

November 21, 2022

Green Mountain Care Board
State of Vermont
144 State Street
Montpelier, VT 05620

Re: Cigna Health and Life Insurance Company
2022 Large Group Rate Filing (SERFF # CCGP-133388045)

The purpose of this letter is to provide a summary and recommendation regarding the Cigna Health and Life Insurance Company (Cigna or CHLIC) 2022 Large Group Rate Filing and to assist the Green Mountain Care Board (GMCB) in assessing whether to approve, modify, or disapprove the request.

Filing Description

This filing was originally submitted on 09/20/2022 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, rating factors, expenses, and methodology.
- There are 15 policyholders (3,764 members) situated in Vermont that are affected by this filing.
- The overall proposed rate impact to the current manual rates is 7.6%, resulting in an average premium PMPM of \$765.21. The proposed rate change ranges between -21.5% and 31.3%.

Standard of Review

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist GMCB 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 7.6% for several of its large group products, including OAP, PPO, NWK, Indemnity, retiree medical insurance products, including Pharmacy benefits.

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 2020 filing as a result of the Claims Probability Distribution (CPD) update. The Company also evaluated medical trend, pharmacy trend, area factors, medical rider base rates, mental health/substance abuse trend and rates, and various other adjustments. The

Company updated methodology for utilization dampening, maximum reimbursable charge, and network utilization adjustments.

To determine the average, minimum, and maximum rate change, CHLIC took a representative sample of situs groups in Vermont and determined the premiums for these samples using the current rating manual with an effective date of 1/1/2022, and the proposed rating manual with an effective date of 1/1/2023. The rate impact was determined as the difference between the two average premium rates of \$711.07 and \$765.21, respectively. This analysis resulted in an overall rate increase of 7.6%, ranging from -21.5% to 31.3%. L&E notes that partially credible and fully credible groups have their own experience evaluated and combined with the proposed manual rate. This will influence the actual rate change seen by each group.

Background

CHLIC's prior filing was submitted on March 18, 2020, with the final GMCB order issued on June 16, 2020. Because CHLIC sets certain assumptions at a national level, CHLIC was unable to make some of the specific changes ordered by the GMCB. The following table outlines the adjustments that CHLIC was able to make to align with the spirit of the GMCB order.

GMCB Order	Cigna Adjustment
Reduce Profit from 3.5% to 0.0%	Reduced Profit from 3.5% to 0.0%
Reduce Administrative Expenses from 6.3% to 5.3%	Increased Administrative Expenses from 6.3% to 6.6% to match National levels; Reduced Profit further from 0.0% to -1.3%.
Reduce Pharmacy trend from 6.8% to 6.1%, resulting in a decrease to overall trend from 6.5% to 6.3%.	Did not change Rx and/or overall trend; Reduced Profit further from -1.3% to -1.5%.

L&E Analysis

The overall change of 7.6% can be broken down into the following categories that will be further outlined below¹.

Category	Average	Minimum	Maximum
Current Trend	6.5%	6.5%	6.5%
Changes to Proposed Trend	0.9%	0.9%	0.9%
Revisions to Pricing Factors	-0.2%	-27.2%	21.8%
Expense Changes	0.3%	0.3%	0.3%
Total	7.6%	-21.5%	31.3%

1. Current Trend

This category represents an annual trend increase of 6.5%², which can be broken down between medical and Rx trends. These trends represent the trend from all VT situs policies.

Category	2020 Medical Trend	2020 Rx Trend	Total Trend
Unit Cost	4.1%	6.1%	4.4%
Utilization	2.2%	0.6%	1.9%
Total	6.4%	6.8%	6.5%

¹ The percentage changes are multiplicative and may not sum to the requested premium increase percentage.

² Calculated as the weighted average of the medical and pharmacy changes, where the split between medical and pharmacy is 82.6% and 17.4%, respectively. $[82.6\% * (1+6.4\%) + 17.4\% * (1+6.8\%)] - 1$

2. Changes to Proposed Trend

The total proposed trend for 2023 is 7.5% and is an increase from the current trend of 6.5%. This increase to the annual trend assumption results in a 0.9% increase to the premium rates. The current medical and Rx trends were set as of late 2019 and have been updated in this filing to reflect more recent emerging data on unit cost and utilization. Trend factors represent the change in cost, utilization, and mix of medical and Rx services and products. A breakdown of the total proposed trend is provided below. These trends represent the trend from all VT situs policies.

