

August 5, 2024

State of Rhode Island Office of the Health Insurance Commissioner

Re: Cigna Health and Life Insurance Company
2025 Rhode Island LG Rate Filing
SERFF Tracking #: CCGP-134098068

Submitted on Behalf of the Rhode Island Office of Attorney General

The purpose of this letter is to provide a summary of Lewis & Ellis, LLC's (L&E) actuarial analysis regarding the proposed 2025 Large Group Rate Filing for Cigna Health and Life Insurance Company (Cigna or Company) and to assist the Rhode Island Office of Attorney General (OAG) in evaluating possible changes to the proposed rates.

FILING OVERVIEW

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1. Cigna originally submitted their proposed rates on May 13, 2024, with an average rate increase of 2.5%.
2. The proposed rates will be effective once approved. They will be applied to new quotes upon the next pricing model implementation date following approval.
3. The filing provides medical benefits for large employer groups. The filing is for Open Access Plus, PPO, Network, Indemnity, and retiree medical insurance products. It also includes pharmacy, mental health/substance use, and other riders.
4. The filed trend is 8.4%, including the leverage component, and 7.6%, excluding leverage. Therefore, the primary driver of the rate increase is the trend. The rate increase is lower than trend primarily due to revisions to pricing factors and retention.
5. Cigna covers 1 group and 383 lives in Rhode Island.

PURPOSE AND SCOPE

Pursuant to R.I. Gen. Laws §§27-36-1 and 27-36-2, the OAG is vested with the authority and enforcement of the laws within the State of Rhode Island, including, but not limited to, representing, protecting, and advocating on behalf of consumers at public rate hearings, and the OAG is permitted to hire actuaries to review the proposed rate filing and conduct discovery. Also, pursuant to R.I. Gen. Laws § 42-9.1-2(5), the Attorney General, as the State's Health Care

Advocate, is further obligated to carry out the mandate of the Health Care Advocate statute and advocate for quality and affordable health care for the people of Rhode Island and to take “all necessary and appropriate action... to secure and insure compliance with the provisions of titles 23 and 27 [insurance] and to advocate for any changes necessary to support the goal of quality and affordable health care for all citizens of Rhode Island.”

This letter is to assist the OAG in evaluating possible changes to the proposed rates, if applicable. L&E’s observations focus on producing rates that are not excessive, inadequate, or unfairly discriminatory¹. Premium affordability is not within the scope of L&E’s actuarial review.

SUMMARY OF RECEIVED DATA

Cigna provided the rating manual used to develop the proposed 2025 large group market premiums. Within this “RI_CHLIC Template 2025.pdf” file, the Company outlines the starting manual rate, along with all adjustments applied to the manual rate to adjust for the rating population. The manual also outlines how statistical credibility is determined.

After a request from L&E, Cigna provided the “Sample Illustrative Renewal Rate Development – CHLIC.xlsx” file, which shows how the Company blends the experience with the manual rate. Within this file, it shows the starting experience total claims, along with the member months for the credibility calculation. The experience claims show various adjustments, including benefit and demographic changes. This experience rate is then trended and blended with the manual rate to get the final rate.

After a request from L&E, the Company also provided some support for the trend development in “CONFIDENTIAL_2025 RI Trend actuarial support,” support for the underwriting for underwriting adjustment in “CONFIDENTIAL_RI UW adjustment_Obj2,” and a summary of the methodology changes in “2025 RI Methodology Changes.”

RATING PROCESS

The medical base claims are the national base claims costs for experience-rated business. The claims costs are established for all major service categories, which may be further subdivided into sub-cost categories. Table 1 in Appendix B of file “RI_CHLIC Template 2025.pdf” provides the current base medical claims cost for each major service category. They are also outlined in the table below.

¹ This is based on Actuarial Standards of Practice No. 8

<http://www.actuarialstandardsboard.org/asops/regulatory-filings-health-benefits-health-insurance-andentities-providing-health-benefits/#312-regulatory-benchmark>

Service Category	Manual Rate: In Network	Manual Rate: Out of Network
Inpatient	\$142.64	\$2.05
Outpatient	\$185.90	\$6.09
Primary Care Physician	\$23.36	\$0.72
Emergency Room	\$31.21	\$3.28
Specialty Care Physician	\$55.16	\$2.14
Other	\$7.79	\$3.36
Preventive Care	\$20.30	\$0.25

The pharmacy claims cost start with the average wholesale price per script and annual script counts per customer, based on the formulary type. Both the medical and pharmacy costs are adjusted based on various factors and then trended forward to get the final total annual cost.

