

Responses to Objections Round 5 (Received on 11/4/2022)

Objection 1 –

Comments:

Regarding the following previous objection/response exchange:

Objection 5 –

Comments:

How do the proposed provider unit cost increases compare to the recently ordered hospital budget increases?

Response:

VT 2023 Supplemental Exhibits.pdf shows that 2023 inpatient and outpatient unit cost trends are expected to be 4.3%. The estimated weighted average of the recently ordered hospital budget gross charge increases is between 8% and 9%.

- a. Please reconcile the assumed unit cost trends by hospital to the recently ordered hospital budget increases provided here: <https://gmcbboard.vermont.gov/node/3183>
- b. If confirmed, please explain why the assumed inpatient and outpatient unit cost trend is so much lower than the ordered hospital budget approvals. Does the Company feel confident that these lower unit cost levels can be achieved?

Response:

The 4.3% combined inpatient and outpatient unit cost trend does not incorporate the recently ordered hospital budget increases. The table below compares the ordered increases and the assumed unit cost trends at these hospitals:

Facility	Ordered Hospital Budget Increases ¹		Assumed Unit Cost Trend	
	Inpatient	Outpatient	Inpatient	Outpatient
Brattleboro Memorial Hospital	20.0%	20.0%	3.5%	3.5%
Copley Hospital	12.0%	12.0%	3.5%	3.5%
Central Vermont Medical Center	12.0%	9.3%	7.0%	7.0%
Gifford Memorial Hospital	3.0%	3.3%	5.0%	5.0%
Grace Cottage Hospital	5.0%	5.0%	N/A	0.0%
Mt. Ascutney Hospital	5.0%	4.9%	3.5%	3.1%
North Country Hospital	14.0%	14.0%	3.5%	3.5%
Northeastern Vermont Regional Hospital	12.0%	12.0%	3.5%	3.5%
Northwestern Medical Center	11.0%	11.0%	3.5%	3.5%
Porter Medical Center	3.5%	3.5%	5.0%	5.0%
Rutland Regional Medical Center	18.1%	17.3%	3.5%	3.5%
Springfield Hospital	10.0%	10.0%	3.5%	3.5%
Southwestern Vermont Medical Center	9.5%	9.5%	3.5%	3.5%
University of Vermont Medical Center	10.1%	10.1%	6.0%	6.0%

¹Taken from hospital budget submission document (Appendices Document, Appendix 2. Charge and NPR Detail, Table 1 Charge Master Increase Schedule (Charge Increase) FY 22 Budget Total Charge Master Increase (%))

The GMCB approved changes to billed charges, but a combination of charge master increase protection, fixed fee schedules, out of VT spend, and timing dampen the assumed unit cost trend impact. We are still evaluating the impact of these orders on unit cost trends, so while the submitted filing trends do not fully incorporate the recently ordered hospital budget increases, we still think the proposed overall rate increase is reasonable. We will address the full impact of the recently ordered hospital budget increases in next year's rate filing.

Objection 2 –

Comments:

The pricing trend supplemental exhibit (“VT 2023 Supplemental Exhibits.pdf”) provide Vermont historical claims experience for Medical and Rx claims combined. Please provide two similar exhibits for medical claims only and pharmacy claims only.

Response:

Historical claims experience for medical claims only and pharmacy claims only have been added to *VT 2023 Supplemental Exhibits v2.pdf*.

Objection 3 –

Comments:

Regarding the following previous objection/response exchange:

Objection 4 –

Comments:

Please provide further qualitative and quantitative support for the development of the unit cost, utilization, and mix trends assumed for the medical and Rx service categories.

Response:

When forecasting local medical cost trends we rely on the contracted rates we obtain at providers within the state as well as nationally contracted rates for vendors providing medical services.

Medical Utilization and Mix trend is set nationally through a combination of multiple factors including retrospective study of our closed block of business, knowledge of prospective factors such as national and local initiatives which aim to lower utilization, leading indicators such as drugs which treat influenza, and industry trends.

Pharmacy trends are composed of several pieces:

1. Cost trend: the change in the average cost per script of drugs due to:
 - a. Inflation – the change in cost per unit for medications used in both the base period and current period, isolating against changes in days' supply and mix shift.
 - b. Mix shift – the change in cost due to patients filling different medications in the current period vs. the prior period. This is caused by a loss of exclusivity (patent expirations) which results in a shift from brand utilization to generic utilization, as well as a shift in utilization from existing generic medications to new generics after patent expirations.
 - c. Pipeline – 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.
2. Utilization trend: the change in the number of prescriptions filled on a PMPM basis.