Category	2023 Medical Trend	2023 Rx Trend	Total Trend
Unit Cost	5.5%	8.8%	6.1%
Utilization	1.7%	-0.3%	1.3%
Total	7.3%	8.5%	7.5%

The past four years of normalized PMPM trends in CHLIC's experience in VT are provided in the table below. CHLIC notes the observed trend is very volatile, and the Company determined that it is not appropriate to use their historical trend results to benchmark prospective pricing trend. While L&E acknowledges volatilities in historical trend, L&E believes it is still important to consider historical trend when setting prospective trends.

Vermont Observed Trends ³			
	Medical	Pharmacy	Total
2018/2017	11.7%	7.8%	11.1%
2019/2018	3.1%	5.2%	3.4%
2020/2019	-7.2%	10.4%	-4.4%
2021/2020	23.5%	16.5%	22.2%
4-year Average	7.1%	9.8%	7.5%
4-year Average Excluding Outliers	7.5%	6.7%	7.4%

L&E notes that there were outlier medical trends observed in 2020 and 2021 due to the COVID-19 pandemic. Therefore, L&E considered average trends excluding these outliers, however due to the counteracting dampening and rebounding effect of the COVID-19 pandemic on 2020-2021 trends the difference in overall trend is not material.

Medical Trend: CHLIC is proposing a medical trend of 7.3% for 2023, which is an increase from the current medical trend assumption of 6.4%. Medical trend is the same for the three products in VT (NWK, OAP and PPO).

Category	2023 Medical Trend
Unit Cost	5.5%
Utilization	1.7%
Total	7.3%

Medical trend is comprised of unit cost and utilization components. Medical utilization trend is set nationally based on retrospective study of CHLIC's closed block of business, knowledge of

³ Normalized for benefit changes, demographics, and area.

prospective factors such as national and local initiatives which aim to lower utilization, the impact of the COVID-19 pandemic, leading indicators such as drugs which treat influenza, and industry trends. When forecasting local medical cost trends, CHLIC relied on contracted rates obtained from providers within the state, as well as nationally contracted rates for vendors providing medical services.

The Company noted that their estimated weighted average of the recently ordered hospital budget increase is between 8% and 9%. This can be compared to their proposed inpatient and outpatient hospital unit cost trends of 4.3%. CHLIC explained that the ordered hospital budget increases apply to billed charges; however, a combination of several other factors, such as fixed fee schedules, charge master increase protection, and timing dampen the assumed unit cost trend impact. CHLIC disclosed that the unit cost trend assumptions filed may not fully incorporate the most recently ordered budget increases. CHLIC states that if that is the case then they will address the any remaining impact in the next rate filing. L&E notes further that a portion of the unit cost changes are reflected in the Vermont area factors, which are increasing, as shown under Section #3 below.

The medical trend assumptions appear to be reasonable and appropriate.

Pharmacy Trend: CHLIC is proposing a Rx trend of 8.5% for 2023, which is an increase from the current pharmacy trend assumption of 6.8%.

Category	2023 Rx Trend
Unit Cost	8.8%
Utilization	-0.3%
Total	8.5%

Pharmacy trend is comprised of unit cost and utilization components. Utilization trend is the change in number of prescriptions filled on a PMPM basis. Unit cost trend is the change in average cost per script, due to the following:

- Inflation is the change in cost per unit for medications used, isolating against changes in days' supply and mix shift.
- Mix shift is the change in cost due to patients filling different medications. This is caused by patent expirations which result in a shift from brand to generic utilization, as well a shift in utilization from existing generics to new generics.
- 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.

CHLIC explained that the primary driver of the increase to the pharmacy trend is within brand drugs, where both unit cost and utilization increased from 2020 to 2023. The updated trends represent CHLIC's best estimate based on actual experience for 2021 and earlier.

The pharmacy trend assumptions appear to be reasonable and appropriate.

3. Revisions to Pricing Factors

CHLIC includes changes to area factors, other rating factors, and methodology. The average impact of these changes is a 0.2% decrease in the premium rate. These changes are discussed below.

