STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Aetna Life Insurance Company Individual Off-Exchange 2016 Rate Filing

Finding of Facts

1. The purpose of this filing is to provide details of the premium rate development and resulting monthly premium rates for 2016 plans that will be offered to Individuals off-Exchange in the State of Connecticut for effective dates of January 1, 2016 through December 31, 2016.

2. The development of the rates reflects the impact of the market forces and rating requirements associated with the PPACA and subsequent regulation.

3. All new plans are in compliance with the benefit plan requirements of the Patient Protection and Affordability Act (P.L. 111-148) of 2010, otherwise known as PPACA or the "ACA". Additionally, these plans conform to the federal metallic tiers of coverage, defined as Bronze, Silver, Gold, and Platinum. All plans within a tier have achieved an actuarial value consistent with the thresholds established for each tier – 60%, 70%, 80%, and 90%, respectively – within the allowable range of deviation of two percentage points.

4. All plans will be marketed through brokers and general agents, as well as directly to consumers via direct mail, telemarketing, and the Internet. Aetna will verify applicant eligibility for these plans based on standard underwriting guidelines available under PPACA, such as geographic limitations. Any written policy is guaranteed renewable as required under §2703 of the Public Health Service Act.

5. Revised rates for these products reflect the following:

    - Impact of medical claim trend (including changes in provider unit costs and increase utilization of medical services)
    - Revisions to our assumptions about population morbidity
    - Changes to the reinsurance program
    - Changes in cost sharing to ensure plans comply with Actuarial Value requirements
    - Changes in Aetna's pricing models used to determine the impact of cost sharing designs
    - Changes in provider networks and contracts

6. Rate changes differ by plan for the following reasons:

    - Network and contractual assumptions have been updated, and the change differs based on network

- Changes in cost sharing differ by plan in order to maintain compliance with Actuarial Value and other regulatory requirements
- Updates to family deductible and out of pocket maximum provisions on HSA-compatible plans to comply with new federal regulations

7. The weighted average increase across plans based on current ACA-compliant membership, inclusive of benefit and cost sharing changes, is 5.6%. The minimum increase is 4.2% and the maximum increase is 8.2%.

8. Because the 2014 CT Individual membership is not fully credible, the experience used to develop rates for CT Individual products is a blend of calendar year 2014 Individual ACA results and non-Grandfathered Small Group, as this latter population has historically been guaranteed issue, adjusted-community rated (no medical underwriting), with plans that include a full suite of benefits and services.

9. Individual: Allowed claims come directly from the claim records for hospital and physician services.

10. Small Group: Allowed and incurred claims are sourced from our actuarial experience databases. These databases provide member-level detail on total allowed and incurred claims but do not include unit cost or utilization metrics. We allocate claims to cost categories and estimate the corresponding unit costs and utilization metrics by using an alternate reporting system that calculates unit cost and utilization metrics by medical cost category but only permits inclusion/exclusion of experience at the market and segment levels. A reconciliation of aggregate data in our actuarial experience databases is performed to ensure that data is consistent with the experience data contained in our enterprise-wide data warehouse.

11. The experience period reflects two months of paid claim run-off. The IBNP reserves account for slightly more than 3% of the experience period incurred claims.

12. The 'Other' adjustment includes: projected changes in the age/gender mix and area mix using internally-developed factors. Section B of the rate filing contains detail on the calculations of the impact of demographic mix shifts; the projected impact of changes in network composition and provider/pharmacy contracts.

13. Anticipated annual trend from the experience period to the rating period for the product line is as follows.

Component	Unit Cost	Utilization	Total Trend
Medical	5.6%	1.4%	7.1%
Pharmacy	7.0%	1.0%	8.1%
Total	5.9%	1.3%	7.3%

Allowed medical trend includes known and anticipated changes in provider contract rates, severity and medical technology impacts, and expected changes in utilization. The impact of benefit leveraging is accounted for separately in the projected paid to allowed ratio.

Pharmacy trend considers the impact of formulary changes, patent expirations, new drugs, other general market share shifts, and overall utilization trend.

14. The source data for the manual rate is the experience incurred for calendar year 2014 and paid through January 2015 for Aetna Life Insurance Company (ALIC) and Aetna Health Inc. (AHI) in the CT Small Group market. The Small Group market experience is considered an appropriate source for the manual rate due to similarities in covered benefits and market dynamics to the post-2014 ACA Individual market. The similar dynamics include no medical underwriting and guaranteed issue & renewability.

15. The Small Group experience used as the basis for the manual rate was adjusted in a similar manner as the base period experience for changes in demographic and area normalizations. The data is further adjusted for projected changes in network and provider contract rates, in addition to unit cost and utilization trend.

