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November 19, 2024

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

Re: Cigna Health and Life Insurance Company
2025 Large Group Rate Filing (SERFF # CCGP-134244586)

The purpose of this letter is to provide a summary and recommendation regarding the Cigna Health and Life Insurance Company (Cigna or CHLIC) 2025 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 September 20, 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, and expenses.
- There are 14 policyholders (3,151 members) with situs in Vermont that are affected by this filing.
- The overall proposed rate impact is 11.5%, resulting in an average premium PMPM of $840. The proposed rate change ranges between 1.1% and 25.6%.

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 11.5% 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 1/1/2024, and the proposed rating manual with an effective date of 1/1/2025. The rate impact was determined as the difference between the two average premium rates of $754 and $840, respectively. This analysis resulted in an overall rate increase of 11.5%, ranging from 1.1% to 25.6%.

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 February 28, 2024, with the final GMCB order issued on May 24, 2024. GMCB ordered CHLIC to reduce the profit assumption from 2.0% to 0.5%, reduce the medical utilization trend from 3.6% to 1.0%, and reduce the pharmacy trend from 10.4% to 9.6%. The following table outlines the adjustments that CHLIC made in the prior filing to align with the spirit of the GMCB order:

GMCB Order	Cigna Adjustment (as Implemented)
Reduce profit from 2.0% to 0.5%	Reduced profit from 2.0% to 0.5%
Reduce medical utilization trend from 3.6% to 1.0% and reduce pharmacy trend from 10.4% to 9.6%	Reduce profit further from 0.5% to -1.6%

L&E Analysis

The overall change of 11.5% can be broken down into the following categories that will be further outlined below[1].

Category	Change from Prior Approved (as Implemented)
2024 Implemented Trend[2]	8.9%
Revisions to Trend[2]	0.1%
Revisions to Pricing Factors	-1.7%
Expense Changes	4.0%
Total	**11.5%**

1. **<u>2024 Implemented Trend</u>**

This category represents an 8.9%[3] annual trend increase, as implemented in the final rating documents in the prior filing. This trend can be broken down between medical and Rx trends as shown in the table below.

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

[2] The percentages do not match the originally filed actuarial memorandum, rather, the corrected amounts provided in response to objection #1, questions 4-5 & 11. There was no change to the requested rate increase as a result of these corrections.

[3] The approved final trend from the prior filing was 9.1%, which was calculated using Medical and Rx weights that are estimated based on high-level book of business assumptions. In this filing, CHLIC updated the calculation of the implemented trend to use VT-specific experience for the weightings, resulting in an 8.9% implemented trend.

Category	2024 Implemented Medical Trend	2024 Implemented Rx Trend	2024 Implemented Total Trend[4]
Unit Cost	4.1%	8.0%	4.9%
Utilization	4.2%	2.3%	3.8%
Total	**8.5%**	**10.4%**	**8.9%**

The ordered trend for the 2024 filing was 6.3%. However, due to systematic challenges, CHLIC applied the impact of the ordered trend decrease via a reduction to the profit margin. This was allowed by the GMCB as being in compliance with the spirit of the order. The table below shows the 2024 ordered trend break-out into its various components.

Category	2024 Ordered Medical Trend	2024 Ordered Rx Trend	2024 Ordered Total Trend
Unit Cost	4.1%	7.1%	4.9%
Utilization	1.0%	2.3%	1.3%
Total	**5.1%**	**9.6%**	**6.3%**

2. Revisions to Trend

The total proposed trend is 9.0%. The increase from the prior ordered trend of 6.3% to the proposed trend of 9.0% would have resulted in a 2.5% increase to premium rates. However, with CHLIC's choice to reduce profit in lieu of reducing trend, as ordered by the GMCB in the prior filing, the increase from the prior implemented trend of 8.9% to the proposed trend of 9.0% results in a 0.1% increase to the premium rates.

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.

