



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Anthem Health Plan Individual 2012

Finding of Facts

1. Policy forms in this rate filing are as follows:

<u>Plan Name</u>	<u>Form Number</u>
Century Preferred Direct/Lumenos	N1369
Tonik	N1414
BlueCare Plus Individual Value	N974
BlueCare Plus Individual Premier	N296
BlueCare Plus Advantage	N7211
Semi-Private 200	N427
Community	N117
Direct Pay 30	N373
Century 90 endorsements	132
Basicare	3200
CHCBP	N127, N128, N129

2. Experience for all policy forms combined:

<u>CY</u>	<u>Earned Premium</u>	<u>Incurred Claims</u>	<u>Loss Ratio</u>
2007	\$90,313,696	\$69,078,218	76.49%
2008	\$112,679,347	\$88,239,942	78.31%
2009	\$132,853,113	\$110,675,635	83.31%
<u>2010</u>	<u>\$153,918,618</u>	<u>\$115,865,607</u>	<u>75.28%</u>
Total	\$489,764,774	\$383,859,402	78.38%

Most recent experience (1/11 – 6/11): loss ratio is 69.13%

3. Claim cost trend: allowed cost detail by service category pooled:

	<u>Unit Cost</u>	<u>Utilization</u>	<u>Allowed</u>	<u>Leveraging</u>	<u>Total</u>
Medical	4.5%	0.5%	5.0%	0.8%	5.8%
Pharmacy	3.4%	9.4%	12.7%	3.9%	16.6%
Total	4.3%	2.1%	6.3%	1.2%	7.6%

4. Unit cost data and trend for Lumenos product:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/</u> <u>2008</u>	<u>2010/</u> <u>2009</u>
Inpatient	\$2,994	\$3,356	\$3,642	12.1%	8.5%
Outpatient	\$608	\$655	\$736	7.7%	12.4%
Professional	\$169	\$171	\$176	1.2%	2.9%
Total Medical				4.5%	6.2%
Pharmacy	\$68	\$72	\$73	5.9%	1.4%

5. Utilization data (per thousand members) and trend for Lumenos product:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/</u> <u>2008</u>	<u>2010/</u> <u>2009</u>
Inpatient	10.3	9.6	10.8	-6.8%	12.5%
Outpatient	90.3	92.8	90.8	2.8%	-2.2%
Professional	685.2	715.8	685.1	4.5%	-4.3%
Total Medical				2.3%	-0.8%
Pharmacy	526.9	535.5	530.3	1.6%	-1.0%

6. Claim trend PMPM for Lumenos product:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/</u> <u>2008</u>	<u>2010/</u> <u>2009</u>
Inpatient	\$30.97	\$32.24	\$39.24	4.1%	21.7%
Outpatient	\$54.88	\$60.84	\$66.88	10.9%	9.9%
Professional	\$115.89	\$122.21	\$120.71	5.5%	-1.2%
Total				6.7%	5.4%
Pharmacy	\$35.80	\$38.53	\$38.68	7.6%	0.4%

7. Unit cost data and trend for PPO products:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/</u> <u>2008</u>	<u>2010/</u> <u>2009</u>
Inpatient	\$2,779	\$3,146	\$3,522	13.2%	12.0%
Outpatient	\$615	\$694	\$767	12.8%	10.5%
Professional	\$160	\$170	\$172	6.3%	1.2%
Total Medical				9.2%	5.2%
Pharmacy	\$57	\$62	\$64	8.8%	3.2%

8. Utilization data (per thousand members) and trend for PPO products:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/2008</u>	<u>2010/2009</u>
Inpatient	14.3	13.8	11.7	-3.5%	-15.2%
Outpatient	102.3	109.3	104.5	6.8%	-4.4%
<u>Professional</u>	<u>814.6</u>	<u>837.1</u>	<u>808.3</u>	<u>2.8%</u>	<u>-3.4%</u>
Total Medical				2.9%	-5.6%
Pharmacy	744.1	752.2	797.9	1.1%	6.1%

9. Claim trend PMPM for PPO products:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2009/2008</u>	<u>2010/2009</u>
Inpatient	\$39.82	\$43.47	\$41.11	9.2%	-5.4%
Outpatient	\$62.94	\$75.85	\$80.16	20.5%	5.7%
<u>Professional</u>	<u>\$130.46</u>	<u>\$142.01</u>	<u>\$138.82</u>	<u>8.9%</u>	<u>-2.2%</u>
Total				12.1%	-0.5%
Pharmacy	\$42.33	\$47.00	\$51.37	11.0%	9.3%

