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February 28, 2017

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

Re: Cigna Health and Life Insurance Company
2017 Large Group Rate Filing (SERFF # CCGP-130705386)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Cigna Health and Life Insurance Company (CHLIC) 2017 Large Group Rate Filing and to assist the Green Mountain Care Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

This filing was originally submitted on 12/30/2016 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, area factors, and the methodology used.
- There are 12 policyholders (1,940 members) situsedin Vermont that are affected by this filing.
- The overall proposed rate impact of this filing to the current rates is -3.7% (-$20.80 PMPM). The rate change ranges between a minimum of -9.7% and a maximum of 0.1%.

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 -3.7% 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, rider claim cost exhibits, and etc.

CHLIC updated its base claim assumptions. 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 medical capitation percentages, the inpatient number of copays per admit adjustment, medical effective deductible and effective out-of-packet maximum adjustments, community rate loads, mental health/substance abuse trend and rates, and various other adjustments. Last but not least, as outlined in the actuarial memorandum, the methodology for rating pharmacy benefits has significantly changed, which includes reduction of product difference by platform, unifying the AWP per script and annual script count per member assumption to be on a 30-day supply basis, updating the methodology for clinical programs, and introducing separate trend assumptions for Generic, Brand, and Specialty drugs.

To determine the overall and range of the rate change, CHLIC took a representative sample of Vermont situsedcases and determined the premiums for these samples using the current approved manual rates and methodology and the proposed 2017 manual rates and methodology. The rate impact was determined as the difference between the two rates. This analysis resulted in a rate change of -3.7%, ranging from -9.7% to 0.1%.

Company's Analysis

CHLIC proposed a rate change of -3.7% to be implemented upon approval.

1. *Medical Base Claim Assumptions*: CHLIC updated the medical base claim assumptions, which represent the allowed claims amounts in 2015. Then, CHLIC used 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 2014 to 2015.

   While CHLIC roll-forward the base medical claims by trend, they consequently roll off that year of trend from the calculation, i.e., 2015/2014 trend is no longer used in rate calculations. As such, the base claim assumption change has no rating impact.

2. *Medical Trend Assumptions*: The Company is using a paid medical trend of 7.9% for 2016 and a paid medical trend of 6.8% for 2017 and 2018. The trends reflect the Company's prospective unit cost trends by service type and the expected utilization trends. These changes result in approximately -2.8% of impact for Vermont residents.

3. *Medical Area Factors*: The medical area factors were updated as a result of CHLIC's periodic experience rate reviews, which looked at full-year 2015 experience relative to the manual rating expectation. Generally, claims were favorable as compared to the manual, which results into lowering medical area factors. Compared to the last approved filing, the proposed area factor in the current filing decreased by 7.1%, 8.2% and 8.0% for products NWK, OAP, and PPO, respectively. These changes result in approximately -6.8% of impact for Vermont residents.

4. *Rx Base Claim and Area Factor*: 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 Rx area factors decreased from the last approved. The change in the Rx area factor result in approximately -7.0% rate change for Vermont residents.

5. *Rx Trend Assumptions*: The Company provided the actual observed trend for 2015 and YTD 2016. 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
2016	9.0%	1.8%	11.0%
2017	10.0%	1.7%	11.9%

The trend changes result in a rate change of -2.6%.

6. *Administrative Costs and Anticipated Loss Ratio*: CHLIC utilized a pricing loss ratio of 85.8% (including the risk charge) with a total retention of 14.2%. The projected federal MLR is 89.0%. The Company provided a breakdown of the 14.2% for administrative costs. The rate impact of changes in retention is a -1.1%.

Retention	%
Administrative Expenses	6.4%
Optional Buy-ups	0.6%
PPACA Fees	0.0%
Premium and Income Taxes	2.0%
State Assessments	1.4%
Commissions	0.3%
Profit	3.5%
Total	14.2%

L&E Analysis

The overall average rate change is -3.7%, and the actual rate change experienced by each Vermonter could vary between -9.7% and 0.1%. The range of the rate change is due to various reasons, such as methodology changes and geographic mix. L&E notes that the average rate change is -3.7%, 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)*: The base claim assumptions represent the experience of the large group block of business. CHLIC updated

[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 base claim assumptions to utilize CY 2015 data. Given that CHLIC roll-forward the base medical claims by trend, and consequently roll off that year of trend from the calculation, as such, there is no rating impact of updating the medical base claim assumptions.

While CHLIC made no changes to the Claim Probability Distribution (CPD) table, L&E compared CHLIC's existing claim distribution tables to its internal pricing model. This analysis showed that CHLIC's table assumes a higher frequency for the lower claim levels but a lower frequency for the higher claim levels. 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 appear to be reasonable and appropriate.

