

April 29, 2024

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

Re: Cigna Health and Life Insurance Company
2024 Large Group Rate Filing (SERFF # CCGP-134009857)

The purpose of this letter is to provide a summary and recommendation regarding the Cigna Health and Life Insurance Company (Cigna or CHLIC) 2024 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 February 28, 2024 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 (3,914 members) with situs in Vermont that are affected by this filing.
- The overall proposed rate impact is 9.6%, resulting in an average premium PMPM of \$799.82. The proposed rate change ranges between 1.3% and 18.1%.

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 9.6% for several of its large group products, including OAP, PPO, NWK, Indemnity, and 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.

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 1/1/2023, and the proposed rating manual with an effective date of 1/1/2024. The rate impact

was determined as the difference between the two average premium rates of \$729.73 and \$799.82, respectively. This analysis resulted in an overall rate increase of 9.6%, ranging from 1.3% to 18.1%.

The proposed rate change discussed reflects the revenue increase for a manually rated group. This is used for groups without any past coverage experience or for groups that are too small for the experience to be used entirely. 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. Some groups will experience higher increases, and some will experience lower increases. If a group experiences a higher rate increase, it is because their claims experience deteriorated relative to the other large groups in this block. All groups will experience the effect of changes in retention, as these components of the rate are added to the projected claims, whether those claims came from the manual rate or the group's experience.

Background

CHLIC's prior filing was submitted on September 20, 2022, with the final GMCB order issued on December 19, 2022. GMCB ordered CHLIC to reduce the profit assumption from 2.0% to 0.5%, which was implemented in the final rating documents submitted in the prior filing.

L&E Analysis

The overall change of 9.6% can be broken down into the following categories that will be further outlined below¹.

Category	Average	Minimum	Maximum
Current Trend	7.5%	7.5%	7.5%
Revisions to Trend Factor	1.5%	1.5%	1.5%
Revisions to Pricing Factors	-1.0%	-8.5%	6.6%
Expense Changes	1.5%	1.5%	1.5%
Total	9.6%	1.3%	18.1%

1. Current Trend

This category represents an annual trend increase, as approved in the prior filing, of 7.5%. This trend can be broken down between medical and Rx trends as shown in the table below. These trends represent the trend for all VT situs policies.

Category	Medical Trend	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%

2. Changes to Proposed Trend

The total proposed trend is 9.0% and is an increase from the prior approved trend of 7.5%. This results in a 1.5% increase to the premium rates. The current medical and Rx trends were set as of late 2022 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.

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

A breakdown of the total proposed trend is provided below. These trends represent the trend for all VT situs policies.

Category	2024 Medical Trend	2024 Rx Trend	Total Trend
Unit Cost	4.1%	8.0%	5.1%
Utilization	4.3%	2.3%	3.7%
Total	8.6%	10.4%	9.0%

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 ²			
	Medical	Pharmacy	Total
2019/2018	4.9%	7.1%	5.3%
2020/2019	-7.4%	10.1%	-4.6%
2021/2020	23.6%	15.9%	22.2%
2022/2021	2.4%	5.9%	3.0%
4-year Average	5.2%	9.6%	5.9%

L&E notes that there were outlier medical trends observed in 2020 and 2021 due to the COVID-19 pandemic; however, the 4-year average trend "smooths" out the "noise" in between 2019-2022.

Medical Trend: CHLIC is proposing a medical trend of 8.6% for 2024, which is an increase from the prior approved medical trend assumption of 7.3%. Medical trend is the same for the three products in VT (NWK, OAP and PPO).

Category	2024 Medical Trend
Unit Cost	4.1%
Utilization	4.3%
Total	8.6%

Medical trend is comprised of unit cost and utilization components. Unit cost trends are developed using anticipated changes in provider contracted rates, typically a combination of previously contracted rates and expected changes due to recent negotiations with providers and the GMCB hospital budget orders. The Company noted that the ordered hospital budget increases for 2024 vary between 1.5% and 8.0%, with an average increase of 4.2%. This can be compared to their proposed inpatient and outpatient hospital unit cost trends of 3.5%. 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, out of Vermont spend, 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. However, the assumed unit cost trend does not exceed the recently ordered budget increases.

