

# Exhibit 4



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Mr. Edward Vozzo  
Chief Financial Officer  
Community Health Options  
Bates Mill, PO Box 1121  
Lewiston, ME 04243

## **Re: Proposed Annual Secular Trend Rate for 2016 and 2017**

Dear Ed,

The report presents my recommendation of what Maine Community Health Options (CHO) should consider using as its annual secular trend rate for rate filings and financial projections for 2016 and into 2017. In this report and accompanying analysis, I use the term “trend” to mean a forward-looking value that measures the annual rate of change in the allowed claim cost for a member with the same age, benefit plan, and geographic area for both years.

Trend is not a measure of the actual to expected historical experience. It does not address how much CHO’s actual emerging experience has differed from what was assumed in the original pricing for 2015. This retrospective difference represents the fact that the actual cost to deliver care was underestimated for the people covered by MCHO in 2015.

### **Background**

There are two components to trend: utilization trend and unit cost trend. Utilization trend refers to how many services are expected to be utilized by a covered population of insured in the future. Unit cost trend refers to the cost for providing those services; the unit cost is affected by the change in the CHO negotiated price for each service and the change in the intensity of services provided. If the future expected services, including their intensity, is the same as the prior year, the utilization trend would be zero. Likewise, if the unit cost to provide those services remain the same from one year to the next, the unit cost trend would be zero. As indicated above, the overall trend is a combination of the utilization and unit cost trend.

Both components of trend can vary by the type of service provided. It is possible that the number of services performed could increase, or even decrease, at a different rate than the cost to provide those services. This report addresses both kinds of trend by type of service performed. Overall trend takes into account the distribution of the services in the claims experience.

## Findings

Table 1 below presents our recommendation for the annual utilization and unit cost trend by service type. Total service type trend is calculated as follows:

$$\text{Total Trend} = (1 + \text{unit cost trend}) \times (1 + \text{utilization trend}) - 1$$

The overall annual trend rate of 7.2% is a weighted average of the total trend by service type, weighted by the distribution of the allowed amounts for claims incurred from January 1, 2015 – October 31, 2015.

**Table 1 – Trend Recommendation**

Community Health Options			
PROPOSED 2016 Unit Cost and Utilization Trend Assumptions--Secular Trend			
Service Type	Unit Cost	Utilization	Total
Inpatient	4.5%	0.5%	5.0%
Outpatient	7.0%	2.0%	9.1%
Professional	1.5%	1.5%	3.0%
Other	5.5%	1.5%	7.1%
Prescription Drug	9.5%	2.0%	11.7%
<b>Weighted Average Annual Trend:</b>			<b>7.2%</b>

## Approach

We started with the annual trend rates in Milliman's Health Cost Guidelines™ Managed Care Rating Model (MCRM) and made adjustments based on CHO's known and anticipated contracting arrangements. Table 2 below shows these Milliman MCRM trend rates.

Table 3 below shows the service type distribution of allowed amounts for claims with incurred dates from January 1, 2015 – October 31, 2015. The sections following Table 3 discuss each service type and the adjustments made to arrive at the recommendation presented in Table 1.

**Table 2 – 2015 Milliman's Health Cost Guidelines™ Secular Trend Assumption Midpoint**

Milliman 2015 Health Cost Guidelines			
2016 Unit Cost and Utilization Trend Assumptions--Secular Trend			
Service Type	Unit Cost	Utilization	Total
Inpatient	5.5%	1.0%	6.6%
Outpatient	7.0%	2.0%	9.1%
Professional	5.5%	1.5%	7.1%
Other	5.5%	1.5%	7.1%
Prescription Drug	11.0%	2.0%	13.2%

**Table 3 – MCHO Distribution by Service Type**

2015 Distribution of Allowed Costs by Category	
Service Type	2015 MCHO Actual
Inpatient	20%
Outpatient	38%
Professional	24%
Other	2%
Prescription Drug	16%

### Inpatient

CHO's distribution of claims by type of service in Table 3 shows a higher than typical current utilization of outpatient services. Because CHO contracted hospitals may be actively treating patients more in the outpatient setting, we have reduced the inpatient utilization trend downward by 0.5 points to 0.5%.

Most of MCHO's inpatient provider contracts are a discount from billed charges with caps of 3 - 5% on billed charges from one year to the next. These are multi-year contracts that will remain in effect through 2016. Therefore an adjustment of -1.0% was applied to the unit cost trend to reflect the cap on billed charge increases.