Pharmacy trends are lower in 2021 due to lower non-specialty unit cost and lower specialty utilization. 2022 was decreased to reflect lower growth in non-COVID Vaccines than previously expected and lower expectation of unit cost trend.

- a. Please provide a detailed quantitative summary of the national medical utilization trend study used as the basis for the assumed medical utilization trend for this filing.
- b. Please provide further support citing data and/or sources used as the basis for the pharmacy trend components. In addition to citing, please also provide detailed quantitative summar(ies) of such data and/or source material.

Response:

Historically, we have relied upon closed block trend study results to inform our projections for utilization and mix trend, coupled with other factors that may cause future utilization trend to differ such as the impacts of a leap year. With the advent of the COVID-19 pandemic it has introduced unprecedented utilization patterns that we did not expect. Post-pandemic, our forecast of utilization and mix trend has been influenced by the COVID-19 pandemic including COVID direct costs, such as testing, treatment, and vaccine costs, as well as the expected influence the COVID-19 pandemic has on non-COVID utilization, such as deferred care and any resulting bounce back of deferred care in future years. We do not think the closed block study results post-pandemic are indicative of future expectations given 1) the meaningful claim dampening that occurred in 2020 and 2) the elevated impact of COVID in 2021. Our projections of unit cost trend are based on the most recent projections available from our contracting teams at the time the filing is prepared. See *Objection4_Responses_VT.pdf#4* for the Rx trend development.

Supporting Information for Trend Assumptions:

The following pages are an attempt to provide proactive additional support for our medical and pharmacy trend assumptions.

Pricing Trend Assumptions

Below provides detail into the buildup of our Vermont pricing trend assumptions for 2022/2021 and 2023/2022.

Vermont In-Network Trend		
2022	Weight	Unit
IP ¹	21.5%	4.1%
OP ²	54.3%	4.2%
Pro ³	18.7%	2.8%
OMS ³	5.5%	7.2%
Unit Cost	100.0%	4.11%
Util		1.09%
Mix		1.60%
Total Trend		6.92%

Vermont In-Network Trend		
2023	Weight	Unit
IP ¹	21.6%	4.3%
OP ²	54.5%	4.3%
Pro ³	18.5%	2.9%
OMS ³	5.5%	7.2%
Unit Cost	100.0%	4.22%
Util		1.59%
Mix		1.60%
Total Trend		7.58%

Notes:

¹ IP (Inpatient) unit trends are created using a weighted average of IP cost per day by facility with that facilities %weight in the market. Weights are calculated using Vermont customers \$ FFS spend. The IP unit cost trend is the year over year comparison of the weighted average IP cost per day . For example: 2022 IP unit cost trend = 2022 IP cost per day/2021 IP cost per day.

² OP (outpatient) unit trends are created using weighted average of OP discounts by facility with that facilities % weight in the market. Weights are calculated using Vermont customers \$ FFS spend. The OP unit cost trend is the year over year comparison of the weighted average discounts (more specifically 1- discounts) after normalizing for known differences in billed charges a.k.a charge master trends.

³ Pro (Professional) and OMS (Other Medical Services) unit trends are created in a similar fashion to IP and OP.

