February 29, 2016

Green Mountain Care Board
State of Vermont
89 Main Street, Third Floor, City Center
Montpelier, VT 05620

Re: Cigna Health and Life Insurance Company
2016 Large Group Rate Filing (SERFF # CCGP-130243269)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Cigna Health and Life Insurance Company (CHLIC) Large Group Rate Filing (1/1/2016) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

This filing was originally submitted on 12/31/2015 with 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 assumptions, medical area factors, and the methodology used.
- There are 15 policyholders (2,586 members) sitused in Vermont that are affected by this filing.
- The overall proposed rate impact of this filing to the current rates is -1.1% (-$6.25 PMPM). The rate increase ranges between a minimum of -3.9% and a maximum of 1.1%.

Standard of Review
Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board 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 change of -1.1% for several of its large group products, including Open Access Plus, PPO, Network, Indemnity, retiree medical insurance product, and Pharmacy products.

The Company provided the Medical and Pharmacy Manual Rating Formulas, which summarize the steps taken to calculate the final rates, Medical and Pharmacy proposed claim distribution tables, manual rate adjustment factors exhibits, pricing factors exhibits, proposed trend assumptions, and rider claim cost exhibits.

CHLIC is updating its base claim assumptions and the Claim Probability Distribution (CPD) tables. With the new base claim assumptions, the Company also evaluated the medical trend, pharmacy trend, and area factors. Along with these updates, the Company also adjusted the sub-cost category, community rate loads, vision rider methodology, mental health/substance abuse products, retention, and various other adjustments outlined in the actuarial memorandum.

To determine the overall and range of the rate change, CHLIC took a representative sample of Vermont sitused cases and determined the premiums for these samples using the current approved manual rates and methodology and the proposed 2016 manual rates and methodology. The rate impact was determined as the difference between the two rates. This analysis resulted in a rate change of -1.1%, ranging from -3.9% to 1.1%.

Company's Analysis
CHLIC proposed a rate change of -1.1% to be implemented upon approval.

1. *Medical Base Claim Assumptions & Claim Probability Distribution (CPD)*: CHLIC updated the medical base claim assumptions and the CPD. The base claim assumptions represent the allowed claims amounts. Then, CHLIC uses the CPD tables to determine the impact of deductibles, coinsurance, and out of pocket maximums.

   The updates to the base medical claim assumptions in the filing are a result of rolling forward the base year from 2013 to 2014. The proposed manual base rates are based in 2014. In addition to updating for claims experience, the CPD split the inpatient facility service category and the professional service category out, which lead to minor changes to the shaping of the CPD tables.

   The base claim assumption changes and the updated CPD tables result in a combined average impact of 0.0%.

2. *Medical Trend Assumptions*: The Company is using a paid medical trend of 9.7% for 2015 and a paid medical trend of 8.9% for 2016 and 2017. The trends reflect the Company's prospective unit cost trend rates by service type and the expected utilization trends. These changes result in approximately -1.5% of impact for Vermont residents.

3. *Medical Area Factors*: Because of the adjustment to the base medical claims, it was necessary for

the Company to also update the area factors for each product. The area factor for OAP and PPO increased by 2.7% and 1.2%, respectively, and there is no change in the area factor for NWK.

4. *Rx Base Claim & Trend Assumptions*: CHLIC updated the Rx base claim assumptions and area factors to reflect the cost of specialty drugs, planned revisions to the drug lists, and market-specific experience. The Company provided the actual observed trend for 2014 and YTD 2015.

   Unit cost inflation and utilization were combined to get the total Rx trend as shown below:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2015	10.3%	1.5%	12.0%
2016	12.3%	0.5%	12.9%

5. *Administrative Costs and Anticipated Loss Ratio:* CHLIC utilized a pricing loss ratio of 82.5% (including the risk charge) with a total retention of 17.5%. The Company provided a breakdown of the 17.5% for administrative costs. The rate impact of changes in retention is a 1.1% increase.

