STATE OF CONNECTICUT
INSURANCE DEPARTMENT

In the Matter of:	Docket No. LH 16-44
AETNA LIFE INSURANCE COMPANY	

HEARING

Held Before:

JARED KOSKY, Hearing Officer
KRISTIN M. CAMPANELLI, ESQ., Legal Division Counsel
PAUL LOMBARDO, Life and Health Actuary
(Panel)

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By: JULIE L. YOUNG, ESQ.

. . . The following is the transcript of the Public Hearing in the Matter of: AETNA LIFE INSURANCE COMPANY, which was held before Jared Kosky, Hearing Officer, at the Connecticut Insurance Department, 153 Market Street, Hartford, Connecticut, on August 4, 2016, commencing at 1:00 p.m. . . .

(Hearing commenced: 1:00 p.m.)

HEARING OFFICER: Good afternoon. I'd like to call this public hearing to order. Please make sure that all cell phones and other electronic devices have been shut off.

On behalf of the Connecticut Insurance Department, I'd like to welcome you to this hearing. I'm Jared Kosky and I've been appointed by Commissioner Wade to preside over today's public hearing. I want to take a moment at the start of this proceeding to explain the way the hearing works. Many of you may be familiar with hearings held by the legislature to consider proposed legislation, or agencies in your town or city to consider town affairs, but may not be familiar with this type of administrative hearing.

Administrative hearings such as this is a regulatory proceeding in which a party, in this instance, Aetna Life Insurance Company, is required to present documentation and arguments regarding their application.

Ultimately, Commissioner Wade will

decide this matter based on a recommendation that I will prepare. This is not a court proceeding, but it does operate under a system of rules with the presentation of evidence and witnesses who testify under oath.

We will have three potential opportunities for public comment at this hearing. First, in a couple minutes, there will be a half hour devoted to public comment with the amount of time for each statement restricted out of respect for the time of everyone here. If the second time allows, there will be a period of public comment at the end of the proceeding for those who did not have an earlier chance to comment.

And third, written comment may be submitted up until 4:00 p.m. on Thursday, August 11, 2016. Unlike a legislative hearing, there may be times when we need to call a recess. I'd like to remind all attendees that I expect everyone to conduct themselves in an orderly and respectful manner. And conduct determined to be disorderly or interfering with this

proceeding will be dealt with under the appropriate legal authority.

Pursuant to the rules of the Insurance Department, which are posted in the reception area and on the doors of this hearing room, no signs or demonstrations are permitted. And anyone not conforming to these restrictions will be required to leave the proceeding.

For the record, this hearing is being held pursuant to Sections 38a-8 and 38a-481 of the Connecticut General Statutes, and will be conducted in accordance with the Insurance Department's rules of practice in the Connecticut Uniform Administrative Procedure Act.

Aetna Life Insurance Company will be referred to as Aetna or the applicant. For the record, docket number LH 16-44 has been assigned to this matter by the Insurance Department. The Connecticut statute governing this rate application, Connecticut General Statute, Section 38a-481, provides rates shall not be excessive, inadequate or unfairly discriminatory.

In addition, Section 38a-8 of the Connecticut General Statutes provides that the insurance commissioner has all the powers specifically granted and all the powers that are reasonably necessary to protect the public interest in accordance with the duties imposed by the Connecticut insurance statutes.

This public hearing is being held to consider whether the premium rate increase application filing, the application, dated June 1, 2016 by Aetna, concerning premium rates for its individual off exchange plans, the products, is excessive and inadequate or unfairly discriminatory pursuant to Connecticut General Statutes, Section 38a-481.

This proceeding was commenced on June 1, 2016, and the applicant filed with the Connecticut Insurance Department, to be referred to as "the department," a rate application regarding the applicant's individual rates for off exchange plans.

And while there's no statutory requirement that a rate hearing be held, on

June 6, 2016, and later July 22, 2016, Commissioner Wade ordered that a public hearing be held on August 4, 2016 to consider the commissioner granting approval of the proposed application.

As a result of open enrollment beginning on November 1, 2016, the federal government in exchanges, including the Connecticut Exchange, have required that rate filings must be submitted with ample time for them to process the information. Thus, the Connecticut Insurance Department is holding hearings at this time to comply with those strict deadlines.

A copy of the notice of public hearing was filed with the Office of Secretary of State. In addition, this notice was posted to the Insurance Department's Internet website. This notice indicated the application was available for public inspection at the Insurance Department, and electronically on the Insurance Department's website, and that the department was accepting written statements concerning the application.

In accordance with the rules and practice of the Connecticut Insurance Department, Aetna has been designated a party to this proceeding. Without being designated as an official party to this proceeding, the Connecticut Insurance Department staff will have the right to ask questions of witnesses to this hearing.