The experience rate starts with the total claims PMPM for the experience period, which is calendar year 2022 data with six months of run out. The Company stated that at the time the filing materials were prepared, they did not have calendar year 2023 experience with sufficient run-out to consider. While it is unclear the impact of using the 2022 experience on the rate increase, L&E observes that other RI carriers are using more recent experience data and that Cigna should be using the most recent data available.

The Company makes a large claim adjustment to the experience rate to account for both the number and magnitude of shock claims present in the experience. This adjustment mitigates the impact of infrequent shock claims by subtracting them from the starting experience. The Company then applies adjustment factors for benefit changes, integration credits, demographic changes, and other miscellaneous factors. Once the experience rate has been adjusted, a trend is applied. The projected pooling fee is added, along with large claims up to the pooling level. All accounts have an average amount of these claims added to their experience as part of the smoothing process.

The projected rate is then credibility blended with a manual rate. Since Cigna has small membership levels in Rhode Island, the experience is blended with a manual rate based on a credibility factor.

For credibility to apply, there must be a minimum of 5 months of claims experience and a minimum of 100 member months. If member months are greater than or equal to 36,000, credibility is 100%. A credibility percentage is calculated and applied to the manual rate for groups with 100 to 36,000 member months. L&E finds the credibility blending procedure to be reasonable.

L&E ANALYSIS

The items outlined below are key observations in the filing:

1. TREND

Cigna assumes an 8.4% trend, including the leveraging component, and 7.6% excluding leveraging. Please note that an unleveraged trend of 7.3% is also shown in the filing which differs from the 7.6% trend because of how the trend components are weighted.

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 and are specific to Rhode Island residents.

The below table shows the trend breakdown by service category.

Service Category	Unit Cost	Utilization/Mix	Leveraging	Total Trend
Hospital Inpatient	3.2%	4.1%	0.7%	8.2%
Hospital Outpatient	2.9%	4.1%	0.7%	7.9%
Professional	2.3%	4.1%	0.7%	7.3%
Other Medical	0.0%	4.1%	0.7%	4.9%
Capitation	0.0%	4.1%	0.7%	4.9%
Prescription Drug	8.4%	3.3%	0.7%	12.8%
Total	3.5%	4.0%	0.7%	8.4%

The Company provided additional details on the inpatient facility, outpatient facility, and prescription drug (net of Rx rebates) unit cost trends. Cigna also provided the file “CONFIDENTIAL_Provider Template for Rate Review 2024.05.21.xlsx” related to payments and unit cost changes by provider and year as part of a response to OHIC.

The utilization and mix trend were developed by looking at historical average utilization and mix trends and then adjusting them for known expected impacts, e.g., the addition of specific programs to reduce utilization through national or local market actions or to adjust for other factors, including the effect of leap year’s extra day of utilization. The utilization and mix trends are assessed across all medical categories and not set by service category.

The 0.7% leveraging trend, which applies to all service categories, was determined by setting a trend assumption and comparing data across two years. The year-over-year change in rates from these two sets represents the paid trend. The trend leveraging amount is determined using the difference between the trend assumption and this paid trend amount.

While Cigna provided some additional detail regarding the trend assumptions used in the rate development, limited quantitative support was provided and was not considered sufficient to fully assess the trend assumption.. The Company did not provide any historical normalized claims

experience for L&E to independently analyze historical observed trends. Since the utilization trend is not fully supported and is higher than the typical ACA market utilization trends, L&E recommends that the utilization/mix trend be reduced from 4.0% to 3.0%.

This change would reduce leveraged trend from 8.4% to 7.4%.

2. RETENTION

The table below shows the breakdown of retention costs as a percentage of premium. These values were provided in the “2025 LG OHIC Rate Template Final” file.