Category	2025 Filed Medical Trend	2025 Filed Rx Trend	2025 Filed Total Trend[5]
Unit Cost	4.0%	8.3%	4.9%
Utilization	3.9%	3.7%	3.8%
Total	**8.0%**	**12.3%**	**9.0%**

The past four years of PMPM trends in CHLIC's experience in VT are provided in the table below. CHLIC corrected an error in their historical claims exhibit late during the review process, resulting in materially positive 2023 medical trend that was previously thought to be negative. CHLIC did not revise their rate request as a result of this correction. CHLIC explained that the higher observed trend in 2023 was due to

[4] Weighted with 79% Medical and 21% Rx.

[5] Weighted with 78% Medical and 22% Rx.

service mix and utilization increases. 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[6]			
	Medical[7]	**Pharmacy[8]**	**Total**
2020/2019	-6.8%	10.9%	-4.0%
2021/2020	22.1%	16.5%	21.0%
2022/2021	6.6%	6.0%	6.5%
2023/2022	15.1%	17.5%	15.6%
4-year Average	**8.7%**	**12.6%**	**9.4%**

Medical Trend: CHLIC is proposing a medical trend of 8.0% for 2025. Medical trend is the same for the three products in VT (NWK, OAP and PPO).

Category	2025 Filed Medical Trend
Unit Cost	4.0%
Utilization	3.9%
Total	**8.0%**

Medical trend is comprised of unit cost and utilization components. Unit cost trends are developed based on anticipated changes in provider contracted rates, which typically combines known and estimated unknown price increases from Cigna's provider network. The Company noted that the GMCB ordered hospital budget increases for 2025 vary between -1.0% and 3.4%, with an average increase of 1.0%. This can be compared to their proposed inpatient and outpatient hospital unit cost trends of 1.1% and 5.6%, respectively.

CHLIC explained that the ordered hospital budget increases were approved after the rates in this filing were developed. The revised inpatient and outpatient hospital unit cost trends, reflecting the ordered hospital budget increases, are 0.4% and 1.2%, respectively. This revision reduces the proposed 2025 medical unit cost trend to 2.4% and reduces the proposed 2025 medical total trend to 6.4%. The impact to the proposed rates is a 1.2% decrease.[9] L&E recommends that the medical unit cost trends be revised to reflect the ordered hospital budget increases.

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, and leading indicators such as drugs which treat influenza.

[6] Trends for Vermont members, even if situs is in another state. Historical trend analysis is performed at this aggregation level for greater credibility.

[7] Medical trends are normalized for benefit changes, demographics, and area.

[8] Pharmacy trends are unnormalized since CHLIC is not able to provide normalization factors for pharmacy claims at this time.

[9] This impact is based on the change from the 2024 implemented trend to the 2025 recommended trend.

Cigna is proposing a medical utilization trend of 3.9%. CHLIC provided the recent observed historical utilization trend at the national level. Trend is not provided for 2020 and 2021 due to the impact of COVID-19. CHLIC did not provide VT specific utilization trends because utilization 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%
2023	4.4%
Average	**3.6%**

Based on the following observations, L&E recommends a 2.0% medical utilization trend:

- The support provided for the utilization trend is heavily based on national support rather than Vermont-specific support.
- The medical utilization trend approved by the Vermont GMCB in recent filings have ranged from 0.5% to 3.0%.

The recommended 2.0% medical utilization trend results in an approximate 1.4% decrease to the 2025 premium rates.[9]

***Pharmacy Trend*:** CHLIC is proposing a Rx trend of 12.3% for 2024.

Category	2025 Filed Rx Trend
Unit Cost	8.3%
Utilization	3.7%
Total	**12.3%**

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.

The 4-year average historical Vermont Rx trend observed by CHLIC is 12.6%, which is consistent with the proposed trend.

The proposed pharmacy trend appears reasonable and appropriate.

The following table shows the breakdown of L&E's trend recommendations.