Joining me are Paul Lombardo, life and health actuary, and Attorney Kristin Campanelli, legal division counsel.

And at this time, I'd like counsel for the applicant to identify herself.

MR. YOUNG: Good afternoon. My name is Julie Young and I'm from the law firm of Locke Lord. I'm here today representing Aetna Life Insurance Company. And I'm joined today by two individuals from Aetna. On my right is Mr. Jason Cirino. He's a director of small groups and select markets for Connecticut at Aetna. And on my left is Mr. William Swacker, who's an actuarial senior director at Aetna.

HEARING OFFICER: Thank you, Attorney Young.

At this point, I'd like to enter into the record a stipulated list of exhibits. The list identifies 17 documents, which will have been stipulated to as full exhibits by the parties to this proceeding. These exhibits include a copy of the rate filing application and all written public comment received through 9:00 a.m. on Tuesday.

Written public comment received after this will be added to the record following the hearing and a copy of the list will be available to members of the audience today.

At a prehearing conference to expedite today's hearing held on August 1, 2016, the exhibits, witnesses and hearing procedures were discussed. The first items of business is public comments. Members of the public, who have signed up to speak will have the first half hour of this proceeding to orally comment on the application. In this regard, there are two sign-up sheets available for persons interested in presenting oral comments at this hearing, one for public officials and one for persons other than public officials. So, we can gauge our time,

I'm asking Ms. Medina to indicate for the record the number of people signed up to speak.

MS. MEDINA: We have three.

HEARING OFFICER: Okay. General public?

MS. MEDINA: Yes.

HEARING OFFICER: All right, thank you. Each person will have approximately three minutes to comment and we will begin with public officials, but there are none here to speak. So, we're going to skip right to the general public.

This is a comment period only. And no question should be directed to the applicant or the department. The applicant will then provide presentation on the application. Insurance Department staff will then be given an opportunity to examine the witnesses.

After the examinations have been concluded, anyone from the public who did not have an opportunity to be heard in the first half hour will have the opportunity to orally comment on the application.

The public may also present written comments today, either to Ms. Medina or

during the course of today's hearing or at the department's reception desk. And in addition, written comment may be submitted up until again 4:00 p.m. on Thursday, August 11, 2016.

The public comment portion of this hearing will commence with comments -- well, we'll start right with general, general public. And I would ask that everybody follow the following guidelines. Each individual must identify himself or herself for the record, including any organization that he or she represents. And again, if you could just please spell your last name for purposes of the transcript.

Each individual must address all comments to me. All comments must relate specifically to the rate application that is the subject of today's hearing. And each individual must reasonably limit his or her comments to three minutes.

I do wish to note for the record that Deputy Commissioner Tim Curry is in attendance with us today.

And before we begin the public comment,

I also want to start by noting that the Insurance Department received a written comment from the Office of Healthcare Advocate, through the acting healthcare advocate, Demian Fontanella, who is unable to attend today's hearing.

In addition, Senator Kevin Kelly submitted written comment. And he was also unable to attend today's hearing. These comments will be included with other written public comments received. We will now begin the first portion of public comment.

Lynne Ide, go ahead.

MS. IDE: Good afternoon. My name is Lynne Ide, spelled --

HEARING OFFICER: Sorry.

MS. IDE: Thank you. Good afternoon. My name is Lynne Ide, spelled I-d-e. I'm the director of program and policy at the Universal Healthcare Foundation of Connecticut. I want to thank the Insurance Department staff for listening to me for the third time in the past two days and I do have more lengthy written comment to submit to you.

I just want to start out by saying what I've said already, which is unaffordable health insurance is a more expensive version of being uninsured. We're looking at, with Aetna, very large increases being requested. An average of 28.2 percent in the small group market and 27.9 percent in the individual market, if I read the charts that I've seen correctly.

And these double-digit rate increases are just unsustainable for people. I want to read from -- I'm submitting about 400 petition signatures to you today, but many of the people who signed the petition commented. One woman wrote, "My family is currently spending 30 percent of our after-tax income on health insurance and out-of-pocket health expenses. This is bankrupting us."

And I did talk to you in the previous two hearings about our suggestion that moving forward we should give you all the tools to be able to consider affordability to the consumer, or the small group buyer as part of your proceedings. And we're going to be pursuing that likely in the next session,

perhaps, taking a look at what was done in Rhode Island, which I testified about at the previous hearing.

I'd just like to say as the -- at the foundation level, we are policyholders in Aetna's small group plan. And the proposed increase alarms us. We have seven full-time employees, six of whom choose to take advantage of the health plan. And the inability for small employers to be able to budget from year to year and plan their expenses is a real burden.