16. The Individual ACA member months, of 55,452, for calendar year 2014 is deemed to be 48.1% credible.

17. The 2016 reinsurance recoveries were estimated by relying on an internally developed model using Connecticut Small Group claims data incurred during calendar year 2013, trended forward with a factor of 9.7% to 2016. We are assuming average coverage in Connecticut of $2,250 deductible, $5,750 out-of-pocket limit and 70% coinsurance, then using federally established parameters of 50% of paid claims between $90,000 and $250,000, adjusted for 2016 enrollment assumptions and adjusted for the Connecticut geography. We expect the transitional reinsurance program to reduce average claims for these products by approximately 6.2% in 2016 excluding the impact of the Reinsurance Contribution. The net impact of Reinsurance, after considering the Reinsurance Contribution of $2.25 PMPM for 2016, is $21.02 PMPM.

18. Aetna has utilized data from external consultants to analyze potential Risk Adjustment results for 2014 and convert that to the 2016 projection period. As a result, they project a net risk adjustment receivable of $13.33, net of the user fee of $0.15 PMPM.

19. Connecticut small group experience for Aetna Health of CT and Aetna Life Insurance Company, pre and post ACA:

CY	Earned Premium	Incurred Claims	Loss Ratio	Members
2007	20,567,835	17,301,597	84.1%	5,092
2008	32,814,369	27,385,221	83.5%	8,338
2009	61,914,560	49,730,102	80.3%	16,219
2010	110,713,752	90,891,861	82.1%	27,975
2011	118,081,224	95,980,807	81.3%	27,585
2012	160,289,638	133,561,183	83.3%	36,168
2013	173,246,289	139,345,453	80.4%	36,402
2014	186,106,476	146,178,841	78.5%	36,743
Total	863,734,143	700,375,065	81.1%	

20. Connecticut 2014 individual experience for Aetna Life Insurance Company (ACA Only) generated $23,134,124 in earned premium, $23,604,789 in incurred claims which resulted in a loss ratio of 102.0%. There was an average of 4,621 members for 2014.

21. Unit Cost and Unit Cost Trend (Small Group)

Category	CY 2013	CY 2014	Trend
Inpatient Services	$3,656	$3,989	9.1%
Outpatient Services	$1,301	$1,446	11.2%
Physician Services	$198	$207	4.3%
Other Services	$203	$209	2.7%
Pharmacy	$105	$108	3.3%
Total	$5,464	$5,959	9.1%

22. Utilization (per 1,000 members) and Utilization Trend (Small Group)

Category	CY 2013	CY 2014	Trend
Inpatient Services	288.6	266.7	-7.6%
Outpatient Services	632.7	613.5	-3.0%
Physician Services	7,942.0	8,057.3	1.5%
Other Services	4,614.0	4,693.3	1.7%
Pharmacy	9,487.2	10,034.4	5.8%
Total	989	1,042	-3.2%

23. Normalized Allowed Claims PMPM (Small Group)

Service	CY 2013	CY 2014	Trend
Inpatient Services	$27.81	$28.03	0.8%
Outpatient Services	$21.61	$23.29	7.8%
Physician Services	$38.90	$41.18	5.8%
Other Services	$24.61	$25.70	4.4%
Pharmacy	$26.10	$28.51	9.2%
Total	$139.02	$146.71	5.5%

24. The impact of cost-sharing leverage is just under 1.0%. Please note that Aetna does not separately measure medical technology trend.

25. Trend on a paid basis would also include a year-over-year benefit buy-down normalization adjustment of 0.988.

26. There are no new benefit mandates nor are there requirements effective between the experience period to the rating period.

27. This rate filing conforms to the benefit plan provisions required by the Patient Protection and Affordability Act (P.L. 111-148) of 2010. These benefit plan provisions include:
    - Elimination of cost sharing for preventive care.
    - Elimination of lifetime benefit maximums.
    - Elimination of annual dollar maximums for essential benefits.
    - Expansion of dependent age eligibility for children, to age 26.
    - Waiver of pre-existing limitations for children under age 19.
    - Addition of the Women's Health mandate effective August 1, 2012
    - Inclusion of taxes and fees beginning with premiums paid January 1, 2014 and later.
    - The inclusion of Essential Health Benefits (EHBs) in plans effective January 1, 2014

    There was no pricing adjustment made for the first five mandates when they were effective October 1, 2010, while the impact of Women's Health is fully incorporated into the experience period results. The impact of Connecticut's Essential Health Benefit requirements for Small Group experience on plans offered prior to January 1, 2014 is immaterial.

28. As discussed in prior rate filings, the Patient Protection and Affordable Care Act (PPACA) created several new fees assessed on insurers, or health insurance. Two of these fees, the Reinsurance Contribution (RC) and Health Insurer Fee (HIF), are applicable to premium earned in 2016, regardless of when the policy renews. Aetna has been incorporating these fees into renewals on a gradual basis since

2013 in order to reflect the actual portion of each policy's premium that will be subject to these fees in each calendar year.

These fee levels will again change from 2015 to 2016, and so again Aetna will incorporate the changes into 2016 pricing to reflect the portion of each policy's premium subject to these fees in 2016. The Reinsurance Contribution (RC), a temporary fee to fund the Individual market's reinsurance program from 2014 through 2016, decreases in total over these three years. However, the Health Insurer Fee (HIF), a permanent fee, will increase every year until 2018, and thereafter at the rate of premium growth.

