CHLIC Responses to VT Objections Round 1 (Received on 3/7/2024)

Objection 1

Regarding the list of methodology changes on page 4 of the act memo, please provide a detailed explanation of the change for each item on the list.

Response:

The methodology changes are driven by analysis of retrospective experience. To calculate this, we first run the current production engine with the proposed effective date. Then we run another engine that include proposed methodology, area factor, and trend updates with the same proposed effective date. By using the same effective dates, the rate change reflects methodology updates and differences off the approved and filed trends. We would need to create multiple engine versions and run multiple batches to categorize/separate all the changes. This would be a large administrative burden.

The following changes to factors and methodology from the previous filing have been made:

- Medical
    - Updates to medical base rate and MSC weightings
    - Updates to utilization dampening
    - Updates to OON Program Savings factor data
    - Updates to the medical area factors and trend
    - Updates to medical demographic factors
    - Updates to Cigna Pathwell factors
    - Removal of Tiered benefits methodology section; Now included in Community rate adjustments table to see adjustment range
- Behavioral
    - Updates to the MHSUD trend
- Pharmacy
    - Updates to average wholesale price per script
    - Updates to script count per customer
    - Updates to script channel assumptions
    - Updates to pharmacy cost trend
    - Updates to pharmacy utilization trend
    - Updates to pharmacy area factors
    - Remove Rx industry table to consolidate into one for medical/Rx

Objection 2

Regarding the Comparison to Status Quo table on page 3 of the act memo, please provide the following:

a. The "Revisions to Pricing Factors" line item states that it includes changes to trend. Please confirm that trend changes are only shown in the "Changes to Trend" line item and are not double counted in the "Revisions to Pricing Factors" line item.
b. Breakdown of the "Revisions to Pricing Factors" line item, showing the impact/changes for each of the changes listed on page 4 of the act memo.
c. Breakdown of the "Expense Changes" line item, showing the impact/changes for each of the retention components. Further, please explain the reason for these changes.

Response:
a. The "Changes to Trend" line item incorporates the difference between the Filed & Approved Claims Trend, and the 24/23 Unleveraged Trend. The "Revisions to Pricing Factors" line item includes changes to methodology (outlined below) – there is no overlap between the two.

b. The 'Revisions to Pricing Factors' captures changes driven by analysis of retrospective experience and changes in methodology. To calculate this, we first run the current production engine with the proposed effective date. Then we run another engine that include proposed methodology, area factor, and trend updates with the same proposed effective date. By using the same effective dates, the rate change reflects only methodology updates and no trend impact. The table below outlines the methodology changes that were mentioned on Page 4 of the Actuarial Memo.

Table

c. The "Expense Changes" line item reflects the year-over-year change in target loss ratio. A comparison of the proposed and approved retention components is provided in the table below:

Retention Components	**2024 Retention**	**2023 Retention (Approved)**	**Change**	**Comments**
Admin	5.1%	5.1%	0.0%	
Access Fee	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%	Lower medical claims as % of Med + Rx leads to lower State Assesments that are applied as a % to medical only.
PPACA Fees	0.0%	0.0%	0.0%	
Risk Charge	0.0%	0.0%	0.0%	

Profit	2.00%	0.5%	1.5%	Increasing Profit to a level more consistent with overall book
Commissions	0.0%	0.0%	0.0%	
Total Retention	12.0%	10.7%	1.3%	
Targeted MLR	88.0%	89.3%	-1.3%	
Total Retention + MLR	100.0%	100.0%	0.0%	

Objection 3

Please fill out the table below. The Total Claims Trend should reconcile to the 7.2% total trend indicated in the Comparison to Status Quo table on page 3 of the act memo (7.2%= (1+7.5%)*(1-0.3%)-1).

Category	Category VT Situs 2024+	2024+ Medical Trend	2024+ Rx Trend	Medical Weight	Rx Weight
Unit Cost	5.1%	4.1%	8.0%	75.0%	25.0%
Utilization/Mix	2.0%	2.0%	2.3%	75.0%	25.0%
Claims Trend	7.2%	6.1%	10.4%	75.0%	25.0%

The above buildup of the 7.2% blended Medical + Rx claims trend includes a combination of national and implicit VT-specific assumptions to derive the aggregate total trend noted.

Objection 4

Please reconcile the assumed unit cost trends by hospital to the recently ordered hospital budget increases provided here: https://gmcboard.vermont.gov/FY2024hospitalbudgets. If there is any difference between the assumed unit cost trend and ordered hospital budget increase, please provide a detailed explanation for the difference.

