EmblemHealth®

Jeffrey D. Chansler
Senior Vice President and
General Counsel
(646) 447-4351

55 Water Street, New York, New York 10041-8190

August 11, 2016

Jared Kosky
Hearing Officer
Connecticut Insurance Department
153 Market Street
Hartford, Connecticut 06142

RE: Docket No. LH 16-46 – ConnectiCare Insurance Company, Inc. Rate Filing

Dear Mr. Kosky:

EmblemHealth is submitting this letter and the attached analysis from Oliver Wyman Actuarial Consulting firm with respect to the ConnectiCare Insurance Company, Inc. premium rate increase application filing ("Application") that was heard on August 4, 2016 as Docket No. LH 16-46.

EmblemHealth is a not-for-profit organization that began 75 years ago with the vision of providing quality health insurance for working New Yorkers and their families. EmblemHealth is the parent company to Group Health Incorporated (GHI) and the Health Insurance Plan of Greater New York (HIP), and continues that vision by serving nearly 3.1 million people, ranging from employees in small and large groups to individuals, public employees and retirees. The approval of ConnectiCare's Application is of great importance to EmblemHealth, because ConnectiCare has been part of our enterprise since March 2005. ConnectiCare offers coverage under its well-respected name and through the support of its locally-based management team.

At Emblem, we are very proud of ConnectiCare's continued commitment to delivering comprehensive, high quality coverage to Connecticut residents and their families. However, given the volatility in the State's health insurance markets as documented in the Wyman report and having incurred significant losses in providing coverage over the past two years, ConnectiCare is not in a position to continue to sustain deficits. The attached objective analysis from Oliver Wyman emphasizes the uncertainty that the plans remaining in the individual market face. These concerns stem, in part, from the recent exit of two carriers from the individual marketplace, HealthyCT and UHC. It is imperative that state regulators acknowledge the challenging economic reality confronting the issuers left in the individual market, and take the necessary steps to ensure a robust and competitive marketplace.

The current federal risk adjustment program also imposes very material, increased costs on ConnectiCare – costs that also must be fully taken into account by the Department when considering ConnectiCare's Application. The federal risk adjustment program was specifically designed to stabilize the individual and small group insurance markets within a state by discouraging issuers from targeting only healthy individuals and to protect issuers that enrolled individuals at a higher risk of incurring increased health care costs. However, the program is not working as intended by Congress. As a result, ConnectiCare has been required to make very large payments under the risk adjustment program, even where the cost of providing the coverage exceeds the premiums.

We are sharing the Oliver Wyman analysis to demonstrate why ConnectiCare's proposal is the minimum necessary rate increase, and also assure you that we are working intensively to model the potential scenarios to determine the impact of the uncertainties presented in the Wyman analysis and other steps that need to be taken to address them.

You have our continued commitment to work with you to determine how to address these serious issues.

Sincerely,

Jeffrey D. Chansler
Senior Vice President and General Counsel

Kurt Giesa, FSA, MAAA
Partner

Oliver Wyman
411 East Wisconsin Avenue, Suite 1300
Milwaukee, WI 53202
+1 414 223 7989
kurt.giesa@oliverwyman.com
www.oliverwyman.com

OLIVER WYMAN

Mr. Jeffrey D. Chansler
Senior Vice President and General Counsel
EmblemHealth, Inc.
55 Water Street
New York, NY 10041

August 11, 2016

Subject: ConnectiCare's 2017 Premium Rates

Dear Jeff:

EmblemHealth, Inc., has retained Oliver Wyman Actuarial Consulting ("us" or "we") to undertake a review of ConnectiCare, Inc. ("CCI"), ConnectiCare Benefits, Inc. ("CBI"), and ConnectiCare Insurance Company Inc. ("CICI"), collectively ConnectiCare's, 2017 ACA premium rates, and in particular, to review the methodology that ConnectiCare used to build projected risk-adjustment payments into its ACA premiums and to provide a discussion of the risks and uncertainties inherent in participating in the ACA market in Connecticut.

ConnectiCare writes on-Exchange, non-group ACA business ("HIX") through CBI. It writes off-Exchange non-group ACA business ("Solo") and small group ACA business ("Small Group") through CICI. It writes relatively little ACA business through CCI, so the focus of our work is on CBI's and CICI's ACA business.

Projecting Risk-Adjustment Transfer Payments

ConnectiCare's 2017 rate development includes a provision for anticipated risk-adjustment transfer payments, consistent with the actual payments it made in 2015, increased for the anticipated change in the statewide average premium.