Retention	%
Administrative Expenses	6.0%
Optional Buy-ups	0.6%
PPACA Fees	3.5%
Premium and Income Taxes	2.0%
State Assessments	1.5%
Commissions	0.4%
Profit	3.5%
Total	17.5%

L&E Analysis

The overall average rate change is -1.1%, and the actual rate change experienced by each Vermonter could vary between -3.9% and 1.1%. The range of the rate change is due to various reasons, such as changes in the CPD and geographic mix. L&E notes that the average rate change is -1.1%, which means that most non-credible or partially credible Vermont groups could experience a rate decrease due to the decrease in the manual rate[1].

1. *Medical Base Claim Assumptions & Claim Probability Distribution (CPD)*: Both the medical base claim assumptions and the CPD utilized CY 2014 data in the development, using actual experience from their Vermont members. The base claim assumptions represent the experience of the large group block of business.

   CHLIC provided a comparison of claim distribution tables between previous filing and current filing. Based on the comparison, L&E noted that the claim intervals and their corresponding frequency are fairly consistent between these two filings. L&E also compared CHLIC's new claim distribution tables to its internal pricing model. This analysis showed that CHLIC's table assumes a higher frequency for the lower claim levels. CHLIC assumes that about 18.5% of the covered beneficiaries will not have any claims, which is about 10% higher than the frequency in the L&E tables. CHLIC also assumes a slightly higher frequency for the claims below $200; however, CHLIC assumes a lower frequency for claims above $3,000. As a result, the average annual cost based on the CHLIC claim distribution tables is lower than the annual estimated cost using L&E tables.

   The adjustments to the base claim assumptions and the CPD appear to be reasonable and appropriate.

2. *Medical Trend Assumptions*: During the course of the review, CHLIC noted that the filed medical trend values were not displayed correctly. To correct the error, CHLIC revised and re-submitted the filing to reflect the trend values that were actually used in the calculation. This change did not affect any other calculations in the filing or the overall average rate change of -1.1%. The previously approved trend assumptions were 10.1% for 2014 and 10.0% for 2015. In this filing, the Company's prospective trend assumptions for future years are projected to be 9.7% for 2015 and 8.9% for 2016 and 2017. These projected trends are lower than the prior filings. The changes to the trend assumptions result in approximately -1.5% of overall rate impact.

Approved in Prior Filing	
Year	**Total Trend**
2014	10.1%
2015	10.0%

Requested in This Filing	
Year	**Total Trend**
2015	9.7%
2016	8.9%

[1] Partially credible or fully credible groups have their own experience evaluated and combined with the manual rate. This will have an effect on the actual rate change seen by each group.

The Company provided unit costs changes and additional support, including facility level trend detail, for these trend assumptions in confidential supplemental exhibits.

The medical trend is lower than previous filing, and the Company has provided sufficient documentation to demonstrate the development of the medical trend for this block of business. The medical trend assumptions appear to be reasonable and appropriate.

3. *Medical Area Factors*: CHLIC increased the area factors by 2.7% for OAP and 1.2% for PPO. No change to the area factors is made for NWK. These changes were a result of the base manual changes, which was elaborated in #1. The table below shows the area factors by product approved in the prior filing and requested in this filing:

Area Factors	NWK	OAP	PPO
Approved in Last Filing	0.84	0.83	0.87
Requested in This Filing	0.84	0.85	0.88

The area factor changes appear to be reasonable and appropriate.

4. *Rx Base Claim & Trend Assumptions*: CHLIC updated the Rx base claim assumptions, area factors, and trends to reflect the cost of specialty drugs, planned revisions to the drug lists, and market-specific experience.

For the current filing, the Company used FY2014 claims experience for Vermonters to update the Rx base claim assumptions. This claims experience was compared to the manual rates to determine the necessary area factor changes. To calculate the area factors, CHLIC took the filed and approved area factor and trended it forward one year. This process did not change from the prior filing.

