

State:	District of Columbia	Filing Company:	Stonebridge Life Insurance Company
TOI/Sub-TOI:	H17G Group Health - Prescription Drug/H17G.000 Health - Prescription Drug		
Product Name:	Prescription Drug Part D Wrap Product		
Project Name/Number:	Prescription Drug/		

Rate Information

Rate data applies to filing.

Filing Method:	review and approval
Rate Change Type:	Neutral
Overall Percentage of Last Rate Revision:	0.000%
Effective Date of Last Rate Revision:	
Filing Method of Last Filing:	

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where req'd):	Minimum % Change (where req'd):
Stonebridge Life Insurance Company	0.000%	0.000%	\$0	0	\$0	0.000%	0.000%

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Rate/Rule Schedule

Item No.	Schedule Item Status	Document Name	Affected Form Numbers (Separated with commas)	Rate Action	Rate Action Information	Attachments
1		Rate Manual	SLRX1000GP.DC (11/12), SLRX1000GC.DC (11/12)	New		Report06 - EGWP Wrap Rate Manual.pdf



**Stonebridge Life Insurance Company
Medicare Part D Secondary Wrap Product
Rating Manual for Plan Sponsors**

Prepared for:
Stonebridge Life Insurance Company

Prepared by:
Milliman, Inc.

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I. OVERVIEW

PURPOSE

This manual has been created to assist Stonebridge Life Insurance Company (Stonebridge) and its administrators in pricing a secondary wrap pharmacy product supplementing Medicare Part D Employer Group Waiver Plan (EGWP) coverage for plan sponsors nationwide. The manual should not be used for other purposes.

DESCRIPTION

Stonebridge and its administrators will underwrite and administer EGWP wrap pharmacy products for plan sponsors nationwide. This product is not a standard Medicare Supplement product. Rates will be developed using plan sponsor experience or, in cases where credible experience is not available, book of business experience adjusted to the plan sponsor's characteristics (area, risk score, etc.) As such, this manual does not contain actual premium rates that will be charged, but rather, the rating formula that will be used to develop rates. Stonebridge and its administrators will use a pricing tool, *AccuCAST*, which is developed and managed by TRICAST, to administer the rating formula.

In most cases, Stonebridge will insure both the underlying EGWP and secondary wrap pharmacy benefits. Stonebridge has a contract with the Centers for Medicare and Medicaid Services (CMS) that governs the EGWP offering. Stonebridge and its administrators expect to have full access to experience data through historical experience with the plan sponsor group or from the plan sponsor's prior carrier.

Section II of this manual outlines the premium development, specifically:

- > General product discussion and underwriting rules,
- > Rating formula, and
- > Other wrap product considerations.

CAVEATS AND CONFIDENTIALITY

This manual is intended to assist Stonebridge and its consultants and administrators in rating EGWP wrap products. Only qualified personnel should use this manual. Accounting for each group's specific circumstances in this manual is impossible. This manual is not a substitute for personnel rating experience. Sound judgment, in consideration of all available information, is critical to successful rating.

This manual contains proprietary material developed by Milliman, Inc. (Milliman). The information in this manual is confidential and may not be copied or used by parties other than Stonebridge, its administrators, and the State Departments of Insurance (DOI) in which it is filed, without the prior written permission of Milliman. Any unauthorized reproduction or distribution of any portion of this manual to other parties is prohibited. We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party.

It should be emphasized that premium rates reflect a projection of future costs based on a set of assumptions. Actual costs might differ from these projections and will be dependent on each plan sponsor's situation and experience.

In preparing this manual, we relied on information provided by Stonebridge and its administrators. We accepted this information without audit and in particular, we did not extensively review or audit the *AccuCAST* model. Our results and conclusions may not be appropriate if this information is not accurate.

I, Troy M. Filipek, am a Principal and 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.

The terms of Milliman's Consulting Services Agreement with MedImpact Health Systems, Inc. dated on February 16, 2005 apply to this manual and its use.