And we have more resources than most small businesses to deal with that, but we do feel the pain, just like everybody else. What it does is it causes us to have to shop every year on the market to figure out what we can afford and what will serve our employees the best.

That doesn't help with employee ability to feel secure. It turns them around. They have to go into different markets, perhaps -- I mean, different networks, perhaps, and deal with different benefit packages.

So, I do think we really need to be

taking a hard, hard look at what we're doing with these rate increase requests. And we believe with the profits that these companies are showing that they are not needed. Thank you very much.

HEARING OFFICER: Thank you.

MS. IDE: I beat the clock this time.

HEARING OFFICER: Sonya Huber.

MS. HUBER: Hi. My name is Sonya Huber, H-u-b-e-r. And I am insured through Aetna. Thanks for offering a chance for me to speak.

The plans offered by my workplace have been shifting more and more of the costs to individual employees through co-insurance, copays, deductibles and other ways that make it hard to figure out how much we're actually spending on healthcare.

My employer proposed a premium offer this next year that would include a 70/30 cost share for employees. I have rheumatoid arthritis, which is a chronic autoimmune condition. And my husband has been looking for work for the past couple of years. We have an HSA with a high deductible. The HSA is difficult for my coworkers and I to use.

Healthcare costs have been a major contributor of stress, which is difficult, because my doctors often tell me to lower stress in my life. So, it affects me physically. Because I'm the only one in my family with insurance, we have no choice but to watch our costs go up and up and to budget and put extra money into our HSA to cover unanticipated costs.

I've added up my total healthcare expenditures and I'm spending $11,000 out of pocket, not including my son's braces coming up. And this works out to be 13 percent of my gross pay. I love my doctors who provide great care for me, but two of my providers are out the network. And I -- I see a lot of doctors for my condition.

I'm very proactive about my healthcare. I take good care of myself, so that I don't end up having a healthcare crisis. So, I manage my condition well. To do that, I use acupuncture, chiropractic, a lot of supplements and these are also not covered, obviously. I had to purchase a portable TENS unit for pain management, and that was also

not covered.

So, in closing, I just want to say that this is too high of an increase for myself and it's catastrophic for many of my coworkers, who make even less than I do. Thanks so much.

HEARING OFFICER: Thank you. Dr. Keenan.

DR. KEENAN: Good afternoon and thank you to the department for listening to myself and Angie DeMello from CONECT three times in the last two days.

My name is Dr. Elizabeth Keenan, K-e-e-n-a-n. I'm the co-chair of the healthcare team for CONECT, Congregations Organized for a New Connecticut, a multi-faith, multi-issue, non-partisan organization. We represent 15,000 people from 28 religious congregations in civic organizations in Fairfield and New Haven Counties.

So, I want to begin by asking the department to do what is possible under the spirit of the laws that you operate under, so that you can keep within your mission to

protect consumers and really promote the operation of a competitive marketplace within Connecticut.

I'm here today to comment on Aetna Life Insurance's request for an average 28.2 percent increase on off exchange plans, affecting 36,067 lives. Burdensome as any increases on small businesses, Aetna's request for a 26.8 percent increase will be much more difficult for small businesses in Connecticut to deal with than those in other states, who are seeing much smaller increases.

If this request is granted, the increase is going to make Connecticut much less attractive, both for businesses looking to move here from out of state, as well as for those already established here who wish to grow and develop.

We've also noted that there are -- is a great deal of incomplete or missing or inconsistent actuarial data. And we just urge the department to address these data issues in order to be able to conduct a thorough analysis of the request.

And finally, we want to draw attention to the fact that Aetna filed its request prior to the announcement by a competitor, HealthyCT, that HealthyCT was withdrawing from the market. Given this recent development, though, we believe Aetna should now be required to provide data and analysis on what the likely impact of this actually will be at its proposed rates, if the rates are approved.

We find this particularly essential, because HealthyCT's demise was the result of a $13 million ACA risk pool payment owed because their insureds were deemed to be healthier and less costly than those of other carriers.

So, as these customers become the customers of Aetna and other insurers in 2017, that's 40,000 of them, it seems logical to conclude that their experience would help bring the rates down. So, finally, we believe that until these data gaps are addressed and until Aetna's required to at least address the issue of affordability, we request that their request for an increase is

denied. Thanks for your time.

HEARING OFFICER: Thank you, Dr. Keenan.

Before we proceed, I want to note that on June 14, 2016, later amended on July 29, 2016, Attorney Julie Young filed with the Connecticut Insurance Department an application for an out-of-state attorney to appear, pursuant to and in compliance with 38a-8-33(b) of the regulations of Connecticut State Agencies. And I'm hereby granting her application to appear on behalf of Aetna.

I'd now like counsel for the applicant to identify the individuals again, who will be available to testify and we'll have them sworn in.