10. Unit cost trend for all products:

	<u>2009/2008</u>	<u>2010/2009</u>	<u>6-month ending April 2011</u>
Inpatient	12.7%	10.1%	14.2%
Outpatient	10.7%	11.5%	12.9%
<u>Professional</u>	<u>3.8%</u>	<u>2.3%</u>	<u>-0.9%</u>
Total Medical	7.1%	5.7%	5.7%
Pharmacy	7.7%	2.0%	0.5%

11. Utilization trend for all products:

	<u>2009/2008</u>	<u>2010/2009</u>	<u>6-month ending April 2011</u>
Inpatient	-5.1%	-0.4%	2.0%
Outpatient	5.1%	-3.2%	4.9%
<u>Professional</u>	<u>3.5%</u>	<u>-3.9%</u>	<u>1.5%</u>
Total Medical	2.6%	-3.0%	2.7%

Pharmacy	1.4%	1.6%	8.3%
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12. Claim trend PMPM for all products:

	2009/ 2008	2010/ 2009	6-month ending April 2011
Inpatient	7.0%	9.4%	16.3%
Outpatient	16.3%	8.0%	18.8%
<u>Professional</u>	<u>7.4%</u>	<u>-1.7%</u>	<u>0.7%</u>
Total	9.7%	2.7%	8.5%
Pharmacy	9.2%	3.6%	9.0%

13. Emerging claims experience indicates that claims cost trends are increasing and are expected to continue increasing at a rate of almost 8% throughout the 2012 rate effective period.
14. In addition to claim cost trend, the total cost of providing benefits is influenced by other factors as well. Healthcare cost increases are caused by underlying growth in the cost of care and increased utilization, driven by changes in the demographics and health status of Antheims' members who are gradually utilizing more services year over year (also known as underwriting wear-off). Underwriting wear-off continues to negatively impact rates. The actuarial analysis included in this filing indicates that Antheims' projected distribution of members by policy duration during 2012 will increase claims costs by 6.2%.
15. Mandated benefit changes as required by Connecticut state law are expected to increase claims cost by another half of a percent (0.5%). It is also important to note that a combination of changes in administrative expenses, plan mix, medical loss ratio requirements and other actuarial impacts will reduce the total anticipated rate increase by 1.5%.
16. In addition, benefit leveraging is estimated to be 1.2%
17. Retention charge used in rate filing is 18.7% of which selling, general and administrative expense is 9.9%, profit/margin is 7.0% and premium tax is 1.75%.
18. The expected medical loss ratio at the proposed rate increase is 81.3%. The expected health care reform adjusted medical loss ratio at the proposed increase is 84.9%. This reflects the state premium tax of 1.75% and estimated federal income tax of 2.47%.

19. The impact of federal healthcare reform (PPACA) and CT state mandated benefits is as follows:

<u>Benefit Change</u>	<u>Average Claim Impact</u>			<u>Notes</u>
	<u>Impact</u>	<u>Experience Period</u>	<u>Projection Period</u>	
<u>Federal (PPACA)</u>				
Unlimited lifetime max.	0.00%	0.00%	0.00%	Negligible impact
Dependent to Age 26	0.20%	0.13%	0.07%	Definitional
Rescission changes	0.00%	0.00%	0.00%	Negligible impact
<u>State</u>				
Oral Chemotherapy	0.20%	0.08%	0.12%	PA 10-63 (eff 1/11)
Birth to Three	0.10%	0.00%	0.10%	PA 11-44 (eff 1/12)
Colorectal cancer Screening	0.00%	0.00%	0.00%	PA 11-83 (eff 1/12)
Coverage for bone marrow testing	0.10%	0.00%	0.10%	PA 11-88 (eff 1/12)
Pain management step-therapy	0.15%	0.00%	0.15%	PA 11-169 (eff 1/12)
Total	0.65%	0.21%	0.53%	

20. Anthem is requesting a 12.9% rate increase because claim costs are increasing and are expected to continue increasing throughout the rate effective period. This rate revision applies to grandfathered and non-grandfathered business for the aforementioned policy forms.
21. The current capital and surplus for the regulated entity as of the second quarter of 2011 is \$546,079,790 (capital of \$2,525,180 and surplus of \$543,554,610).
22. The Department received one public comment via the rate filing section of our website and is summarized below:

“I recently read Mr. Bryson's initial filing letter requesting a 12.9 % rate increase for 2012. In his opening letter he states the Company understands the premium increase creates a challenge for many of their customers. He goes onto to say that their members have a choice of coverage and that Anthem helps their members to understand their coverage options and will work with their members to find coverage that are appropriate and affordable for their member needs. That's all well and good if the member is healthy. But if you try to step down to a lesser plan it's my understanding you have to go through medical underwriting once again. Consequently, if you have a pre-existing medical condition you most likely will be turned down, thereby, leaving you with no choice but to stay in the more expensive plan. If an existing member desires to purchase a lesser medical plan,

the member should be allowed to make this "choice" without satisfying new eligibility requirements.”

Department Summary

The actual incurred medical loss ratios have been steadily increasing from 2007 to 2009, but dropped significantly from 83.31% in 2009 to 75.28% in 2010. The experience of this block of business, along with the resulting medical loss ratios, indicate an experience adjustment is not necessary at this time in order to achieve the MLR rebate loss ratio of 80% defined in regulation by HHS.

Upon analyzing the trend data contained within the rate filing, the Department determined that overall trend of 7.6% is appropriate based upon recent trend experience.

The Department analyzed the enclosed durational experience to determine the impact of any underwriting wear-off. While the data indicates the different durational claims on a PMPM basis, using Connecticut specific experience, we believe that the impact of new entrants as a result of the new products offered in October of 2011 will not have a material impact on the rates for this filings rating period. The Department will require that experience from any new business sold be included in the experience data for any future rate increase request on the policy forms included in this rate filing. We don't believe that historic enrollment patterns will change enough to warrant an adjustment to rates for underwriting wear-off.

The operating margin used in the rate filing is calculated as 7.5% of overall premium. This captures both an explicit profit load and risk margin. Since a portion of the risk charge is captured in other assumptions including trend levels, an operating margin of 5% is deemed to be a more reasonable value. This is consistent with both the 2009 and 2010 rate filings made with the Department for the same product rate filings.

Claim lag triangles were analyzed to confirm the most recent estimates of incurred claims and the difference between incurred and paid.

The Department will be following up with Anthem regarding the public comment, as previously discussed.

Department Disposition

Based upon the finding of fact, and the summary information described above, the rate increase request of 12.9% is disapproved as submitted, but limited to an increase of 3.9%. This increase was adjusted downward to reflect the removal of the 6.2% underwriting

wear-off factor and the reduction of the operating margin from 7.0% to 5.0%. The revised rate development is below:

Experience Period Fully Incurred Claims

Medical and Rx (Incurred thru May 2011, paid thru July 2011)	\$116,771,261
Large Claims (\$50,000 threshold)	\$9,711,495
Historical Large Claims Percentage	8.30%
Claims with Large Claim Pooling	\$116,750,017
Member Mos.	551,537
Total Fully Incurred Claims PMPM	\$211.68

Trend Projected to Rating Period

Months of Trend	19
Annual	7.60%
Projected (19 months of cumulative trend)	12.30%
Trended Claim Cost PMPM Effective 1/1/2012	\$237.71

Claim Cost Adjustments

Impact of New Entrants (aka Policy Duration)	0.00%
Impact of Buy-Downs between Claims and Premium	0%
Benefit changes (Mandated)	0.53%
Other PMPM (assessments, capitation, med mngt, etc)	\$4.50

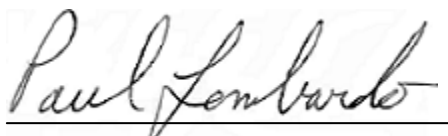
Adjusted Claim Cost PMPM during Rate Effective Period \$243.47 16.7%

Premium at Current Rates Premium PMPM (Med + Rx)	\$281.30	
SG&A Expense from Exhibit VII	\$28.92	9.9%
Premium tax (reduce denominator)	1.75%	1.75%
Pre-Tax Operating Gain PMPM (before Federal Income Tax)	\$14.61	5.0%
Required Premium PMPM 1/1/2012	\$292.15	

Calculated (Required) Increase for Impacted Products **3.9%**

The 3.9% approved rate increase is reasonable in relationship to the benefits being offered, and is, neither excessive, inadequate or unfairly discriminatory.

Dated September 23, 2011.



Paul Lombardo, A.S.A., M.A.A.A.
Insurance Actuary