² Normalized for benefit changes, demographics, and area.

Medical utilization trend is set nationally based on a retrospective study of CHLIC's normalized allowed trends excluding new business, knowledge of prospective factors such as national and local initiatives which aim to lower utilization, leading indicators such as drugs which treat influenza, industry trends, and competitive insights from trend studies that assess the relative pricing competitiveness.

CHLIC provided the recent observed historical utilization trend at the national level. They explained they did not provide the trend for 2020 and 2021 since they did not assign much credibility to those years due to COVID-19. They also did not provide VT specific trends because trends are set nationally. The nationwide observed medical utilization trends are provided in the table below.

Year	National Utilization Trend
2018	4.8%
2019	5.4%
2022	-0.2%

L&E believes that the support provided for the utilization trend is heavily based on national support rather than Vermont-specific support. The proposed total trend of 8.6% is materially higher than the average historically observed Vermont trend for CHLIC. Since the proposed unit cost trend is decreased from the prior approved unit cost trend, this is driven by the proposed utilization trend which is materially increased from the prior approved utilization trend. Based on the following observations, L&E recommends a 1.0% medical utilization trend:

- The medical utilization trend approved by the Vermont GMCB in recent filings have ranged from 0.5% to 2.0%.
- From the previous table, "Vermont Observed Trends," the 4-year average historical Vermont total medical trend observed by CHLIC is 5.2%. Assuming a unit cost of 4.1% would result in a medical utilization trend of 1.1%, which is consistent with this recommendation.

The recommended 1.0% medical utilization trend results in an approximate 2.6% decrease to the 2024 premium rates.

Pharmacy Trend: CHLIC is proposing a Rx trend of 10.4% for 2024, which is an increase from the prior approved pharmacy trend assumption of 8.5%.

Category	2024 Rx Trend
Unit Cost	8.0%
Utilization	2.3%
Total	10.4%

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 they experienced higher than expected utilization in 2022 and a higher base unit cost due to the diabetic class mix; the increase in pharmacy trend reflects this higher starting point as well as COVID-19 vaccine admin fees. Additional drivers of pharmacy trend include insulin price changes due to regulation, continued GLP-1 growth, Humira biosimilars and interchangeability, inflation, and new drug pipeline. The updated trends represent CHLIC's best estimate based on actual experience for 2022 and earlier.

The 4-year average historical Vermont Rx trend observed by CHLIC is 9.6%. CHLIC explained that the historical observed Rx trends in VT do not align with the proposed trends for the following reasons:

- Rx trend is set at the national level due to credibility concerns at the local level;
- There are atypical utilization patterns from COVID-19; and
- The observed trends include changes to customer mix and plan design changes.

L&E observes the following:

- The CHLIC VT experience and historical trends provided are based on a population of more than 40,000 members³, which is considered fully credible by CHLIC credibility standards provided in their rating manual.
- L&E believes that considering the 4-year historical average Rx trend smooths out any atypical patterns from COVID-19.
- CHLIC provided normalized historical trends, normalizing for benefit changes, demographics, and geographics. The historical trends shown on page 3 of this report reflect such normalization.

Based on the recent historical trends and lack of sufficient support for a higher trend, L&E recommends a 9.6% total Rx trend. The recommended Rx trend results in an approximate 0.2% decrease to the 2024 premium rates.

3. Revisions to Pricing Factors

CHLIC includes changes to area factors, other rating factors, and methodology. The average impact of these changes is a 1.0% decrease in the premium rate. 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 Area Factors
- Medical and Rx Utilization dampening (UD)
- Medical and Rx Claim Probability Distributions, including Major Service Category Weighting
- Medical OON Program Savings factors
- Medical Demographic factors (age/gender)
- Medical Community Rate Cigna Pathwell Specialty factors
- Pharmacy average wholesale price per script, script count, and script channel assumptions
- Behavioral Mental Health/Substance Abuse trend
- Removed Tiered methodology section as adjustments are now automated
- Removed Pharmacy industry table to consolidate into one table for medical and Rx

³ CHLIC explains that the membership in the historical trend analysis represents members who reside in VT for all funding types, while the membership in SERFF represents members who have situs in VT for fully insured products only.