The most recently approved Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2014	12.2%	0.5%	12.8%
2015	11.0%	1.0%	12.1%

The Requested Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2015	10.3%	1.5%	12.0%
2016	12.3%	0.5%	12.9%

The total Rx trend is comprised of unit cost and utilization. The unit cost trend was broken down between inflation, mix shift, and launching of new, pipeline drugs. The increase in Rx cost trend from 2015 to 2016 is mainly driven by unit cost inflation and mix shift. Details of these components are supported in the confidential responses. Changes from 2015 trend to 2016 trend also include the impact of Hep-C and PCSK9 drugs.

CHLIC also provided a breakdown of the Rx trend into non-specialty and specialty trends. The increase in non-specialty trend is driven by significant price increases on several brand medications and the release of new non-specialty brand medications.

	2015	2016
Total Pharmacy Trend	**12.0%**	**12.9%**
Non-Specialty	6.5%	9.2%
Specialty	24.2%	19.9%

The Rx changes appear to be reasonable and appropriate.

5. *Administrative Costs and Anticipated Loss Ratio:* CHLIC utilized a pricing loss ratio of 82.5% (including the risk charge) with a total retention of 17.5%. The Company provided a breakdown of the 17.5% for administrative costs. The rate impact of changes in retention is an increase of 1.1%.

Retention	%
Administrative Expenses	6.0%
Optional Buy-ups	0.6%
PPACA Fees	3.5%
Premium and Income Taxes	2.0%
State Assessments	1.5%
Commissions	0.4%
Profit	3.5%
Total	17.5%

- Compared to the prior filing, the administrative expenses decreased due to a decrease in administrative fees for guaranteed costs (0.4%) and VT Immunization Vaccine Purchasing Program (0.6%). The VT Immunization Vaccine Purchasing Program expenses were moved to the State Assessments line item.
- The optional buy-ups assumption is new in the current year. It is intended to represent the average expense attributed to additional elective programs purchased by certain clients in the Vermont book of business (e.g., the Healthy Pregnancy Program).
- The PPACA fees decreased due to a decrease in the federal regulation of the reinsurance fee.
- As indicated above, VT Immunization Vaccine Purchasing Program expenses were bucketed in the Administrative Expenses line item in prior filings. It was reallocated to the State Assessments line item in this filing. Effectively, there is no change to state assessments.
- The commission percentage decreased due to a shift in membership between the various fully insured products.
- The profit amount approved in the prior filing was 1.0%, a decrease from the originally requested 3%. The Company currently requests 3.5% in this filing. A supplemental memo regarding the profit assumption of 3.5% is included in the current filing.

All changes to the retention, except the profit, appear reasonable and appropriate. While the Company's profit assumption and current level of reserves are beyond the scope of this review, it should be noted that the proposed profit level is consistent with the profit assumption requested in the prior filing but not consistent with the profit assumption order by the Board in the prior filing..

Cigna's actual profit results, as calculated from the Supplemental Health Care Exhibit, were 3.7% in 2013 and 13.5% in 2014. Results for 2015 have not been finalized, but based on internal estimates, they estimated the profit would be in the low single digits. Given these volatile results and that Cigna's enrollment is very low (less than 3,000 lives), the financial statement data is not a reliable source for setting the profit assumption.

In light of the Vermont large group market, we recommend that the profit level be reduced to 2.0% to be more in line with all other Vermont market participants. The results of the Department of Financial Regulation's (DFR) Solvency Analysis should be considered when evaluating L&E's recommendation and the proposed profit level.

Recommendation

After modifications, L&E believes that this filing does not produce rates that excessive, inadequate, or unfairly discriminatory, subject to the DFR's opinion regarding the profit assumption. Therefore, L&E recommends that the Board make the following modifications:

- Reduce the profit level assumption from 3.5% to 2.0%.

After the modification, the anticipated overall rate change will reduce from -1.1% to -2.5%.

Sincerely,

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ASOP 41 Disclosures
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[2], 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[3], 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:
- Xiaoxiao Jiang, FSA, MAAA, Associate Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

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 February 29, 2016. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is February 26, 2016.

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 the Board 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

[2] The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.
[3] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

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.

- 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.