II. RATING MANUAL

PRODUCT DESCRIPTION

Stonebridge's EGWP wrap product will provide supplemental coverage to Medicare Part D. The underlying EGWP coverage will always be Medicare Part D Basic Coverage for the given contract year. The secondary wrap product benefit design will encompass all supplemental benefits and reduced cost sharing, including the reduction or elimination of the deductible, associated with pharmacy coverage richer than the Medicare Part D Basic Coverage. This includes, but is not limited to, coverage for non-Part D covered drugs and the differential between the net member cost sharing and the cost sharing required under Medicare Part D Basic Coverage. This cost sharing differential will vary depending on a drug's formulary tier placement and on what phase of the Medicare Part D benefit the member is in (which is dependent on cumulative annual prescription costs).

Beneficiaries will generally be required to share in the cost of drugs through copayments or coinsurance. The product formulary will dictate which drugs are covered and at what cost sharing level.

Table 1 lists the standard benefit designs for the combined EGWP and secondary wrap product. Plan sponsors with 700 covered lives or greater will have the option to customize these benefit offerings.

Table 1 Stonebridge EGWP Part D Wrap Product Standard Benefit Designs – Coverage Prior To Catastrophic Benefit *			
Drug Tier	Plan 1	Plan 2	Plan 3
<i>Retail 34 day supply</i>			
Generic Copay	\$10	\$10	\$5
Preferred Brand Copay	\$40	\$25	\$15
Non-Preferred Brand Copay	\$80	\$50	\$35
Specialty Coinsurance / Copay	33%	25%	\$100
<i>Mail Order</i>			
Generic Copay	\$20	\$20	\$10
Preferred Brand Copay	\$80	\$50	\$30
Non-Preferred Brand Copay	\$160	\$100	\$70
Specialty Coinsurance / Copay	33%	25%	\$200

* Catastrophic benefit requires greater of 5% coinsurance or CMS defined minimum copayments

Additional benefit design variation is possible within the guidelines outlined in Table 2 below. Mail order copay levels will not exceed three times the corresponding retail copays. As cost sharing levels increase, the resulting plan premiums will decrease and vice versa.

Table 2 Stonebridge EGWP Part D Wrap Product Benefit Design Range – Coverage Prior To Catastrophic Benefit				
Drug Tier	Min Copay	Max Copay *	Min Coins.	Max Coins.
<i>Retail 34 day or less supply</i>				
Generic Copay	\$0	\$10	0%	25%
Preferred Brand Copay	\$0	\$45	0%	25%
Non-Preferred Brand Copay	\$0	\$95	0%	50%
Specialty Coinsurance / Copay	\$0	\$95	0%	33%

* 3x these limits apply for 90 day supplies at retail or mail

Beneficiaries can access prescription drugs through retail or mail order pharmacies. Specialty drugs are provided through retail pharmacies only. Retail scripts are generally provided in a 34 day supply and mail order drugs are generally provided in a 90 day supply.

Limitations and exclusions under this product include drugs covered under a medical insurance plan (e.g., drugs administered in a physician's office) or through other coverages (e.g., Workers' Compensation) and drugs not deemed to be medically necessary.

Some drugs will be subject to Utilization Management (UM) edits. UM edits are intended to promote the safe and cost-effective utilization of prescription drugs. During the point of sale adjudication transaction, UM edits serve to moderate prescription utilization by allowing or restricting claim approval based on a variety of member-specific attributes, history, and other factors. Claim denials as a result of UM edits may be evaluated and overridden where clinically appropriate through the exception or Prior Authorization process.

Please refer to the certificate of coverage for more complete information on the product and its limitations and exclusions.

UNDERWRITING RULES

Stonebridge will generally offer this product to large plan sponsors and as such, limited underwriting rules apply. The following rules apply:

- > The beneficiary must be Medicare Part D eligible.
- > There must be a valid plan sponsor / retiree relationship. The group has to be formed for other reasons than simply obtaining coverage.
- > The plan sponsor must have medical insurance coverage.
- > The plan sponsor must have a sound credit history and provide evidence of good financial standing.