Table 4 below shows the Milliman MCRM trend, the adjustment and resulting recommendation for inpatient services.

**Table 4 – Inpatient Trend Recommendation Development**

Inpatient Trend			
Trend Type	Milliman MCRM Trend	Adjustment	Recommended CHO Trend
Unit Cost	5.5%	-1.0%	4.5%
Utilization	1.0%	-0.5%	0.5%

### Outpatient

As mentioned above, MCHO data shows high utilization of outpatient service. We expect future utilization to follow market trends so no adjustment was made to the Milliman MCRM utilization trend.

Most of MCHO's outpatient provider contracts are a discount from billed charges. Some are multi-year contracts that will remain in effect for 2016, others have changes with both increases and decreases in cost per service going forward. Although, similar to the inpatient contracts, there is a cap of 3% to 5% on billed charges from one year to the next, we expect the intensity of services to increase slightly according to industry norms. As a result, we made no adjustment to the Milliman MCRM unit cost trend.

Table 5 below shows the Milliman MCRM trend, adjustment and resulting recommendation.

**Table 5 – Outpatient Trend Recommendation Development**

Outpatient Trend			
Trend Type	Milliman MCRM Trend	Adjustment	Recommended CHO Trend
Unit Cost	7.0%	0.0%	7.0%
Utilization	2.0%	0.0%	2.0%

### Professional

Utilization of professional services by CHO members shows evidence of pent-up demand driving per member per month values in 2015. We expect this pent-up demand increase to diminish such that future utilization will follow market trends; as a result, no adjustment was made to the Milliman MCRM utilization trend.

MCHO's professional provider contracts are generally a percentage of Medicare charges. Since little to no changes are expected to Medicare charges for 2016 and into 2015, a four point downward adjustment has been made to the Milliman MCRM unit cost trend.

Table 6 below shows the Milliman MCRM trend, adjustment and resulting recommendation.

**Table 6– Professional Trend Recommendation Development**

Professional			
Trend Type	Milliman MCRM Trend	Adjustment	Recommended CHO Trend
Unit Cost	5.5%	-4.0%	1.5%
Utilization	1.5%	0.0%	1.5%

### Other

The Other category includes durable medical equipment (DME), ambulance and other therapies. No adjustments have been made to the Milliman MCRM trend for these items.

Table 7 below shows the Milliman MCRM trend, adjustment and resulting recommendation.

**Table 7– Other Trend Recommendation Development**

Other			
Trend Type	Milliman MCRM Trend	Adjustment	Recommended CHO Trend
Unit Cost	5.5%	0.0%	5.5%
Utilization	1.5%	0.0%	1.5%

## Prescription Drugs (Rx)

The rising cost of prescription drug coverage has permeated the news during 2015. New therapies to treat Hepatitis C and high cholesterol with large price tags are just the tip of the iceberg. Fortunately, rebates on brand and specialty drugs have also been rising. Rebates help mitigate the rising cost per prescription. Due to the volatility in the prescription drug market, we explored several drug trend sources before making our recommendation. See the Appendix attached to this report for details.

For CHO, we reduced the Milliman MCRM unit cost trend by 1.5 points based on the increase in rebates and input from other sources described in the Appendix.

CHO experience shows high specialty drug use during 2015. Some may have resulted from pent up demand but with other specialty drugs in the pipeline, we have made no adjustment to the Milliman's MCRM utilization trend.

Table 8 below shows the development of the prescription drug trend recommendation.

**Table 8 – Prescription Drug Recommendation Development**

Prescription Drug			
Trend Type	Milliman MCRM Trend	Adjustment	Recommended CHO Trend
Unit Cost	11.0%	-1.5%	9.5%
Utilization	2.0%	0.0%	2.0%

## Caveats and Limitations

This Milliman report has been prepared for the specific purpose of recommending a prospective annual secular trend assumption for 2016 and 2017. This information may not be appropriate, and should not be used, for any other purpose. This report has been prepared solely for the internal business use of, and is only to be relied upon by, the management of Maine Community Health Options. No portion of this report may be provided to any other party without Milliman's prior written consent. We acknowledge that CHO may be required to share this report with the Maine Bureau of Insurance and CMS. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work even if we permit the distribution of our work product to such third party.