Response:

The 3.6% combined inpatient and outpatient unit cost trend does not incorporate the recently ordered hospital budget increases, as they were approved after our filing was developed. The table below compares the ordered increases and the assumed unit cost trends at these hospitals:

	Ordered Hospital Budget Increases (FY24)[1]	**Assumed Unit Cost Trend (FY24)**	
Facility		**Inpatient**	**Outpatient**
Brattleboro Memorial Hospital	1.5%	3.5%	3.5%
Central Vermont Medical Center	5.0%	0.0%	0.0%
Copley Hospital	8.0%	3.5%	3.5%
Gifford Memorial Hospital	3.6%	3.7%	3.7%
Grace Cottage Hospital	4.0%	--	0.0%
Mt. Ascutney Hospital	5.1%	3.5%	3.1%
North Country Hospital	4.0%	3.5%	3.5%
Northeastern Vermont Regional Hospital	8.0%	3.5%	3.5%
Northwestern Medical Center	6.0%	3.5%	3.5%
Porter Medical Center	3.1%	0.0%	0.0%
Rutland Regional Medical Center	5.6%	3.5%	3.5%
Southwestern Vermont Medical Center	6.6%	3.5%	3.5%
Springfield Hospital	6.0%	3.5%	3.5%
University of Vermont Medical Center	3.1%	4.4%	5.0%

[1]*Taken from hospital budget submission publication (September 15, 2023 GMCB budget publication - FY 24 Approved Charge Increases)*

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.

Objection 5

Regarding the pricing trend supplemental exhibit "VT 2024 Supplemental Exhibits", please provide the following:

a. Detailed qualitative and quantitative summary of the data and/or study used to determine the medical utilization and mix trend for both 2023 and 2024 shown on page 2.
b. Reconcile the 2024 8.64% trend shown on page 2 to the 7.2% trend from page 3 of the act memo, as referred to in question #3.
c. Detailed explanation of the drivers of the change in medical and pharmacy trends (broken out by cost, utilization, and total trend components) from the prior approved filing.

Response:

a. Unit Cost
Unit cost trends for inpatient, outpatient, and professional spend 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. Projections are specific to Vermont residents.

Medical Utilization and Mix
Medical Utilization and Mix trend is set nationally through a combination of multiple factors including retrospective study of 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, as well as competitive insights from trend studies that assess the relative pricing competitiveness.

b.

- **8.64%:** The trend on page 2 of the "VT 2024 Supplemental Exhibits" tab is a 2024 proposed trend assumption using Inpatient, Outpatient, Professional, and Other Medical Services experience.
- **7.2%:** The trend listed in the Actuarial Memorandum are trends from the last filed and approved filing whereas others are proposed trends. This is developed using Medical and Rx experience from only policies sitused in Vermont.

c. Medical trend changes are driven by a combination of factors, including:

- Relative Days – leap year in 2024
- Seasonal Respiratory Virus, including COVID-19, flu, and RSV
- Changes to clinical guidelines, for example higher than normal utilization of colonoscopies
- National initiatives undertaken to drive trend deflection in the employer segment
- National and regional contracting

Pharmacy trend drivers include:

- Insulin price changes due to regulation
- Continued GLP-1 growth
- Humira Biosimilars and interchangeability
- Inflation

- New drug pipeline
- Utilization growth

Objection 6

Regarding experience rating methodology in "VT CHLIC Template 2023 - 2.28.2024", please provide the following:

a. Further explanation of the credibility methodology. We note that the use of the "k" factor assigns substantial credibility even to groups with extremely small membership. For example, a renewal group with 100 member months of experience and a pooling point of $24,999 would be assigned 54% credibility. This would seem to introduce substantial noise into the premiums for experience-rated groups.
b. Explain and demonstrate how the pooling point for a group is determined.
c. Indicate where in the rate filing the pooling charges are reported or provide them if they are not in the rate manual.