Please refer to the certificate of coverage for more complete information on the eligibility and coverage requirements.

GENERAL RATING DESCRIPTION

In general, rating involves calculating the premium to be charged for a specific group based on information gathered through underwriting. The premium calculation is done using an experience based rating formula for large plan sponsors, which will be the target audience for this product. Given the use of group specific experience to develop rates, no book or manual rate is included with this rate filing. In cases where credible experience does not exist (i.e., plan sponsors with fewer than 700 covered lives), Stonebridge and its administrators will use credible experience for another single plan sponsor with similar group characteristics, adjusted to the plan sponsor's particular characteristics as necessary.

Premium calculations (such as the sample calculation contained in Exhibit 2 of this manual) are developed on a group-by-group basis and the premium is uniform by beneficiary within the group. The effective EGWP premium will vary by beneficiary according to the CMS rules for reduced subsidies for high income beneficiaries and enhanced subsidies for low income beneficiaries.

RATING FORMULA

The premium is developed for experience rated plan sponsors using historical period experience, adjusted for trend and differences in the covered population, plan design, formulary, utilization management programs, AWP discounts, dispensing fees, and rebates. Unique pricing situations may require adjustments for other issues not mentioned here. Stonebridge and its administrators will use a pricing tool, *AccuCAST*, which is developed and managed by TRICAST, to administer the rating formula.

Exhibit 1 contains the rating formula to develop expected claims and total premium and Exhibit 2 provides a sample development using the formula from Exhibit 1. Ideally, the historical drug spend should be from the same or a relatively similar population. To the extent that a prospective plan sponsor has major changes in its covered membership from year to year, adjustments may need to be made. The following development occurs in Exhibit 1:

Net Per Member Per Month (PMPM) Drug Cost Development for All Drug Coverage

- > **Total Prescription Drug Allowed Cost – Experience Period** – This includes ingredient costs, dispensing fees, and applicable sales tax, and would either be based on plan sponsor experience (when available and credible) or book of business experience. We expect the timing of the experience period would be two years prior to the projection period in most situations, with some consideration given to emerging experience in the year in between.
- > **Adjustment for Trend and Other Differences from Experience to Pricing Period** – This adjusts for trend and differences in the covered population, plan design (impact of induced utilization only), formulary, utilization management programs, AWP discounts, dispensing fees, and rebates. These adjustments are developed in the *AccuCAST* pricing model.
- > **Total Projected Prescription Drug Cost** – This is the product of the above two items and represents expected gross drug costs for the projection period.
- > **Beneficiary Cost Sharing** – Based on the plan design for the pricing period, the model projects beneficiary cost sharing amounts PMPM. Under copayment based cost sharing, PMPM values are calculated by taking the projected utilization multiplied by the effective cost sharing per script (reflecting nominal copays adjusted downward for claims with an allowed cost less than the nominal copay). Under coinsurance based cost sharing or other cost sharing based on allowed costs (e.g., MSB penalty), PMPM values are developed as some percentage of allowed costs. This value is developed in the *AccuCAST* pricing model.
- > **Pharma Discount** – Pharmaceutical manufacturers will provide a 50% discount on brand name Part D drugs in the coverage gap for non-low income beneficiaries under health care reform (PPACA). Since the underlying EGWP product will always have Medicare Part D Basic Coverage, the 50% discount will always be applied to the full gross drug cost (excluding dispensing fees). This value is developed in the *AccuCAST* pricing model.
- > **Federal Reinsurance** – The federal government provides catastrophic coverage once a beneficiary's out-of-pocket costs (including authorized payments from other parties, such as the Pharma Discounts) reach a certain level defined as the True-Out-of-Pocket (TrOOP) amount. The federal government reimburses Stonebridge for 80% of the costs beyond TrOOP. This is not available to non-calendar year benefit plans. This value is developed in the *AccuCAST* pricing model.