29. As stated above, 2016 Individual rates have been developed utilizing a blend of Aetna's Individual ACA and total Small Group experience from Connecticut, the latter of which is deemed a reliable proxy for future Individual results. Use of SG data also reduces reliance on assumptions due to the lack of credibility of the 2014 Individual ACA experience.

30. The proposed retention portion of the projected premium is 23.9%, this was developed from the following items:
    1. Taxes and Fees of 9.0% comprised of:
        a. State Premium Tax of 1.75%
        b. Federal Patient Centered Outcome Research Fund of $0.17 per member per year, converted to .04%
        c. Health Insurer Fee of 3.0%, including a gross-up for income taxes
        d. CT Exchange User Fee of 1.65%.
        e. Federal Income Tax of 2.1%, assuming 35% tax rate
        f. CT Vaccine Assessment of 0.40%
    2. General Administrative Expenses, including sales and commissions expenses, of 11.0% of premium
    3. After-tax Target Profit & Risk of 3.9%

    These prospective expenses are based on historical expense levels, current year projections, and projected changes in expenses, inflation and membership.

    The 2014 annual financial statement retention is 23.4%.

31. Aetna expects the loss ratio for these products to be 76.6%, calculated in the traditional manner. The expected 2016 MLR for this filing, as defined by PPACA and before any credibility adjustment is 84.5%. Below is a table detailing the calculation:

	Premium	Claims
Earned Premium	100.0%	
Expected Medical Benefits (MBR)		75.6%

Premium Reductions:			
Federal & State Taxes + Licensing & Regulatory Fees	-9.5%		
Claim Adjustments:			
Quality Improvement Expenses			0.91%
Net Numerator (MBR)			76.5%
Net Denominator (Premium)	90.5%		
Resulting Federal MLR		84.5%	

32. The age factors are based on the HHS Default Standard Age curve.

33. Connecticut permits tobacco use to be a rating factor for Off-Exchange plans, using the Federal market rules definitions. Premium rates for tobacco users age 21 and over will be increased by 10% from the corresponding non-tobacco premium rate.

34. The premium for each billable member is calculated as:

    Calibrated Plan Adjusted Index Rate x Age Factor x Area Factor x Tobacco Factor

35. As of 12/31/14, the capital and surplus is approximately $3,871,900,692.

36. Four public comments were received requesting that the Insurance Department disapprove the rate increase request.

Department Summary

Since this filing reflects rates that incorporate all the new rating requirements of PPACA effective 1/1/2014, the Department used criteria spelled out in the latest HHS rate regulations as a template for review along with previously issued CT Insurance Department Bulletins that discuss the requirements for rate filings.

The Department reviewed the 7.3% annual trend assumption used in the rate filing and believes that based upon the experience data submitted this assumption is excessive and should be reduced to 6.5%.

The Department reviewed the June 30, 2015 CCIIO Reinsurance and Risk Adjustment report for Connecticut. Based on this report Aetna Life Insurance Company received $2,822,391.74 in risk adjustment payments for the individual market. The Department is requiring Aetna to revise the net risk adjustment from -$13.33 to -$25.00.
Based upon the federal MLR for this filing of 85.1% before the impact of credibility adjustment the Department believes that the proposed pricing supports the federally required 80% loss ratio for individual business.

In the 2015 pricing the Connecticut Insurance Department required that all individual carriers in the non-grandfathered market in Connecticut use a $45,000 attachment point (per HHS guidance), a $250,000 reinsurance cap, and a 70 percent coinsurance rate. The coinsurance rate assumption was based upon the following:

- The federal government has allowed states to decide whether or not to allow existing non-grandfathered, non-ACA compliant plans (grand-mothered plans for ease of explanation) to continue to renew until sometime in 2016. These grand-mothered plans are considered transitional plans and carriers will not have access to the temporary reinsurance program for these plans. A number of states have elected to allow these transitional plans while Connecticut has not. All Connecticut individual plans, as of 1/1/2015 and beyond, will be considered fully ACA compliant plans eligible for the temporary reinsurance program.

- As a result, the Department believes that there will be excess funds available in 2015 since all transitional individual plans will not have access to the reinsurance program and were originally expected to be fully ACA compliant by 2015 when the funding parameters were originally set.

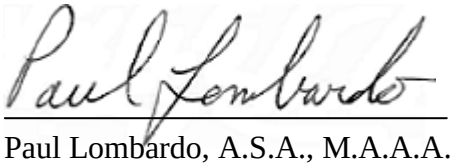
Since the assumptions for the attachment point and coinsurance level have changed from 2015 to 2016, this resulted in an increase to premiums.

Department Disposition

Based upon the finding of fact, and the summary information described above, the proposed average rate increase of 5.60%, with a range from 4.2% to 8.2% is found to be excessive and is disapproved as submitted. The approved average increase is 1.4% with a range from 0.0% to 3.8%.

The approved rates, described above, are reasonable in relationship to the benefits being offered, they are also, neither excessive, inadequate or unfairly discriminatory.

Dated August 27, 2015.



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