Category	2025 Recommended Medical Trend	2025 Recommended Rx Trend	2025 Recommended Total Trend[5]
Unit Cost	2.4%	8.3%	3.7%
Utilization	2.0%	3.7%	2.4%
Total	**4.4%**	**12.3%**	**6.1%**

3. Revisions to Pricing Factors

CHLIC includes changes to area factors, other rating factors, and methodology. The average impact of these changes is a 1.7% 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 Claim Probability Distributions
- Medical and Rx Demographic factors (age/gender)
- Medical
    - Base Rates and MSC Weightings
    - Industry factors
    - Utilization Dampening (UD)
    - Effective Deductible and OOP Max factors
    - Rider values
    - Change in Multiple Offering Load methodology
    - Added Rate Cap Load, Virtual Care adjustment, and High-Tech Radiology adjustment
- Pharmacy
    - Average wholesale price per script, script count, and script channel assumptions
    - Added Diet Drugs 2 to scripts and SaveonSP to benefit adjustments
- Behavioral Mental Health/Substance Abuse rates and trend

The rating factor changes appear to be reasonable and appropriate.

4. Expense Changes

The proposed total retention as a percentage of premium is 12.0%. The increase from the prior ordered retention of 10.0% to the proposed retention of 12.0% would have resulted in a 2.3% increase to premium rates. However, with CHLIC's choice to reduce profit in lieu of reducing trend, as ordered by the GMCB in the prior filing, the increase from the prior implemented retention of 8.4% to the proposed retention of 12.0% results in a 4.0%[10] increase to the premium rates.

[10] (1-.084)/(1-.12) - 1 = 4.0%

The following table outlines each retention category's change:

Retention Category	2024 Implemented	2025 Proposed	Change
Administrative Expense	5.1%	5.0%	-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	1.9%	2.0%	0.1%
PPACA Fees	0.0%	0.0%	0.0%
Risk Charge	0.0%	0.0%	0.0%
Profit	-1.6%	2.0%	3.6%
Commissions	0.0%	0.0%	0.0%
Total Retention	**8.4%**	**12.0%**	**3.6%**[11]

- Administrative Expense: 0.1% decrease due to higher requested premium in 2025, resulting in admin fees being lower as a percentage of premium.
- State Assessments: 0.1% increase due to higher state assessments in 2025.
- Profit: The originally requested profit from the prior filing was 2.0%. While the 2024 Board order reduced the profit to 0.5%, to comply with the spirit of the Board-ordered trend reduction, CHLIC further reduced profit to -1.6%. The Company is proposing a 2.0% profit which they state to be more consistent with the overall book of business.

The tables below indicate CHLIC's actual and ordered profit (or contribution to reserve) for the large group block of business, actual RBC ratios, and actual loss ratios in Vermont.

Year	Actual Profit	Ordered Profit
2019	-2.1%	1.0%
2020	9.1%	0.0%
2021	-1.6%	0.0%
2022	14.0%	0.0%
2023	8.5%	0.0%

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

Year	Loss Ratio
2019	91.5%
2020	77.6%
2021	92.8%
2022	73.4%
2023	79.1%

[11] Does not match 4.0% increase to premium because the increase to premium is calculated multiplicatively, using loss ratios. See footnote 10.

L&E notes that Vermont business accounts for less than 0.5% of Cigna's overall business[12]. Typical industry practices have a CTR between 1% and 3%. However, given the recent financial results, a CTR as low as 0.0% 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.

[12] Based on direct written premium amounts as reported in the 2023 SHCE.

Recommendation

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

- *Medical Unit Cost Trend:* L&E recommends revising the proposed medical unit cost trend to 2.4%, consistent with the GMCB hospital budget orders for 2025. This will decrease the proposed 2025 rates by approximately 1.2%.

- *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 2.0%. This will decrease the proposed 2025 rates by approximately 1.4%.

The recommended rate increase is as follows:

Category	Change from Prior Approved (as Implemented)
2024 Implemented Trend	8.9%
Revisions to Trend	-2.6%
Revisions to Pricing Factors	-1.7%
Expense Changes	4.0%
Total	**8.4%**

L&E believes that, if modified as described above, this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory.

Sincerely,

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ASOP 41 Disclosures
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[13], 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 Conduct[14], 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 & Principal 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.

Identification of Actuarial Documents
The date of this document is November 19, 2024. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is November 19, 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 Lewis & Ellis (L&E), under any theory of law, related in any way to this material.

- L&E 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.

- L&E 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.

- There are no other documents or files that accompany this report.

[14] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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.