- > **Rebates Attributable to Federal Reinsurance** – The federal government retains the share of the plan rebates that relate to the federal reinsurance coverage. This value is developed in the *AccuCAST* pricing model.
- > **Net Drug Costs** – Equals the total projected prescription drug costs, less beneficiary cost sharing, the Pharma discount, and federal reinsurance (after reduction for rebates).

EGWP Premium Development

- > **Expected Net Drug Costs – EGWP only** – Net costs are allocated to the Medicare Part D EGWP Basic Coverage benefit (i.e., the primary plan) within the *AccuCAST* pricing model.
- > **Administrative Costs – EGWP only** – A percentage administrative cost will be added based on the contract with the plan sponsor. These values will typically vary between 15% and 21% and are driven by the level of service provided to the plan sponsor, the membership volume, and other factors.
- > **Target Profit – EGWP only** – A percentage target profit will be added based on the contract with the plan sponsor. These values will vary between 0% and 9% and are driven by the level of risk assumed, the membership volume, and other factors.
- > **Plan Premium before Direct Subsidy and Rebates** – This is the sum of the expected net drug costs, the administrative costs, and the target profit for the primary EGWP plan only.
- > **Estimated Federal Risk Adjusted Direct Subsidy** – This is equal to the national average bid amount, multiplied by the plan sponsor risk score, less the national average member premium. This is the average amount received by Stonebridge from CMS for every Part D enrolled beneficiary (prior to high income subsidy reductions and low income subsidy enhancements).
- > **Total Rebates** – The primary EGWP is anticipated to retain all manufacturer rebates in a situation where the primary and wrap carrier is different and as such, we allocate the full value of rebates to the primary EGWP carrier. This value is developed in the *AccuCAST* pricing model.
- > **EGWP Net Premium** – This is calculated as the plan premium less the direct subsidy and rebates.

Secondary Wrap Premium Development

- > **Expected Net Drug Costs – Wrap only** – Costs are allocated to the Wrap benefit (i.e., the secondary plan) within the *AccuCAST* pricing model.
- > **Administrative Costs – Wrap only** – A percentage administrative cost will be added based on the contract with the plan sponsor. These values will typically vary between 15% and 21% and are driven by the level of service provided to the plan sponsor, the membership volume, and other factors.
- > **Target Profit – Wrap only** – A percentage target profit will be added based on the contract with the plan sponsor. These values will vary between 0% and 9% and are driven by the level of risk assumed, the membership volume, and other factors.
- > **Wrap Net Premium** – This is the sum of the expected net drug costs, the administrative costs, and the target profit for the Secondary Wrap only.

PRODUCT CONSIDERATIONS

The following are considerations specific to EGWP wrap products and how Stonebridge intends to address each consideration.

Medicare Eligibility

Stonebridge will only offer the EGWP Wrap product to Medicare eligible beneficiaries. Neither the EGWP nor the wrap product will be available to members not eligible for Part D, even if the plan sponsor provides benefits to some pre-65 retirees.

Self Insured Plans

Stonebridge may offer EGWP and Wrap products on a self-insured basis. The expected claim cost development mirrors that used on fully-insured products.

Formulary Coverage / Non-Part D Drugs

Stonebridge will utilize its Preferred Plus formulary for this product. This formulary will include either four or five tiers. For the five tier formulary, the Generic Tier is split between Preferred Generic and Generic.

Stonebridge may require a consistent formulary be used for both the EGWP and Wrap products to allow for easier adjudication. Non-Part D and over-the-counter drugs may be covered at the plan sponsor's request and coverage for these drugs will be provided through the wrap benefit. There is also the possibility to customize formularies for larger plan sponsors, subject to Medicare Part D requirements.