Response:

a. Formula A provides the best fit to our experience data, but it reaches full credibility at a higher level of MMOS than prior methodology and industry norms. Formula B allows the credibility curve to increase to full credibility at 36,000 member months for all pooling points and for renewals and presales. Use of Cigna's internal claims experience at renewal has been found to be more credible than use of third party claims experience at presale, leading us to use different credibility formulas for renewal and presale. Formulas vary by pooling point since the credibility is assigned to claims below the pooling point, and these claims are more predictive at lower pooling points. The constant "k" was set based on a statistical optimization analysis to identify the best fit. The "Formula Bound" was set at level of MMOS where the two credibility formulas would be very close to equivalent, leading to a continuous credibility curve. Because of variations in Formula A by pooling point and for presale and renewal, this equivalence is achieved at different levels of MMOS.

b. For guaranteed cost (GC) products under the purview of this filing, the pooling point is always derived based on number of MMOS. Claims above a pre-determined threshold are removed from a group's experience and replaced with a pooling fee which reflects the mean expectation of claims above the threshold for a reference population. As the pooling point is decreased, claim predictability improves because the variance of the base period claims is reduced. However, a threshold is reached where too much claim data is being pooled, such that the overall predictability of the base period claims is worse. Therefore, pooling level is set where the predictability of the base period claims is highest.

c. The calculation of the pooling charge is more complex than a table lookup, so we cannot include a simple table. In general, the amount of claims in excess of pooling point per member are subtracted out, then a pooling charge is added back in. We would be able to provide an illustrative example for VT (similar to the below shared with another state that had a similar question) – please let us know if this would satisfy your request.

Pooling Level	PMPM
75,000	$54.83
100,000	$44.21
150,000	$30.60
200,000	$22.32
250,000	$16.64
300,000	$12.89

Objection 7

Regarding base claims in "VT CHLIC Template 2023 - 2.28.2024", please provide the following:

a. Comparison of the prior approved and current proposed medical base claims in Table 1, separately showing each change applied and a detailed description of each change.

b. Detailed description of the reason for changes in medical rider base rates in Table 18.

Response:

a. In the previous filing, our base rate reflected claims from 2 years prior to the most recent filing. As a result, two fewer years of trend will get applied to a case, so even though the base rate increased by ~12%, this does not materially change the final rate for the case because the increase in base rate is offset by the removal of two years of trend. See below for the change of each factor from the prior approved to current proposed filings.

	Percent change - current proposed vs. prior approved filing						
Network	Inpatient (IP)	Outpatient (OP)	Primary Care Physician (PCP)	Emergency Room (ER)	Specialty Care Physician (SCP)	Other	Preventive Care
Experience-Rated In-Network	11.8%	11.8%	11.8%	11.9%	11.8%	11.8%	11.9%
Experience-Rated Out-of-Network	11.7%	12.0%	12.2%	12.5%	11.8%	12.5%	10.8%

b. Medical rider claim cost assumptions were updated based on an analysis of more recent claims experience. The base rates in Table 18 reflect updated factors and methodology capturing the results of that experience analysis.

Objection 8

Please provide the Company's historical actual-to-expected retention for the last three years (2021-2023), separately for profit and all other retention components.

Response:

CHLIC did not file rates in 2022. We do not have 2023 actuals available yet. As such, please see the below actual-to-expected retention for the last three available years (2019-2021).

2019 Retention A/E	Actual	Expected	A/E
Admin & Access Fee	8.20%	5.60%	1.46
Quality Improvement	0.80%	0.10%	8.08
Premium Tax and State Assessment	1.80%	3.70%	0.48
PPACA Fees	0.00%	0.00%	---
Profit	-2.10%	1.00%	-2.07
Other	0.00%	0.00%	---
Total	8.70%	10.40%	0.84

2020 Retention A/E	Actual	Expected	A/E
Admin & Access Fee	5.80%	6.60%	0.87
Quality Improvement	0.80%	0.20%	4.00
Premium Tax and State Assessment	1.60%	4.00%	0.40
PPACA Fees	1.90%	2.50%	0.76
Profit	9.10%	-1.50%	-6.08
Other	0.00%	0.00%	---
Total	19.20%	11.80%	1.63

2021 Retention A/E	Actual	Expected	A/E
Admin & Access Fee	6.70%	6.60%	1.01
Quality Improvement	0.20%	0.20%	0.85
Premium Tax and State Assessment	1.60%	4.00%	0.41
PPACA Fees	0.00%	2.50%	0.02
Profit	-1.60%	-1.50%	1.04

Other	0.00%	0.00%	---
Total	7.00%	11.80%	0.59

Objection 9

Please provide the Company's historical risk-based capital (RBC) ratio for the last three years (2021-2023).

Response:

Please see CHLIC's RBC ratios for the requested periods:

*2023 – **464.536%** (RBC LR033 Line 21- Ex DTA ACL RBC Ratio)*

*2022 – **415.612%** (RBC LR033 Line 21- Ex DTA ACL RBC Ratio)*

*2021 – **477.724%** (RBC LR033 Line 21- Ex DTA ACL RBC Ratio)*