Category	%
ACA Fees and Taxes	0.0%
Premium Tax	2.0%
Other Retention Charge	0.0%
Profit	1.0%
Investment Income Credit	0.0%
Payroll and Benefits	0.0%
Outsourced Services	0.0%
Auditing and Consulting	0.0%
Commissions	0.0%
Marketing and Advertising	0.0%
Legal Expenses	0.0%
Other Taxes, Licenses, and Fees	1.8%
Reimbursements by Uninsured Plans	0.0%
Other Admin Expenses	6.1%
Total	10.9%

The total retention of 10.9% represents a slight decrease from 2024, which had a total retention charge of 11.3% of premium.

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that Cigna updates these assessments to reflect the final numbers which has an impact of -0.2% on the overall rate change.

The profit remained unchanged from the 1.0% that was approved by the RI Health Insurance Commissioner last year. In 2021, the Commissioner informed all carriers in Rhode Island that no contribution to reserves/profit margin would be allowed for the 2022 rates and approved a 1.0% profit in the 2023 and 2024 rates.

The Company’s year-end 2023 RBC ratio is 465%.

Due to the capital and surplus levels of the Company and its affiliates, L&E believes that the 1.0% profit assumption is reasonable.

3. UNDERWRITING

The Company applies underwriting after the rate development to reflect characteristics on a case-by-case basis when they are not otherwise reflected in the rating methodology. Discretionary underwriting adjustments are limited to +/- 40%. However, the Company noted that underwriting can exceed this range when supporting justification is provided.

For the 2024 rating period, there was only one renewing fully insured group situated in RI. This group received a -10% to -5% underwriting adjustment. The Company provided underwriting adjustment ranges applied to large groups renewing within the prior year and demonstrated adherence to these underwriting guidelines. Therefore, L&E believe the filed underwriting guidelines are reasonable and appropriate.

OBSERVATIONS

As noted above, L&E has the following observations regarding the assumptions in the filing:

TREND:

Based on the information provided and consideration of the market segment and industry averages, L&E believe that the 4.0% Utilization/Mix Trends is not fully supported and is above market norms. L&E would consider a utilization trend of 3.0% to be reasonable for this filing. We also note that the actuarial justification provided by the Company was not considered sufficient to fully assess the trend assumption.

RHODE ISLAND ASSESSMENTS:

At the time of the initial filing, the final updated Rhode Island assessments had not been released. L&E recommends that Cigna updates these assessments to reflect the final numbers which has an impact of -0.2% on the overall rate change.

EXPERIENCE PERIOD DATA:

The Company stated that at the time the filing materials were prepared, they did not have calendar year 2023 experience with sufficient run-out to consider. While it is unclear the impact of using the 2022 experience on the rate increase, L&E observes that other RI

carriers are using more recent experience data and that Cigna should be using the most recent data available.

IMPACT ON OVERALL RATE INCREASE

The following table summarizes the range of reasonable 2025 rate changes based on L&E's rate review, analysis, and assessment of the underlying filing assumptions:

Component	Rate Change
Cigna LG Proposal	+2.5%
Trend	-1.0%
Revised RI Assessments	-0.2%
Cigna LG Revised	+1.3%

Please note that the impact on the rates is an estimate, and the actual impact may differ due to the Company's pricing model.

Sincerely,



Robert Dorman, ASA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, LLC



Josh Hammerquist, FSA, MAAA
Vice President & Principal
Lewis & Ellis, LLC



Dave Dillon, FSA, MAAA, MS
Senior Vice President & Principal
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ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations², 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 Conduct³, 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 below.

IDENTIFICATION OF THE RESPONSIBLE ACTUARIES

The responsible actuaries are:

- Bobby Dorman, ASA, MAAA, Vice President & Consulting Actuary
- Josh Hammerquist, FSA, MAAA, Vice President & Principal
- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal.

IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is August 5, 2024. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is August 5, 2024.

DISCLOSURES IN ACTUARIAL REPORTS

- The contents of this report are intended for the use of the Rhode Island Office of Attorney General. 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 L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis is financially and organizationally independent from Cigna. L&E is not aware of anything that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the OAG in recommending changes to the proposed rates, as applicable.
- 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 for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for the 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.

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.

- L&E is aware that there may be subsequent events which could have a material impact on our observations. These include, but may not be limited to, the ongoing Covid-19 virus.
- There are no other documents or files that accompany this report.

ACTUARIAL OBSERVATIONS

The actuarial observations 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 actuaries can be found in 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 the applicable ASOPs.