Income-Based Premium and Cost Sharing Adjustments

The federal government direct subsidy is lowered for higher-income beneficiaries and raised for low-income beneficiaries. Further, low-income beneficiaries have a portion of their cost share amounts covered by CMS.

Stonebridge does not have income-based information available until a beneficiary is enrolled in its plan. The rating formula is not adjusted for these subsidies, so Stonebridge may have periodic reconciliations with plan sponsors to adjust for the income-based premium adjustments. The cost share adjustments will be reconciled directly between Stonebridge and CMS.

EXHIBIT 1

Premium Development Worksheet

Exhibit 1
Stonebridge Life Insurance Company
Employer Group Waiver Plan (EGWP) with Secondary Wrap - Per Member Per Month Costs
January 2013 - December 2013 Coverage Period

I. Net PMPM Drug Cost Development	
A. Total Allowed Prescription Drug Costs - Experience Period	
B. Adjustment for Trend and Other Differences from Experience to Pricing Period	
C. Total Projected Allowed Prescription Drug Cost (I.A * I.B)	
D. Beneficiary Cost Sharing	
E. Pharma Discount	
F. Federal Reinsurance	
G. Rebates Attributable to Federal Reinsurance	
H. Client Net Drug Cost (I.C – I.D – I.E – I.F + I.G)	
II. EGWP Premium Development	
A. Client Expected Net Drug Cost (I.H for EGWP only)	
B. Stonebridge Administration for EGWP	
C. Stonebridge Target Profit (x% of II.D)	
D. Client Plan Premium (II.A + II.B + II.C)	
E. Estimated Federal Risk Adjusted Direct Subsidy	
F. Estimated Client Total Rebates	
G. Client EGWP Net Premium (II.D – II.E – II.F)	
III. Secondary Wrap Premium Development	
A. Client Expected Net Drug Cost (I.H for Secondary Wrap only)	
B. Stonebridge Administration for Secondary Wrap	
C. Stonebridge Target Profit (x% of III.D)	
D. Client Secondary Wrap Plan Premium (III.A + III.B + III.C)	

EXHIBIT 2

Sample Premium Development Worksheet

Exhibit 2
Stonebridge Life Insurance Company
Employer Group Waiver Plan (EGWP) with Secondary Wrap - Per Member Per Month Costs
January 2013 - December 2013 Coverage Period
Plan Sponsor Client

I. Net PMPM Drug Cost Development

A. Total Allowed Prescription Drug Costs - Experience Period	\$ 191.36
B. Adjustment for Trend and Other Differences from Experience to Pricing Period	1.130
C. Total Projected Allowed Prescription Drug Cost (I.A * I.B)	216.24
D. Beneficiary Cost Sharing	64.33
E. Pharma Discount	24.76
F. Federal Reinsurance	16.96
G. Rebates Attributable to Federal Reinsurance	0.36
H. Client Net Drug Cost (I.C – I.D – I.E – I.F + I.G)	110.55

II. EGWP Premium Development

A. Client Expected Net Drug Cost (I.H for EGWP only)	\$ 102.16
B. Stonebridge Administration for EGWP	20.22
C. Stonebridge Target Profit (2% of II.D - II.F)	2.25
D. Client Plan Premium (II.A + II.B + II.C)	124.63
E. Estimated Federal Risk Adjusted Direct Subsidy	54.71
F. Estimated Client Total Rebates	11.92
G. Client EGWP Net Premium (II.D – II.E – II.F)	58.00

III. Secondary Wrap Premium Development

A. Client Expected Net Drug Cost (I.H for Secondary Wrap only)	\$ 8.44
B. Stonebridge Administration for Secondary Wrap	1.35
C. Stonebridge Target Profit (2% of III.D)	0.20
D. Client Secondary Wrap Plan Premium (III.A + III.B + III.C)	9.99

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Supporting Document Schedules

		Item Status:	Status Date:
Satisfied - Item:	Actuarial Justification		
Comments:			
Attachment(s):			
2013 EGWP Wrap Product01 - Actuarial Memorandum.pdf			