Risk-Adjustment Transfer Payments are Proportional to the Statewide Average Premium

An issuer's risk-adjustment transfer payment is calculated using a complex formula which can be summarized as follows:

Plan's risk-adjustment transfer payment = **Statewide average premium** x ((Normalized product of plan risk score, induced demand, and geographic cost factor) – (Normalized product of actuarial value, age rating factor, induced demand and geographic cost index))

This formula shows that in the ACA markets, risk-adjustment transfer payments are proportional to the statewide average premium. All other things equal, if the statewide average premium increases, so too will an issuer's payments or receipts. We review a large number of ACA rate filings on behalf of regulators in ten states, and we prepare rate filings on behalf of a number of issuers. Based on our experience, we believe it is common, and consistent with sound actuarial practice, to include anticipated changes in the statewide average premium in projecting risk-adjustment transfer payments, either by doing so directly or by converting historical payments to a percentage of premium and projecting premium and payments forward. As a regular part of our ACA filing reviews, we take this into consideration when it may have a material impact on premiums.

Reflecting the Change in the Statewide Average Premium

Actuaries making ACA rate filings must prepare those filings in accordance with the Actuarial Standards of Practice (ASOPs), including ASOP No. 8, "Regulatory Filings for Health Benefits, Accident and Health Insurance and Entities Providing Health Benefits." ASOP No. 8 includes the following:

> "When using past experience to project future results, the actuary should make adjustments to reflect any known or expected changes that, in the actuary's professional judgment, are likely to have a material effect on expected future results." ASOP No. 8, §3.7

Given ConnectiCare's $26.2 million risk-adjustment transfer payment for the Solo line of business in 2015, and what we believe is likely to be an increase in the statewide average premium of 20% to 30% based on our review of issuers' 2016 premiums and 2017 filings with the CID, which are subject to approval, it is our opinion that reflecting the change in the statewide average premium in estimating ConnectiCare's 2017 risk-adjustment transfer payment is appropriate and consistent with actuarial standards.

There are factors pointing to a large increase in Connecticut's statewide average premium in 2017. The two largest issuers in the market, Anthem and ConnectiCare, have both filed for sizable, needed rate increases. In the past, enrollees had several issuers to select from to reduce the change in their premiums below the average filed-for increase. In 2017, there will be only two issuers offering coverage on the Exchange, so enrollees will have less opportunity in 2017 to move among issuers to find lower prices, something that kept the change in average market premiums lower in prior years.

Significant Market and other Risks

ConnectiCare is operating in a difficult environment. Some issuers are taking large losses on their ACA business, and issuers are exiting the market. In addition, ConnectiCare is facing a number of market and other risks. In our opinion, these risks should be considered in evaluating ConnectiCare's 2017 rate development, including its assumptions regarding risk-adjustment transfer payments.

The risk-adjustment system in the ACA markets plays a critical role in the operation of the market, transferring roughly 10% of premium among issuers nationwide and in Connecticut.[1] ConnectiCare is taking action to improve its performance relative to risk adjustment, but to the extent ConnectiCare continues to be a significant payer into the system, and these payments are not fully reflected in its premiums, ConnectiCare will likely continue to experience losses.

ConnectiCare has been experiencing explosive growth in claims PMPM during the first half of 2016, particularly for its Solo line of business. To the extent claims trends continue to accelerate into 2017, ConnectiCare's 2017 pricing would likely be understated. In general, losses in 2016 in the non-group ACA market in Connecticut appear as though they may be accelerating relative to historical levels as evidenced by the following: (1) two issuers are withdrawing from the market in 2017, (2) all remaining market participants with significant market share have requested sizable rate increases for 2017, and (3) losses in Connecticut's non-group market in 2015 were approximately $41.0 million,[2] while ConnectiCare is projecting losses of $60.2 million for its Solo line of business for 2016.

The large rate increases that issuers with significant market share have requested on their ACA offerings in Connecticut have the potential to cause healthier enrollees to leave the market, resulting in an increase in the morbidity of the statewide risk pool, something the risk-adjustment program does not address.

The exit of certain UHC legal entities and HealthyCT from the non-group ACA market could lead to significant losses for ConnectiCare through at least two mechanisms. First, we reviewed issuers' 2015 financial results as reported in the Supplemental Health Care Exhibits. Based on this review, the claim costs net of risk adjustment for the enrollees of the issuers leaving the market were higher than ConnectiCare's claims costs net of risk adjustment in 2015. The individuals insured by these issuers could move to ConnectiCare and bring their high claim costs with them. Second, the loss of these issuers from the market may result in the healthiest individuals who were covered by these issuers leaving the market, thereby increasing the morbidity of the overall risk pool.

EmblemHealth has retained Oliver Wyman to undertake a thorough review of ConnectiCare's experience in the ACA markets over the coming weeks, and to provide recommendations regarding potential ways to mitigate the risks described above.