MR. YOUNG: Thank you. Aetna will be presenting its case through its two witnesses, Mr. Cirino and Mr. Swacker. Mr. Cirino will begin by delivering a brief, opening statement.

Following his statement, Mr. Swacker will testify as to the actuarial soundness of Aetna's proposal. And he will do so by responding to questions posed by the department.

HEARING OFFICER: Thank you. Would the court reporter please swear in these witnesses?

JASON CIRINO, called as a witness by the Department, being first duly sworn by the Court Reporter, was examined and testified, on his oath, as follows:

WILLIAM SWACKER, called as a witness by the Department, being first duly sworn by the Court Reporter, was examined and testified, on his oath, as follows:

HEARING OFFICER: Thank you. Attorney Young, please proceed with the applicant's presentation.

MR. YOUNG: All right. Mr. Cirino, would you please deliver the opening statement?

MR. CIRINO: Good afternoon. We are here today on behalf of Aetna to discuss a recently submitted 2017 Affordable Care Act individual rate filing. We hope the information presented today helps to provide an understanding of our product offerings and

proposed rates. We appreciate the opportunity to meet with you. We thank Commissioner Wade, Hearing Officer Kosky, Actuary Lombardo, Office of the Healthcare Advocate, Office of the Attorney General, Aetna members and the general public for your attention to this matter.

Aetna has filed 2017 premium rates for plans in Connecticut's individual off exchange market. Aetna files its individual plan offerings under Aetna Life Insurance Company. This filing proposes to raise premium rates on average by 27.9 percent for Aetna Life Insurance Company.

The rates will apply to policies that start or renew from January 2017 through December 2017. Approximately 4,748 individuals in Connecticut are covered under Aetna's individual policies as of August 2016.

Why do we need to increase premiums? Medical costs are going up and we are changing our rates to reflect this increase. We expect medical costs to go up 11 percent in 2017, excluding the effect of benefit

and/or cost sharing changes. Medical costs go up primarily for two reasons: Providers raise their prices and members get more medical care.

Examples of increasing medical costs we've experienced over the last year in Connecticut include: The use of prescription drugs has increased over five percent; the cost of radiological services has risen by 22 percent; the cost of emergency care has increased over five percent; the cost of medically administered pharmaceuticals increased over 16 percent.

What else affects our request to increase premiums? Several state and federal requirements also impact these rates. These include: The federal ACA reinsurance program has ended. The discontinuation of this program will increase premiums six percent. We have updated our assumptions regarding the federal ACA risk adjustment program to reflect recent data. This is increasing our premiums by 7.6 percent.

Certain state assessments and benefit mandates have been revised, impacting

expected claims and therefore premium costs. Will premiums for all individuals increase 27.9 percent? No. This figure is an average. Rate changes differ by plan, due to changes in cost sharing and the exact rate change will depend on what benefit plan the member chooses. It will also depend on the number of family members covered and their ages. Rating by age is regulated by the ACA and as each member's age increases, their rates will increase based on the ACA age scale.

Finally, tobacco usage of members will impact their rates. Members who use tobacco will be charged higher rates than those who do not, all else being the same.

What is Aetna doing to keep premiums affordable? Aetna strives to keep our products as affordable as possible and to address the underlying costs of healthcare. We are developing new agreements, arrangements and partnerships with healthcare providers that base provider compensation on the quality of care and not the quantity of services, creating medical management

programs that address potential health issues for members earlier, improving health outcomes and reducing the need for high-cost healthcare services, working to reduce the ability of out-of-network providers to collect unreasonably excessive payments for services they provide, designing benefit plans that encourage preventative services and cost-effective treatment locations.

This concludes Aetna's presentation on the 2017 Affordable Care Act individual rate filing. Aetna's actuary, William Swacker, is with me today and available to answer your questions.

HEARING OFFICER: Thank you. I will now begin the cross examination of the witnesses by department staff. Mr. Lombardo, please proceed.

MR. LOMBARDO: Thank you, Hearing Officer Kosky. I'll ask that whoever seems to be the most appropriate party answer the questions that I'll be asking, understanding that in some cases it may be more than one person.

One of the things that was noted in the

individual filing is the use of small group trend to develop your trend estimates for 2017, 2016 and 2017. Can you describe why you're using small group trend as well as what the trend would need, if you were to use Aetna individual experience?

MR. SWACKER: Yes. I can answer that question. We're using our small group trend because it's a larger block of business with similar rating characteristics as the individual market. And the --

THE REPORTER: I'm sorry, what was that? And the -- what? I didn't hear you.

MR. SWACKER: Is the microphone on? So, we're using our small group data, because we have more covered lives in Connecticut and it's a more credible base to look at. We're looking at the rate of change in medical costs in a population.

