capped at \$25 for a 30 day supply and \$75 for 90 day supply)
2. "Embarc" provides predictable and affordable payment options to cover high cost gene therapy medications, as well as activities that adjust the formulary to incentivize use of lower cost drug alternatives

CHLIC will continue to leverage its national purchasing power with drug manufacturers to offer and provide the most affordable drug plans possible. These negotiating activities with manufacturers serve to reduce drug trends

³ See the Lewis & Ellis letter to the Board, dated May 18, 2020, regarding CHLIC's 2020 Large Group Rate Filing (SERFF # CCGP-132206853).

relative to how those same costs would trend in the absence of such programs. Nevertheless, overall Pharmacy trend continues to increase year over year due to expensive new drugs coming to market and higher specialty drug utilization that CHLIC continues to experience. For these reasons, taking a simple average of prior years' observed trend is not an appropriate approach. Additionally, CHLIC would also like to point to the review conducted by the Board's own consulting actuaries, at Lewis & Ellis, which also concluded the CHLIC Pharmacy trend assumption was reasonable and was not excessive⁴.

However, in recognition of the economic environment, CHLIC agrees to remove 0.7% from the Pharmacy trend assumption for the 2020 rate filing. Because pharmacy claims make up approximately 20% of total policyholder claims, this will serve to reduce the total premium rate previously filed by 0.12%. For subsequent years, CHLIC respectfully requests the Board to reconsider its position on pharmacy trend and CHLIC will provide additional support for any trend changes it is projecting on a national basis.

3) Reduce profit assumption

Each of the past five years, the Board has ordered CHLIC to reduce its profit margin significantly below the level of that in all other states where CHLIC conducts business. In contrast to Vermont, over the same time frame, the other states have consistently approved profit margins between 4.0% and 4.5%. This provides additional confidence that the 3.5% profit margin sought in the filing is not excessive and is appropriately comparable to the insurance risk taken by CHLIC to provide insurance to Vermonters.

CHLIC strongly believes a profit margin of <2% ordered by the Board is not commensurate with the risk taken to insure and provide quality health care to constituents of Vermont. The Board and the Office of the Health Care Advocate have also suggested CHLIC can operate with 0% profit because it has other entities to make up for the lost profitability. However, it is not actuarially justifiable to force a company to subsidize profitability across products or states. The business CHLIC conducts in Vermont should be self-supported and operating an insurance business at a risk-adjusted loss makes it difficult for the business to be self-supported.

Moreover, the Board indicated in the Order, the impact of COVID-19 has led to unprecedented challenges to Vermonters and all stakeholders of the healthcare ecosystem. Given the current macro-economic environment and negative effect that COVID-19 has had on everyone, CHLIC will acquiesce to the Order and adjust its profit margin assumption down to 0.0% for 2020. CHLIC will further reduce the profit assumption in its pricing systems to account for adjustments 1) and 2) above for pharmacy trend and administrative expenses. This is not manageable long term; however, for 2020, CHLIC can manage its position given its current liquidity and capital position across the larger Cigna enterprise.

CHLIC has made a number of additional investments to support of the Vermont community. CHLIC funded a community service project in partnership with RISEVT⁵ and OneCare Vermont⁶, whereby an employee of CHLIC was provided an opportunity to conduct a community fellowship to combat social isolation among older Vermonters by leveraging their skills to build social connections throughout community.

As CHLIC stated in its June 5, 2020 reply to HCA's memorandum to the GMCB regarding CHLIC's rate filing, CHLIC also recognizes the strain on customers due to the impact of COVID-19. To address this strain on customers, CHLIC has recently made several new resources and programs available to customers during this crisis, aimed at assisting our customers through this crisis while further improving the affordability of the overall product offering.

⁴ See the Lewis & Ellis letter to the Board, dated May 18, 2020, regarding CHLIC's 2020 Large Group Rate Filing (SERFF # CCGP-132206853).

⁵ <https://risevt.org/>

⁶ <https://www.onecarevt.org/>

1. CHLIC has recently introduced the following COVID-19 related resources and programs to our customers:
 - a. Commitment to provide premium relief to insured policyholders driven by deferred utilization seen during the height of COVID-19 related shutdown
 - b. Waive customer cost-sharing related to COVID-19 screening, testing and treatment
 - c. Waive customer cost-sharing for telehealth screenings for COVID-19
 - d. Make it easier for customers to be treated virtually for routine medical examinations by providers
 - e. Provide free home delivery of up to 90-day supplies for Pharmacy maintenance medications available through the Express Scripts Pharmacy and 24/7 access to pharmacists
 - f. Make it easier for hospitals to transfer patients to long term acute care hospitals (LTACHs), skilled nursing facilities (SNFs), and acute rehabilitation facilities (AR) to help manage the demands of increasingly high volumes of COVID-19 patients
 - g. Support CHLIC doctors and nurse practitioners who wish to support their medical communities
 - h. Support customers with a free, interactive, COVID-19 risk assessment tool

2. Together, New York Life and CHLIC, through our foundations, created the Brave of Heart Fund, dedicated to providing healthcare workers and their families with peace of mind. The Fund is designed to provide financial support in the form of charitable relief grants to support the families of healthcare workers who lose their lives to COVID-19. The Cigna Foundation funded \$25 million toward this fund.

Conclusion

In closing, CHLIC acknowledges the challenges Vermonters will face in the near-term as we recover together from the economic hardships brought on by COVID-19. CHLIC proposes to comply with the Board's order to reduce its rate increase from 15% to 9% through an aggregate adjustment to the profit assumption to account for changes to all 3 items requested by the Board given the limitations of the CHLIC pricing systems. We believe this complies with the spirit of the Order in reducing the overall premium to the target amount.

The reduction to profit effectively incorporates the requested adjustment for each of 3 components that was ordered by the Board. If the Board is amenable to this change, CHLIC will re-submit its filing to gain approval of its rates. We look forward to continue providing broad access, quality products, and affordable care to Vermonters.

Thank you again for your consideration,



Paul Schaeffer, FSA, MAAA
Actuarial Senior Director
Paul.schaeffer@cigna.com

Cc:
Thomas Crompton, Thomas.Crompton@vermont.gov
Amerin Aborjaily, Amerin.Aborjaily@vermont.gov
Christina McLaughlin, Christina.McLaughlin@vermont.gov