---

[1] Department of Health & Human Services, "Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2015 Benefit Year," June 30, 2016

[2] These results are as reported for 2015, and have not been adjusted for differences between what issuers booked for risk adjustment, transitional reinsurance, and risk corridors (the "3Rs") and actual payments and receipts, which may have a significant impact on reported underwriting gains.

OLIVER WYMAN

Qualifications and Reliance

We have relied extensively on electronic data files, information, schedules, and other data provided by ConnectiCare. We have not audited this information for accuracy or completeness. We have, however, examined it for reasonableness and consistency, and where feasible, we have compared the information provided to other sources we have available, such as published financial statements. We have only relied on information where it was, in our professional judgement, reasonable to do so. However, to the extent the data provided is incomplete or incorrect or out of date, our findings may need to be revised.

While this review complies with applicable Actuarial Standards of Practice and Statements of Principles, users of this analysis should recognize that this work involves estimates of future events, and is subject to considerable uncertainty. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect this work. For these reasons, no assurance can be given that actual experience will emerge consistent with expectations we may have stated in this report.

We prepared this report solely for the benefit of EmblemHealth, Inc., and only for the purposes described herein. The reliance of parties other than EmblemHealth on any aspect of our work is not authorized by us and is done at their own risk. Oliver Wyman does not intend to benefit and assumes no liability to other parties who receive this work. We recommend that all third parties be aided by their own actuary or another qualified professional when reviewing this work.

I am a member of the American Academy of Actuaries and meet that body's qualification standards for performing this work and providing this opinion.

Sincerely,

Kurt Giesa

Kurt Giesa, FSA, MAAA
Partner

Copy:
Tammy Tomczyk, Oliver Wyman
Ryan Schultz, Oliver Wyman

Kosky, Jared

From: Campanelli, Kristin
Sent: Thursday, August 11, 2016 1:48 PM
To: Kosky, Jared
Subject: FW: medical premium increases

Kristin Campanelli
Counsel
State of Connecticut Insurance Department Mail address: P.O. Box 816 | Hartford, CT 06142-0816 Location and Overnite Address: 153 Market Street, 7th Floor | Hartford, CT 06103 L 860.297.3947| ? 860.566.7410 |
88Kristin.Campanelli@ct.gov | www.ct.gov/cid

-----Original Message-----
From: Leon T [mailto:leont-mbne@sbcglobal.net]
Sent: Thursday, August 11, 2016 1:06 PM
To: Campanelli, Kristin <Kristin.Campanelli@ct.gov>
Subject: medical premium increases

Ms. Campanelli,

I am a machine shop owner of a small business with 6 employees that I fully fund their medical plans on Connecticare. I recently received a letter where they are requesting legislative approval for a 20 some percent increase in premium. That is completely outrageous. In two and
1/2 have years I have only increased my customer prices 4% and hence my employees wages 4%. That amount was with great trepidation as customers are always shopping the jobs around, frequently overseas, to get better prices. With employers and employees hit with this kinds of increases it makes it very hard for employees to make ends meet and hard on employers to stay profitable or stay in business.

So they increase premiums and average of 26% and people get wage increases of 3 to 4%. What a huge problem this creates for everyone.
This behavior by large health care corporations is unconscionable. I sincerely urge to vote against this increase.

Thank you,

Leon Tyrrell
Owner
--
Leon Tyrrell Machine Builders of New England 203-922-9446

Kosky, Jared

From: Campanelli, Kristin
Sent: Friday, August 12, 2016 7:36 AM
To: Kosky, Jared
Subject: FW: health insurance increases

Kristin Campanelli
Counsel
State of Connecticut Insurance Department
Mail address: P.O. Box 816 | Hartford, CT 06142-0816
Location and Overnite Address: 153 Market Street, 7th Floor | Hartford, CT 06103
☎ ***860.297.3947|*** 🖷 ***860.566.7410 |*** ✉ ***Kristin.Campanelli@ct.gov*** | **www.ct.gov/cid**

From: Barbara Mariconda [mailto:barbaramariconda@empoweringwriters.com]
Sent: Thursday, August 11, 2016 3:59 PM
To: Campanelli, Kristin <Kristin.Campanelli@ct.gov>
Subject: health insurance increases

As a small business owner, the proposed health insurance increases for Anthem and Connecticare are another blow to Connecticut businesses, while insurance companys' profits continue to increase to the detriment of the rest of us. I travel to Canada on business on a regular basis, and my Canadian colleagues literally thought I was joking when I told them how much my monthly health insurance premium costs. It was inconceivable to them that anyone would be held hostage to these outrageous prices stacked against those the insurance is meant to protect. How can we justify these kinds of increases that are still another example of corporate greed at the expense of American citizens? When will it stop? I, for one, have had enough!

Sincerely,

Barbara Mariconda
Author/Co-founder
Empowering Writers

DA District Administration
2015 TOP PRODUCTS
READERS' CHOICE