So, our observed small group trend, in our experience period, was 8.3 percent for calendar year 2015 over 2014. If we had used our individual trend, the observed trend was 43 percent for 2015 over 2014. And that covered a much smaller base of individuals.

We had on average 4,600 members in 2014, and on average, 7,200 individuals in 2015.

That observed trend of 43 percent was primarily driven by an increase in the rate of utilization. So, we look at our observed small group trend, it was 8.3 percent, and we also furnished to the department more recent trend experience through the first quarter of 2016. And that observed trend had increased to 11.2 percent. But if you adjust for changes in the demographics of the covered lives of morbidity, the observed trend was 10 percent.

Now, our forward-looking estimate in our filing is 9.1 percent trend. That's 8.3 percent for medical services, 12.9 for pharmacy services. The components of that, there's four and a half percent per unit cost, and we measure unit cost prospectively by looking at our current and proposed provider contracted rates and re-pricing a fixed basket of services under the current and proposed rates. And that basket of services is based on the observed experience in Connecticut with those providers.

Additionally, we have a four-tenth of a point adjustment for severity. And this accounts for change in mix of service or mix of providers that might increase the average cost per service. And this is in line with what we observed over time and in our book of business.

The final component of medical trend is utilization. We have a 3.2 percent outlook for utilization. And we look at our Connecticut experience as well as national experience for a closed block of members, meaning excluding people new to the group in one period or perhaps who left the group in one period.

And when we look at that trend, we adjust for changes in age, area and demographics and morbidity over time. So, that drives the 3.2 percent utilization assumption.

Similar work goes into the pharmacy side. We have an eight percent unit cost trend on pharmacy. And again, that's driven by modeling out price increases in drugs. And that considers brand drugs going off

patent where there can be generic alternatives as well as the pipeline for new drugs under development.

And then the utilization component of our pharmacy trend is four and a half percent.

MR. LOMBARDO: Thank you for that explanation. You did mention that the observed allowed trend from 2014 to 2015 using your small group data is 8.3 percent. Can you explain in a little bit more detail why you're choosing 9.1 versus the 8.3 that you've observed?

MR. SWACKER: Yes. The 9.1 percent is based on forward-looking contract changes that are changing with the providers and healthcare professionals as opposed to observed changes.

And then in addition, again, our utilization estimate is based on a closed block of members. And the observed trend included new members in '15 that weren't there in '14 and vice versa, people that were in the group in '14, but not in '15.

MR. LOMBARDO: Okay, thank you. There

is an estimate for leveraging within your trend that brings trend up to 11 percent. Can you explain what leveraging is and how you came to --

MR. SWACKER: Yes. The 9.1 percent is our projected increase in the rate of allowed charges. And allowed charges are what a provider would charge before we apply cost sharing, so the member's portion of that cost share. But when we look at the rate of trend, certain components of cost share are fixed, like deductibles or copayments.

So, when we look at allowed charges trending forward year over year and then apply member cost share, that might have fixed dollar limits to it that don't trend. The remaining claims, or the paid claims that Aetna would cover, trend at a higher rate. So, we're just modeling our plan designs under that rate of allowed trend.

MR. LOMBARDO: Thank you. There's also the concept of benefit buy-down. How did you -- what is that and how did you incorporate that into your trend evaluation?

MR. SWACKER: Any benefit buy-downs are

built into benefit values for the plan values in our 2017 portfolio. So, the trend is based on a constant rate. We're trending allowed charges forward. And then the plan factors for the plans in the 2017 portfolio reflect the benefit levels of each plan to price those appropriately.

MR. LOMBARDO: And do you know what the estimate for the benefit buy-down was for the previous year?

MR. SWACKER: In our observed trend?

MR. LOMBARDO: Yes.

MR. SWACKER: I'll have to follow up with you to give you that detail.

MR. LOMBARDO: Okay, thank you. The other thing while we're on this subject, if you were to use paid data rather than allowed data, then you would not have to make the additional adjustment of leveraging, correct; because that would be incorporated in your paid trend?

MR. SWACKER: That's correct.

MR. LOMBARDO: Okay. Would you be able to give the department -- and the information I'm asking for, any information I'm asking

for, even though the public comment period will be held open until next Thursday, what I'll be asking, and I don't think it's a big ask, you should have this information readily available, is to provide it by Monday, August 8th.

MR. SWACKER: Okay.

MR. LOMBARDO: And if there is an issue with that, you can communicate with me afterwards. And then you would provide any information we're asking for via SERFF, the the normal communication process.

So, if you could provide the paid trend data for small group as you've provided it for allowed, that would be appreciated.

MR. SWACKER: Certainly.

MR. LOMBARDO: Okay. You've identified in your filing a 1.8 percent -- let me take a step back.