The results presented herein are estimates based on carefully constructed actuarial models. Differences between our estimates and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

In performing this analysis, we relied on data and other information provided by Maine Community Health Options. We have not audited or verified this data and other information but reviewed it for general reasonableness. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Milliman does not provide legal advice, and recommends that Maine Community Health Options consult with its legal advisors regarding legal matters.

The terms of Milliman's Consulting Services Agreement with Maine Community Health Options signed on May 3, 2012 apply to this report and its use.

### **Acknowledgment of Qualification**

I, William J. Thompson, FSA, MAAA, am a Principal & Consulting Actuary for Milliman. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

### **Next Steps**

If you have any questions about these analyses, please give me a call at (860) 687-0124.

Sincerely,

A handwritten signature in black ink that reads 'Will J. Thompson'.

William J. Thompson, FSA, MAAA  
Principal & Consulting Actuary

## APPENDIX

### Prescription Drug Trend

As stated in the report, we used a combination of sources to formulate our prescription drug trend recommendation for 2016. As with the medical trend, prescription drug trend varies by the category of drug. In all of the sources we explored, Generics and Brand name drugs (non-specialty drugs) have a much lower unit cost trend than specialty drugs. The values in red in each table are the total annual trend rates from the named source.

#### Navitus

Table 9 below shows the pharmacy forecast from Navitus, CHO's prescription benefit manager (PBM). This forecast breaks trend into the two components seen in the medical trend: unit cost and utilization. Navitus provided the distribution, as a percentage of paid, by drug type. The total trend is the combined trend weighted by the distribution by drug type. This forecast is considerably lower than the others that follow. However, given that Navitus is CHO's PBM, it was given due consideration.

**Table 9 - Navitus**

Navitus Corporate Trend Report					
Projected Weighted Trend for 1/1/16 - 12/31/16					
Category	Cost	Utilization	Combined	% of Paid Total	Weighted Trend
Non-Specialty Drugs	1-2%	0-1%	1-3%	65%	1-2%
Specialty Drugs	10-12%	3-4%	13-16%	35%	4-5%
<b>Total</b>					<b>5-7%</b>

#### Express Scripts (ESI)

Express Scripts is a large national PBM with a considerable amount of data. ESI expressed its trend forecast as a Per Member Per Month (PMPM) trend. The PMPM accounts for the utilization and cost per unit components of trend. The total trend, shown in Table 10, is the blend of the non-specialty and specialty drug trends. The implied portion of specialty drugs in the ESI forecast is 36.4%, slightly higher than the Navitus portion.

**Table 10 – Express Scripts**

ESI 2014 Drug Trend Report PMPM Drug Spending				
Category	2014	2015	2016	2017
Non-Specialty Drugs	6.40%	-0.50%	3.90%	4.30%
Specialty Drugs	30.90%	22.60%	22.30%	21.30%
Total	13.10%	6.80%	<b>10.60%</b>	11.20%

### Segal

The Segal trend is utilized by large employers to forecast prescription drug costs. It is also expressed as a PMPM trend. See Table 11 for the 2016 Segal Rx trend.

**Table 11 - Segal**

2016 Segal Trend Study			
	Utilization	Cost	PMPM
Annual Trend	1.40%	9.80%	<b>11.34%</b>

### Milliman Recommendation

Table 12 shows the Milliman recommended 2016 annual trend rate by trend component and by type of script. The total trend rate was determined by the distribution of CHO's actual experience across each of the drug categories. MCHO's specialty spend is higher than the Navitus (35%) and ESI (36.4%) spends mentioned above.

**Table 12 - Milliman**

2015 Milliman Health Cost Guidelines 2016 over 2015 trend rates				
Category	Utilization	Cost/Script	Total Trend	Weight *
Generic	2.4%	2.0%	4.4%	24%
Brand	-1.0%	14.0%	12.9%	39%
Specialty	7.0%	11.3%	19.1%	37%
Total	2.8%	10.1%	<b>13.2%</b>	
* Weight based on PMPM CHO Allowed Drug Costs				

### Considerations

As shown above, CHO's specialty experience has been higher than the market might expect. Some of this experience may be caused by pent up demand for new specialty drugs such as the ones to treat Hepatitis C. It is our expectation that MCHO will be implementing new controls on specialty drugs which should bring their specialty utilization in line with the market.