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

4. Expense Changes

The proposed total retention as a percentage of premium increased from the prior approved 10.7% to 12.0%. The rate impact of the expense change is an increase of 1.3%. The following table outlines each retention category's change:

Retention Category	Current	Proposed	Change
Administrative Expense	5.0%	5.1%	0.1%
[Network] Access Fees	0.8%	0.8%	0.0%
Quality Improvement	0.2%	0.2%	0.0%
Tax	2.0%	2.0%	0.0%
State Assessments	2.0%	1.9%	-0.1%
PPACA Fees	0.0%	0.0%	0.0%
Risk Charge	0.0%	0.0%	0.0%
Profit	0.5%	2.0%	1.5%
Commissions	0.0%	0.0%	0.0%
Total Retention	10.7%	12.0%	1.3%
Targeted MLR	89.3%	88.0%	-1.3%

- State Assessments: 0.1% decrease due to lower medical claims as a percentage of total medical and Rx, which leads to lower state assessments that are applied as a percentage of medical only.
- Profit: The current profit assumption is 0.5% and the Company is proposing a 2.0% profit which is more consistent with the overall book of business.

The tables below indicate CHLIC's actual-to-expected reserve/profit for the large group block of business, and the actual RBC ratios. CHLIC explained that actual profit results were not yet available for 2023; therefore, the most recent three years of actual-to-expected profit available were 2020-2022.

Year	Actual Profit	Expected Profit
2020	9.1%	-1.5%
2021	-1.6%	-1.5%
2022	14.0%	0.5%

Year	RBC Ratio
2021	478%
2022	416%
2023	465%

L&E notes that Vermont business accounts for less than 0.5% 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.

⁴ Based on direct written premium amounts as reported in the 2022 SHCE.

All proposed changes to the retention appear reasonable and appropriate.

Recommendation

L&E recommends that the filing be modified to reflect the following:

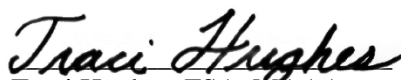
- *Medical Utilization Trend:* Based on the recent CHLIC Vermont historical medical trends, as well as medical utilization trends approved by the VT GMCB in recent filings, L&E recommends revising the proposed medical utilization trend to 1.0%. This will decrease the proposed 2024 rates by approximately 2.6%.
- *Rx Trend:* Based on the recent CHLIC historical Rx trends in Vermont, L&E recommends revising the proposed total Rx trend to 9.6%. This will decrease the proposed 2024 rates by approximately 0.2%.

The recommended rate increase is as follows, with the L&E recommended changes reflected in “Revisions to Trend Factor”.

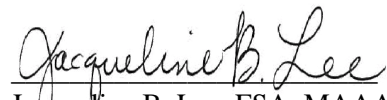
Category	Average	Minimum	Maximum
Current Trend	7.5%	7.5%	7.5%
Revisions to Trend Factor	-1.1%	-1.1%	-1.1%
Revisions to Pricing Factors	-1.0%	-8.5%	6.6%
Expense Changes	1.5%	1.5%	1.5%
Total	6.8%	-1.3%	15.0%

L&E believes that, if modified as described above, 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.

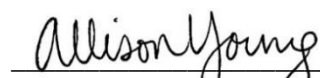
Sincerely,



Traci Hughes, FSA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, LLC



Jacqueline B. Lee, FSA, MAAA
Vice President & Principal
Lewis & Ellis, LLC



Allison Young, FSA, MAAA
Vice President & Consulting Actuary
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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, LLC
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, LLC
- Allison Young, ASA, MAAA, Vice President & Consulting Actuary at Lewis & Ellis, LLC

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 April 29, 2024. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is April 29, 2024.

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 a suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis 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 the body of this report.

Assumptions or Methods Prescribed by Law

This report was prepared as prescribed by applicable law, statutes, 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.