You've identified no adjustment for risk adjustment for 2017, correct?

MR. SWACKER: Yes.

MR. LOMBARDO: Based upon the 2015 benefit year report that came out June 30th of this year, Aetna paid approximately

1.8 percent of premium, which amounted to about seven dollars per member per month in risk adjustment. It is identified in your filing that because you believe that Aetna will have a worsening of morbidity to the average, that's why you're not making any adjustment for risk adjustment in the pricing for 2017, correct?

MR. SWACKER: That's correct.

MR. LOMBARDO: Okay. The question I have is is why wouldn't the rest of the market be seeing a morbidity downward or worsening morbidity? Why is this impacting Aetna separately from the market, because the risk adjustment's based upon a market average risk? So, in order for you not to adjust for this, you would be indicating that Aetna is seeing something different than the marketplace, correct?

MR. SWACKER: Well, in our buildup, we do expect that the baseline experience data that we're using, along with the morbidity adjustment that we made to claims would bring our risk relative to the market average consistent. And therefore, we're not

projecting any payment or receipt under the risk adjustment program for 2017.

MR. LOMBARDO: All right.

MR. SWACKER: So, our projection on the claims side, it's true, we did owe 1.8 percent of premium in 2015. We didn't have that information at the time we were developing rates.

MR. LOMBARDO: Right.

MR. SWACKER: But we were looking at our current risk profile and the projected deterioration of morbidity was really a reflection of -- we've seen a decline in membership in 2016 versus 2015. And we didn't project any reversal of that trend as we were building up rates in 2017, not knowing what our competitive position would be.

What we've observed is that, even in an ACA environment, people that stay with you or renew with you, we've observed slightly higher risk scores than people that leave us because they were actively shopping and chose another carrier. So, as we projected forward membership, the people that stayed with us,

we expected a higher risk score and it wasn't offset by new entrants to the market.

So, we felt like that morbidity adjustment, combined with the fact that our small block of business has been volatile, relative to the market average, we owed seven dollars in 2015, $50 in 2014. So, we didn't feel like we had data to make a credible adjustment upward or downward to reflect a payment or receipt under the risk adjustment program in 2017.

MR. LOMBARDO: Didn't you receive a payment in 2014 or am I incorrect in assuming that? I thought Aetna received a risk adjustment payment in 2014.

MR. SWACKER: I think I misspoke, I'm sorry.

MR. LOMBARDO: Okay, all right.

MR. SWACKER: We received $50 and then --

MR. LOMBARDO: Yeah. So, from a volatility perspective, you received money and now you're paying slightly more than seven dollars per member per month?

MR. SWACKER: Right.

MR. LOMBARDO: So, I just want to make it clear for everybody. If the morbidity risk for the entire market moves, then the risk adjustment relativity, it would maintain that relativity amongst the carriers. You're suggesting that you're having deteriorating morbidity for the lives that are staying with you versus the lives that have left. And so there is a sense that morbidity, or an increase in morbidity, is impacting Aetna slightly more than the market average. Because if it wasn't and if it was impacting the market average the same, then you would anticipate making a small payment in 2017?

MR. SWACKER: That's correct.

MR. LOMBARDO: Okay.

MR. SWACKER: We did not project a change in the market average risk --

MR. LOMBARDO: Okay.

MR. SWACKER: -- just our risk relative to the market.

MR. LOMBARDO: Okay. Thank you for that clarification and explanation. Just a note of clarification, it appears based on the URRT that you're terminating basically all of

your 2016 plans, except for one plan; is that correct?

MR. SWACKER: That's correct. One Silver plan is renewing.

MR. LOMBARDO: Okay. And you're offering how many new plans, aside from that existing plan?

MR. SWACKER: One new Bronze plan.

MR. LOMBARDO: Okay, thank you. So, you'll be offering two plans. And how many did you offer in 2016?

MR. SWACKER: We offered six or seven plans. I'll have to check.

MR. LOMBARDO: That's sufficient. I just wanted to make sure the department understood that.

There is an adjustment and you cited in your testimony a 7.6 percent impact on risk adjustment. I just want to make everyone aware that is primarily the difference from building in a expected or anticipated risk adjustment payment in the 2016 pricing versus having to pay in 2015; is that correct?

MR. SWACKER: That's correct. If you compare the unified rate review template

between 2016 and 2017, we had taken down our allowed claims about 6.9 percent of last year's rate development. So, the 7.6 percent increase is just the inverse of that claim takedown last year.

MR. LOMBARDO: Okay, thank you. And that 7.6 percent adjustment was based upon the fact that you received money in 2014, that was what went into the assumption for the 2016 pricing?

MR. SWACKER: That's correct.