		Item Status:	Status Date:
Satisfied - Item:	Cover letter		
Comments:			
Attachment(s):			
2013 EGWP Wrap Product02 - Cover Letter.pdf			

		Item Status:	Status Date:
Satisfied - Item:	Third Party Authorization		
Comments:			
Attachment(s):			
Authorization to File 2012.pdf			



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October 31, 2012

Stonebridge Life Insurance Company Medicare Part D Wrap Product Actuarial Memorandum

1. PURPOSE AND SCOPE

The purpose of this memorandum is to file a new pharmacy product for Stonebridge Life Insurance Company (Stonebridge) that provides a secondary wrap benefit to supplement Medicare Part D Employer Group Waiver Plan (EGWP) coverage. While Medicare products are not required to be filed with states (given federal jurisdiction), this product requires filing with states because the secondary wrap benefit is provided as a separate (but integrated) product from the EGWP primary coverage. The new product will be effective for January 1, 2013.

2. SERVICES COVERED

Stonebridge's EGWP wrap product will provide supplemental coverage to Medicare Part D, consistent with the 2012 CMS regulation titled CMS-4157-FC. This product is not a standard Medicare Supplement product. The underlying EGWP coverage will always be Medicare Part D Basic Coverage for the given contract year. The secondary wrap product benefit design will encompass all supplemental benefits and reduced cost sharing associated with pharmacy coverage richer than the Medicare Part D Basic Coverage. This includes, but is not limited to, coverage for non-Part D covered drugs and the differential between the net member cost sharing (copays, coinsurance, and / or deductibles) and the cost sharing required under Medicare Part D Basic Coverage. This cost sharing differential will vary depending on a drug's formulary tier placement and on what phase of the Medicare Part D benefit the member is in (which is dependent on cumulative annual prescription costs).

Beneficiaries will generally be required to share in the cost of drugs through copayments or coinsurance. The product formulary will dictate which drugs are covered and at what cost sharing level.

Beneficiaries can access prescription drugs through retail or mail order pharmacies. Specialty drugs are provided through retail pharmacies only. Retail scripts are generally provided in a 34 day supply and mail order drugs are generally provided in a 90 day supply.

Limitations and exclusions under this product include drugs covered under a medical insurance plan (e.g., drugs administered in a physician's office) or through other coverages (e.g., Workers' Compensation) and drugs not deemed to be medically necessary. Some drugs may be subject to utilization management edits.

Please refer to the certificate of coverage for more complete information on the product and its limitations and exclusions.

3. PREMIUM DEVELOPMENT

In general, the premium development is done using an experience based rating formula for large plan sponsors, which will be the target audience for this product. Given the use of group specific experience to develop rates, no book or manual rate is included with this rate filing. In cases where credible experience does not exist (i.e., plan sponsors with fewer than 700 covered lives), Stonebridge or its administrators will use credible experience for another single plan sponsor with similar group characteristics, adjusted to the plan sponsor's particular characteristics as necessary.

Premium calculations are developed on a group-by-group basis and the premium is uniform by beneficiary. The effective EGWP premium will vary by beneficiary according to the CMS rules for reduced subsidies for high income beneficiaries and enhanced subsidies for low income beneficiaries.

The premium is developed for experience rated plan sponsors using historical period experience, adjusted for trend and differences in the covered population, plan design, formulary, utilization management programs, AWP discounts, dispensing fees, and rebates.

A rate manual is included with this filing that contains more details regarding the rating formula to develop expected claims and total premium. Stonebridge or its administrators will use a pricing tool, *AccuCAST*, which is developed and managed by TRICAST, to administer the rating formula.

4. ACTUARIAL ASSUMPTIONS

The rating formula adjusts for actuarial assumptions such as trends, the impact of formulary, and the induced utilization impact of benefit design, among others. Further details regarding various actuarial assumptions can be provided upon request.