2. *Medical Trend Assumptions*: The previously approved trend assumptions were 9.7% for 2015 and 8.9% for 2016. In this filing, the Company's prospective trend assumptions for future years are projected to be 7.9% for 2016 and 6.8% for 2017 and 2018. These projected trends are lower than the prior filing's. The changes to the trend assumptions result in a rate change of approximately -2.8% overall.

Approved in Prior Filing	
Year	**Total Trend**
2015	9.7%
2016	8.9%

Requested in This Filing	
Year	**Total Trend**
2016	7.9%
2017	6.8%

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 decreased the area factors by 7.1% for NWK, 8.2% for OAP, and 8.0% for PPO. These changes were a result of claims being favorable as compared to the manual. The table below shows the area factors by product approved in the prior filing and requested in this filing. The changes to the medical area factor assumptions result in approximately -6.8% of overall rate impact.

Area Factors	NWK	OAP	PPO
Approved in Last Filing	0.84	0.85	0.88
Requested in This Filing	0.78	0.78	0.81

The area factor changes appear to be reasonable and appropriate.

4. *Rx Base Claim and Area Factor:* Generally, Rx makes up approximately 20% of the total rate.

CHLIC updated the Rx base claim assumptions and area factor to reflect the change in methodology for rating pharmacy benefits, cost of specialty drugs, planned revisions to the drug lists, and market-specific experience.

The Rx area factor reduction was a result of claims being favorable as compared to the manual. The table below shows the area factors approved in the prior filing and requested in this filing. The change to the pharmacy area factor assumption results in approximately -7.0% of overall rate impact.

Rx Area Factors	
Approved in Last Filing	Min: 0.79, Max: 0.84
Requested in This Filing	0.69

The Rx area changes appear to be reasonable and appropriate.

5. *Rx Trend Assumptions*: 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 last approved 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 Requested Rx trend is shown as follows:

Year	Rx Cost Trend	Rx Utilization Trend	Rx Total Trend
2016	9.0%	1.8%	11.0%
2017	10.0%	1.7%	11.9%

The total Rx trend proposed in the current filing is lower than that approved in the last filing. The changes to the pharmacy trend assumptions result in approximately -2.6% of overall rate impact.

CHLIC also provided a breakdown of the Rx trend into non-specialty and specialty trends. The increase in specialty trend is driven by significant price increases on Rheumatoid Arthritis and Multiple Sclerosis medications and the expected utilization of new specialty medications used in the treatment of cancer.

	2016	2017
Non-Specialty	8.8%	8.8%
Specialty	19.9%	21.7%
Total Rx Trend	11.0%	11.9%

The Rx trend changes appear to be reasonable and appropriate.

6. *Administrative Costs and Anticipated Loss Ratio*: CHLIC utilized a pricing loss ratio of 85.8% (including the risk charge) with a total retention of 14.2%. The projected federal MLR is 89.0%. The Company provided a breakdown of the 14.2% for administrative costs. The rate impact of changes in retention is a decrease of 1.1%.

Retention	Prior Approved	Requested
Administrative Expenses	6.0%	6.4%
Optional Buy-ups	0.6%	0.6%
PPACA Fees	3.5%	0.0%
Premium and Income Taxes	2.0%	2.0%
State Assessments	1.5%	1.4%
Commissions	0.4%	0.3%
Profit	1.0%	3.5%
Total	15.0%	14.2%

- The PPACA fees decreased to 0% due to a decrease of Reinsurance and Health Insurance Industry Fee to 0% for calendar year 2017.
- The profit amount approved in the prior filing was 1.0%, a decrease from the originally requested 3.5%. 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.

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 for the large group block of business, as calculated from the Supplemental Health Care Exhibit, were shown as follows.

Year	Actual Profit
2013	3.7%
2014	13.5%
2015	5.9%

Results for 2016 have not been finalized, but based on internal projections, Cigna estimated the profit would be in the mid-single digits. Given these volatile results and that Cigna's enrollment is very low (less than 2,000 lives), the financial statement data is not considered solely as 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.

It is important to note that the PPACA fees holiday was effective only for 2017. Therefore, for groups with coverage periods in 2018 will experience an increase in their rate due to accounting for the PPACA fees again. Assuming an effective date of 7/1/2017, the expenses would be 1.75% higher than what is currently presented, prorating the projected 2018 Health Insurance

Industry Fees of 3.5%.

All changes to the retention, with modification to the profit and consideration for the PPACA fees, appear reasonable and appropriate.

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 -3.7% to -5.1%.

Sincerely,

Xiaoxiao Jiang, FSA, MAAA
Associate Actuary
Lewis & Ellis, Inc.

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

David M. Dillon, FSA, MAAA
Vice President & Principal
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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 28, 2017. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is February 28, 2017.

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.