MR. LOMBARDO: Okay, thank you. Identified in the rate filing Appendix A, there is a six percent increase to 2017 premium as a result of the temporary transitional reinsurance program ending on 12/31/2016. Can you explain a little bit more on the impact that has and how you arrived at the six percent?

MR. SWACKER: Yes, I can. So, again, that's a comparison of last year's rate buildup to this year. Last year when the federal reinsurance program was available, or for 2016, we will be reimbursed 50 percent for any individuals incurring claims between

90 and $250,000. And we adjusted our claims downward 5.7 percent to reflect expected receipts.

That program is discontinued for 2017. So, we're not making any adjustments to the six percent increase in rates. Again, it's just the inverse of that 5.7 percent detriment in last year's claim buildup.

MR. LOMBARDO: Okay. And that's derived directly from the estimated pmpm reinsurance that you built in for the reinsurance --

MR. SWACKER: Yes.

MR. LOMBARDO: -- program in 2016?

MR. SWACKER: Right. Last year we had looked at expected claims between those two levels and what the value of 50 percent reimbursement would be.

MR. LOMBARDO: Okay, thank you for that explanation. Can you provide a little bit more detail in how you developed the benefit mix adjustment, what that is and how you came about the fact that you're using it in the pricing?

MR. SWACKER: Yes. We have a 3.3 percent benefit mix adjustment. And that's

based on a comparison of the benefit values that are calculated in our pricing model between the 2016 portfolio plans and the 2017 portfolio plans.

And the reason it's an increase is because our proposed rates in 2017 reflect a flatter slope across both years. The primary driver of that is we looked at induced demand or induced utilization factors. And those are really driven by an individual's deductible and out-of-pocket level where you see higher levels of utilization, when there's less of a deductible or out-of-pocket maximum.

And the deductible factors in our pricing model, we specifically looked at excluding morbidity from those. So, making sure that when you're studying experience at a, say, $2,000 versus a $4,000 deductible, you're not also looking at the experience of healthier or sicker individuals.

So, when we adjusted for morbidity, the deductible demand factors are flatter than was in our pricing model that went into the 2016 rate buildup.

MR. LOMBARDO: Okay. Even though you're essentially keeping one plan from 2016 and adding one plan, there was a need for this adjustment?

MR. SWACKER: That's correct.

MR. LOMBARDO: Okay.

MR. SWACKER: The Silver plan has a $3,700 deductible for 2017.

MR. LOMBARDO: Okay, thank you. The rate changes vary by plan. It was somewhat slightly confusing, because there's a range when there's only one existing plan from 2016 that you're offering in 2017. So, explain why the rate increase is varying by plan.

MR. SWACKER: It varies, because we're adjusting our area factors. In Fairfield County and New London County, we're taking those down five percent. So, the low end of the range reflects the increase in the plan, where the area factor is decreasing. The high end of the range is for a county where we're not changing the area factor.

MR. LOMBARDO: Okay. And my next question was going to be revolved around the adjustments to the two areas. Can you go

into more detail on how that was developed?

MR. SWACKER: Yes. We looked at our 2015 experience, and we adjusted the observed allowed claims for differences in demographics and morbidity. And this was included within the actuarial memorandum, the observed claims and relativity to our anchor rating area, which was Hartford, that we calibrated to 1.0.

You can see in our approached area factors, we've tried to keep them fairly consistent. There's five counties that we rated a 1.0 area. Fairfield County and New London County have a 1.10 rating area. They used to have a 1.15 rating area, but the observed claims didn't indicate that much of an increase.

MR. LOMBARDO: Okay.

MR. SWACKER: And this is something that we've looked at over multiple years. So, we don't price specifically to the observed experience from one year to the next, because that would cause area factors to bounce around quite a bit year over year.

MR. LOMBARDO: Correct. Now, to that

point, though, you do look at benefit relativities on a yearly basis, correct; and update your benefit relativities based upon your claim experience or no?

MR. SWACKER: I'm sorry, referring to the previous answer --

MR. LOMBARDO: Yeah.

MR. SWACKER: -- on benefit mix adjustment?

MR. LOMBARDO: Right.

MR. SWACKER: Yes. Every year when we're going through the pricing exercise, we're using the latest version of our pricing model that assesses benefit relativities.

MR. LOMBARDO: So, can you explain a little bit more why you're doing that on an annual basis and not doing the area factor analysis on an annual basis? Because I would assume it's going to be the same type of disruption, just by plan differential versus by area.

MR. SWACKER: We do look at area factors on an annual basis, but we happened not to change them last year in our proposed rates for 2016.

MR. LOMBARDO: Okay, all right, thank you. You identified in the filing that the pharmacy utilization is increasing fairly significantly and it was based upon the small group data that you had provided. The question is: You're still -- are you seeing that same type of increased pharmacy utilization on the individual experience itself?