Area Factor Changes: Area factors represent the area-specific relative cost of providing medical and Rx services compared to the 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

tables below show the current area factors and the area factors requested in this filing for VT residents.

Medical Area Factors	NWK	OAP	PPO
Current	0.71	0.71	0.73
Proposed	0.87	0.87	0.90

Rx Area Factors	
Current	0.76
Proposed	0.86

Over time, the national average area factor decreased below 1.0, thus the increase in medical and Rx area factors shown above reflects a calibration adjustment to get the national average centered at 1.0. The medical and Rx area factor changes appear to be reasonable and appropriate.

Other Rating Factor and Methodology Changes: This rate filing proposes numerous updates to the manual rate development. Each of the changes from the prior filing, that were not discussed under the Trend and Area Factors sections above, are as follows:

- The following components were updated to include more specific, more recent, and more granular data to improve the projections within the methodology:
 - Medical and Rx Utilization dampening (UD)
 - Medical and Rx Claim Probability Distributions, including Major Service Category Weighting, Effective Deductible Adjustment, and Effective OOP Max Adjustment
 - Industry Factors
 - Medical Riders
 - Network factors
 - Pharmacy benefit adjustments
 - Behavioral Mental Health/Substance Abuse utilization
 - Vision for utilization of services and frames/lenses.

The other rating factor and methodology changes appear to be reasonable and appropriate.

4. Expense Changes

Total retention as a percent of premium increased from the current 11.8% to the proposed 12.1%. The rate impact of the expense change is an increase of 0.3%. The following table outlines each retention category's change:

Retention Category	Current	Proposed	Change
Administrative Expense	5.5%	5.0%	-0.5%
[Network] Access Fees	1.1%	0.8%	-0.3%
Quality Improvement	0.2%	0.2%	0.0%
Tax	2.0%	2.0%	0.0%
State Assessments	2.0%	2.0%	0.0%
PPACA Fees	2.5%	0.0%	-2.5%
Risk Charge	0.0%	0.0%	0.0%
Profit	-1.5%	2.0%	3.5%
Commissions	0.0%	0.0%	0.0%
Total Retention	11.8%	12.1%	0.3%
Targeted MLR	88.2%	87.9%	-0.3%

- Administrative Expense: 0.5% decrease due to lower average admin breakeven expenses as a percentage of premium.
- [Network] Access Fees: 0.3% decrease due to lower average access breakeven expenses as a percentage of premium.
- 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.
- Profit: The current profit assumption is -1.5% and the Company is proposing a 2.0% profit.

The tables below indicate CHLIC's actual-to-expected reserve/profit results for the large group block of business, and the actual RBC ratios.

Year	Actual Profit	Expected Profit
2019	-2.1%	1.0%
2020	9.1%	-1.5%
2021	-1.6%	-1.5%
3-Year Average	1.8%	-0.7%

Year	RBC Ratio
2019	520%
2020	580%
2021	478%

There is a significant increase to RBC in 2020 and a significant decrease in 2021, which is not uncommon in the health insurance industry due to the COVID-19 pandemic. L&E notes that Vermont business accounts for less than 1% of Cigna's overall business⁴. Given this information, L&E believes that a CTR between 0.5% to 3.0% would be considered reasonable. 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 proposed changes to the retention appear reasonable and appropriate.

⁴ Based on direct written premium amounts as reported in the 2021 SHCE.

Recommendation

L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory and does not recommend any modifications, subject to the DFR's opinion regarding the contribution to reserve/profit assumption.

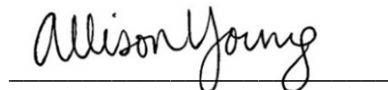
Sincerely,



Traci Hughes, FSA, MAAA
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Jacqueline B. Lee, FSA, MAAA
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations⁵, 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 Conduct⁶, 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, FSA, MAAA, Vice President & Consulting Actuary at Lewis & Ellis, Inc.
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc.
- Allison Young, ASA, MAAA, Consulting Actuary 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 November 21, 2022. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is November 21, 2022.

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 GMCB 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.
- We are not aware of any subsequent events that may have a material effect on the findings.

⁶ These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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.