State of Connecticut

GENERAL ASSEMBLY

November 15, 2010

Barbara C. Spear
Acting Insurance Commissioner
Connecticut Insurance Department
153 Market Street
Hartford, CT 06103

Re: Anthem Rate Filing Hearing, Docket No. LH10-159

Dear Commissioner Spear:

Pursuant to the Insurance Department's November 3, 2010 Notice of Public Hearing in the above-captioned matter, we wish to submit written testimony, as follows.

First, we wish to acknowledge Commissioner Sullivan's willingness to conduct a public hearing on this rate filing, in line with what he did with Anthem's rate filing last year. We believe strongly that, if the Department's process for evaluating rate increases requests is to retain its credibility in the eyes of the public, we must do all that we can to promote transparency and accountability.

During its 2010 session, the General Assembly discussed ways to improve the rate filing review process. As part of that debate, we discussed the meaning of the term "excessive", particularly since no statutory definition currently exists for it. Since we did not modify the rate review process, you retain great discretion to determine what is, and is not, excessive.

In this context, we would like to draw to your attention to a few areas of Anthem's rate increase request that would seem to us to bear close scrutiny.

1. Anthem's 12.5% claims trend, in response to increasing claims costs, may be excessive.

Anthem's information on projected claims costs appears to be at variance with the overall national experience of WellPoint, its corporate parent. Anthem states that it is "concerned with the rapidly increasing claims cost in Connecticut." WellPoint, Anthem's corporate parent, however, appears not to share that concern on a national level, as indicated in a November 3, 2010 press release describing its 2010 third quarter results (http://www.prnewswire.com/news-releases/wellpoint-reports-third-quarter-2010-results-106598348.html). As a result, we believe that Anthem should be able to tell you:

- why it believes that its claim cost trend in Connecticut for the individual market is 12.5%, but WellPoint's press release indicates that "[f]or the full year of 2010, the Company now projects that underlying medical cost trend will be in the range of 7.0 percent, plus or minus

50 basis points." If Anthem states that the difference derives from differences between the individual and group markets, or differences between Connecticut and other states, it should be able to disaggregate its data to prove that.

- why it ascribes a significant portion of its rate increase to "increased utilization costs", when WellPoint states that "underlying utilization has been lower than expected in 2010." Again, if Anthem states that the difference derives from differences between the individual and group markets, or differences between Connecticut and other states, it should be able to disaggregate its data to prove that.

In addition, Anthem should be able to explain a seeming inconsistency in its own rate filing. If, in fact, increased utilization is a key cost driver in its rate increase, we don't understand why it projects that utilization in its PPO products, which ostensibly maintain no utilization "gatekeeper", will not increase, but that utilization in its HMO products, which ostensibly require referrals and/or prior authorizations, will increase significantly.

2. Anthem's ostensible 4.9% profit margin, and 11.5% SG&A ratio, may be excessive.

In that same press release, WellPoint announced that its profits for the third quarter of 2010 increased over the same period in 2009, and that its SG&A expenses declined for the period ("[t]otal SG&A expense declined by $170.3 million, or 7.5 percent, relative to the third quarter of 2009"). It also announced that it was raising its earnings guidance for 2010 and repurchasing $4 billion of shareholder stock. Finally, it announced that it recognized a lower reserve development amount for its Consumer Business line than it did for the same period in 2009 (if this reserve development is necessary to protect the company from rising claims costs, it's not clear to us how Anthem's increased projected claims costs square with this declining rate of increase in reserve development).

This is relevant because, to evaluate whether a rate increase request is appropriate, you must determine not only whether that request is adequate, but also whether it is excessive (or unfairly discriminatory). Adequacy clearly is an actuarial issue, which requires that you examine the company's ability to secure sufficient premium to pay its claims and expenses. Excessiveness, on the other hand, may have more to do with that portion of every premium dollar that goes to profits and, to some extent, those same expenses.

Based on its own information, rather than exhibiting an increased exposure to rapidly growing claims costs, higher expenses, and lower profit margins, WellPoint essentially represents to its shareholders that it is in the opposite environment, in which its claims costs are manageable, profits are growing, and expenses declining. As for its own figures, Anthem posits a projected medical loss ratio of 83.6% for 2011, and an SG&A ratio of 11.5%. Adding these two figures together and subtracting them from 100%, Anthem may be asking for a profit margin of 4.9%.

In the current economic environment, with high unemployment, stagnant wages, and an increasing level of uninsurance in this market segment according to the U.S. Census Bureau, it seems excessive to approve a rate structure which maintains, if not exacerbates, Anthem's ability to reap substantial profits from this particular insurance line. In contrast to its narrative and data justifying its increased claims costs, it provides no information to support its need to maintain its current SG&A ratio at the requested level, or what it may be doing to reduce its SG&A ratio.

3. Anthem's 0.4% rate increase request in response to the oral chemotherapy benefit required under PA 10-63 may be excessive.

Anthem's proposed increase for the oral chemotherapy benefit, required under PA 10-63, may be excessive. According to a January 2010 report prepared for GlaxoSmithKline by Milliman Inc. (http://publications.milliman.com/research/health-rr/pdfs/parity-oral-intravenous-injected.pdf), "[F]or most benefit plans, parity will cost under $0.50 Per Member Per Month (PMPM)." By our calculations, Anthem estimates the cost of this benefit at roughly $0.57 PMPM.

Given that the Department concluded last year that Anthem's rate increase request for the autism benefit required under PA 09-115 was excessive and cut it substantially, we would ask that the Department review the above-captioned report and similarly evaluate whether to reduce this element of Anthem's current rate increase request.

Thank you for considering our questions as you evaluate Anthem's rate filing.

Sincerely,

Senator Joseph J. Crisco, Jr.	Representative Steve Fontana
Co-Chair, Insurance & Real Estate Committee	Co-Chair, Insurance & Real Estate Committee