MR. SWACKER: Yes. And through the early months of 2016, we're seeing a higher rate of trend in pharmacy experience.

MR. LOMBARDO: Okay. Is there a significant difference between the pharmacy trend between an individual and small group?

MR. SWACKER: I'll have to refer to some of the exhibits provided.

MR. LOMBARDO: Yeah, you can.

MR. SWACKER: It was higher on the individual trend. So, the observed trend in pharmacy spend, adjusting for differences in morbidity and demographics over time, that was a 40 percent trend for '15 over '14. That was in a follow-up letter we had sent to the department after the rate filing. And

then the observed pharmacy trend in the small group data was 15 percent for '15 over '14.

MR. LOMBARDO: Okay, thank you. Just to go through Appendix A, just so that everyone understands the development of the average rate increase of 27.9 and the components of it. You're projecting annual trend with leveraging of 11 percent. The experience adjustment, can you go into a little bit of detail on the development of that, how you arrived at the 3.2 percent adjustment?

MR. SWACKER: Sure. The 3.2 percent is developed by comparing our 2015 experience that we're using this year in our rate development, compared to the 2015 experience that we used last year trended forward one year at the filed rate of trend last year.

So, as I mentioned, we're using 11 percent trend from '15 to '17. Our file trend was lower last year. So, the 3.2 percent is really a true-up, because last year's filing, we observed a higher rate of trend than what was filed.

MR. LOMBARDO: Okay, thank you. And again, the morbidity adjustment is, as we

discussed before, the amount is one and a half percent. That's your estimate of -- based upon data that you have of current members that have stayed with you.

Would you be able to provide the department with an average claim pmpm of the difference between the members that have stayed with you versus the members that have left you, or members that have come as new enrollees to Aetna?

MR. SWACKER: In our rate filing, we did include the relative morbidity of those cohorts and members; is that --

MR. LOMBARDO: I'm looking for the claim pmpms.

MR. SWACKER: Okay.

MR. LOMBARDO: That would be appreciated.

MR. SWACKER: I'll follow up with that.

MR. LOMBARDO: Yeah, thank you very much.

Hearing Officer Kosky, the Insurance Department has no additional questions at this time.

HEARING OFFICER: Thank you,

Mr. Lombardo.

Attorney Young, do you wish to examine any of your witnesses at this time?

MR. YOUNG: No, thank you. We have no questions.

HEARING OFFICER: Okay. Do we have anybody for the second round of public comments?

MS. BREAULT: No, there is none.

HEARING OFFICER: Okay. Seeing none, we will move on. Attorney Young, do you wish to respond to any of the earlier public comments either generally or specifically?

MR. YOUNG: We do not.

HEARING OFFICER: Okay. The applicant will now have an opportunity to make a brief closing statement, although it's not required. I'm asking that any closing statement be limited to five minutes. Does the applicant wish to make a closing statement?

MR. YOUNG: We would just like to briefly thank you, Mr. Kosky, Mr. Lombardo and Ms. Campanelli for your time today. And we hope the information presented helps you

to provide an understanding of our product offerings and proposed rates. We appreciate the opportunity to be here and we thank you.

HEARING OFFICER: Thank you, Attorney Young. And just give us one second to go over a couple things.

(Pause.)

MR. LOMBARDO: I just want to confirm and identify that by April -- by August 8th, you'd be able to provide two pieces of information we're asking for. One is the paid trend data in the same format as was provided in the allowed trend. And the second item would be the actual claims pmpm for your members that have stayed with you versus members that have left versus members that have entered into Aetna's block of business.

MR. SWACKER: Yes. We can provide both of those items by Monday.

MR. LOMBARDO: Okay, thank you very much.

HEARING OFFICER: Thank you, Mr. Lombardo.

Therefore, in accordance with

Section 38a-8-40, the Regulations of Connecticut State Agencies, I'm ordering the applicant to submit the aforesaid documents by the end of business day, Monday, August 8, 2016. The record of this hearing will be held open for further written comment, again, until the close of business day on Thursday, August 11, 2016. Today's hearing is adjourned. Thank you.

(Hearing concluded: 1:50 p.m.)

CERTIFICATE

I hereby certify that the foregoing 50 pages are a complete and accurate computer-aided transcription of my original stenotype notes taken of the Public Hearing, in the Matter of: AETNA LIFE INSURANCE COMPANY, which was held before Jared Kosky, Hearing Officer, at the Connecticut Insurance Department, 153 Market Street, Hartford, Connecticut, on August 4, 2016, commencing at 1:00 p.m.

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Mary Falzarano Mayhew, LSR 477
Licensed Shorthand Reporter