Historical claims experience for Vermont

Vermont Monthly Medical and Rx Claims Experience				
Incurred Month (YYYYMM)	Medical Claims	Rx Claims	Incurred Claims	Members per Month
FY 2017	\$221,329,926	\$42,527,389	\$263,857,315	51,591
FY 2018	\$238,875,470	\$44,306,234	\$283,181,704	50,351
FY 2019	\$237,638,371	\$44,994,657	\$282,633,028	48,277
202001	\$20,010,698	\$3,476,560	\$23,487,258	52,037
202002	\$17,975,871	\$3,738,813	\$21,714,684	51,892
202003	\$16,130,888	\$4,558,598	\$20,689,486	51,912
202004	\$11,503,045	\$4,550,380	\$16,053,426	51,716
202005	\$14,580,965	\$3,807,049	\$18,388,014	51,510
202006	\$20,586,006	\$4,622,866	\$25,208,872	51,096
202007	\$22,728,324	\$4,654,270	\$27,382,594	52,292
202008	\$21,454,648	\$4,618,525	\$26,073,173	52,025
202009	\$22,254,012	\$4,642,494	\$26,896,505	51,783
202010	\$25,933,781	\$4,804,543	\$30,738,324	51,722
202011	\$21,047,920	\$4,649,215	\$25,697,135	51,296
202012	\$23,200,821	\$5,316,397	\$28,517,218	51,356
202101	\$20,089,398	\$4,146,163	\$24,235,561	50,135
202102	\$21,219,817	\$4,530,347	\$25,750,164	49,556
202103	\$25,637,912	\$5,002,048	\$30,639,960	49,435
202104	\$23,741,967	\$5,038,578	\$28,780,546	49,427
202105	\$19,860,863	\$4,911,667	\$24,772,529	49,021
202106	\$25,884,387	\$5,040,823	\$30,925,211	49,074
202107	\$21,952,996	\$4,982,471	\$26,935,468	48,963
202108	\$23,188,411	\$4,938,979	\$28,127,390	48,908
202109	\$22,959,625	\$4,612,073	\$27,571,698	48,952
202110	\$24,967,473	\$5,240,549	\$30,208,021	48,447
202111	\$23,793,821	\$5,224,178	\$29,017,999	48,405
202112	\$24,936,457	\$5,385,099	\$30,321,556	48,253

The table above represents five years of historical claims experience for Vermont. We've also provided the monthly view of membership. The membership displayed here will not agree with the membership provided in the SERFF because this membership represents members who reside in VT for all funding types and the membership displayed in the SERFF represents the members who are situated in VT for fully insured products only. This information is not normalized for demographics or plan design.

Below is a summarized view of trend and normalized trend. The normalization factor represented below includes benefit changes, demographics and geographies. **Benefit changes** measures the impact of plan design changes on Cigna's observed trend. To compute this adjustment, we compare the manual community rates for the plan designs in the two periods. Note that we use the same demographic and geographic distribution of the population to ensure we are isolating out only the effect of plan design changes. **Demographics** measures the impact that changes in age/gender has on Cigna's observed trend. To compute this adjustment, we compare the manual rating age/gender factors for the populations in the two periods. **Geographies** measures the impact that changes in the geographic distribution of customers has on Cigna's observed trend. To compute this adjustment, we compare the manual rating geographic factors for the population in the two periods

The following calculation is based on normalizing an open block of business. Normalizing an open block can cause some volatility and this view alone is not directly comparable to our prospective trend story. We rely heavily on our knowledge of our unit cost position and forecasting in the market to set an appropriate prospective trend. As you can see over the last 4 years of trend, the observed trend can be very volatile. It is not appropriate to use historical trend results to benchmark prospective pricing trend.

Vermont Medical and Rx Trends	FY 2017	FY 2018	18/17	FY 2019	19/18	FY 2020	20/19	FY 2021	21/20
	PMPM	PMPM	Trend	PMPM	Trend	PMPM	Trend	PMPM	Trend
Total Observed (Net) Trend	\$426.20	\$468.68	10.0%	\$487.87	4.1%	\$468.63	-3.9%	\$ 573.05	22.3%
Normalization Factor			-1.1%		0.7%		0.5%		0.05%
Total Normalized (Gross) Trend			11.1%		3.4%		-4.4%		22.2%

Pharmacy Trend Assumptions

The chart below outlines the current trend factors needed to adequately price the pharmacy benefit.

	2020/2019	2021/2020	2022+/2021
Cost Trend	9.87%	7.10%	8.80%
Utilization Trend	0.97%	0.73%	-0.26%
Total Trend	10.94%	7.89%	8.52%

Pharmacy trends are composed of several pieces:

1. Cost trend: the change in the average cost per script of drugs due to:
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 - b. Mix shift – the change in cost due to patients filling different medications in the current period vs. the prior period. This is caused by a loss of exclusivity (patent expirations) which results in a shift from brand utilization to generic utilization, as well as a shift in utilization from existing generic medications to new generics after patent expirations.
 - c. Pipeline – 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.
2. Utilization trend: the change in the number of prescriptions filled on a PMPM basis.

Trend Category	2020/2019	2021/2020	2022+/2021
Specialty	18.52%	12.79%	14.65%
Non-Specialty	7.52%	5.45%	5.24%
Total Trend	10.94%	7.89%	8.52%

Pharmacy trends are lower in 2021 due to lower non-specialty unit cost and lower specialty utilization. 2022 was decreased to reflect lower growth in non-COVID Vaccines than previously expected and lower expectation of unit cost trend.