5. ACTUARIAL CERTIFICATION

I, Troy M. Filipek, am a Principal and Consulting Actuary associated with Milliman, Inc. I am a member of the American Academy of Actuaries and meet its Qualification Standards for this actuarial opinion. I have been retained to prepare this Actuarial Memorandum and render this opinion on the reasonableness of the pricing approach and rating formula in this rate filing. In my opinion and to the best of my knowledge and judgment, the pricing approach and rating formula are sound.

In preparing my opinion, I relied upon the accuracy of the underlying records and summaries prepared by Stonebridge. I performed no verification as to the accuracy of this data, nor did I extensively review or audit the *AccuCAST* model. If the underlying data or information is inaccurate or incomplete, the results of my analysis may likewise be inaccurate or incomplete.

It should be emphasized that premium rates reflect a projection of future costs based on a set of assumptions. Actual costs might differ from these projections and will be dependent on each plan sponsor's situation and experience.

This letter is designed to provide the Department of Insurance with documentation of the development of Stonebridge's EGWP Wrap product. This information may not be appropriate, and should not be used, for other purposes. This information is confidential and may not be copied or used by parties other than Stonebridge, its administrators, and the State Departments of Insurance (DOI) in which it is filed, without the prior written permission of Milliman. Any unauthorized reproduction or distribution of any portion of this document to other parties is prohibited. We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party.



The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

A handwritten signature in black ink that reads 'Troy M. Filipek'.

Troy M. Filipek, FSA, MAAA
Principal and Consulting Actuary - Milliman
Member, American Academy of Actuaries

October 31, 2012

Date



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October 31, 2012

**Stonebridge Life Insurance Company
Medicare Part D Wrap Product
Cover Letter to 2013 Actuarial Memorandum**

The purpose of this cover letter is to summarize the changes made to the Employer Group Waiver Plan (EGWP) wrap pharmacy product for Stonebridge Life Insurance Company (Stonebridge). The original product filing was filed in the fall of 2011 in select states. Accompanying this cover letter is a revised rating manual and actuarial memorandum reflecting the changes. Following is a summary of the product and rating changes.

In early 2012, CMS issued a regulation titled CMS-4157-FC. The health insurance industry generally interpreted this, along with other guidance, to mean that combined EGWP and secondary wrap arrangements were no longer necessary to receive the full brand coverage gap discount program amounts beginning in 2013. However, CMS recently clarified that it intended the guidance to mean that no EGWP coverage beyond the Basic Medicare Part D benefit is permitted to be considered a Medicare benefit in any way. CMS intends to require plans to offer any benefit that is in excess of the Basic Medicare Part D benefit as commercial insurance through a wrap product. We expect this to impact many carriers in the Part D market.

Therefore, this filing revision is intended to allow the Medicare wrap product to encompass all benefits and reduced cost sharing associated with pharmacy coverage richer than the Medicare Part D Basic Coverage. This includes, but is not limited to, coverage for non-Part D covered drugs and the differential between the net member cost sharing (copays, coinsurance, and / or deductibles) and the cost sharing required under Medicare Part D Basic Coverage. This cost sharing differential will vary depending on a drug's formulary tier placement and on what phase of the Medicare Part D benefit the member is in (which is dependent on cumulative annual prescription costs).

No changes are being made to the general rating approach or formula, but rather just the level of coverage allowed through the secondary wrap benefit.

Feel free to contact me or Stonebridge if you need additional information.

A handwritten signature in black ink, reading "Troy M. Filipek". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Troy M. Filipek, FSA, MAAA
Principal and Consulting Actuary - Milliman

Stonebridge Life Insurance Company
A Stock Company

Date: November 9, 2012
To: State Insurance Departments
Subject: Filing Authority for Coulter & Associates, Inc.
Re: Medicare Part D Wrap Product

Stonebridge Life Insurance Company has authorized Coulter & Associates, Inc., acting as our Contracts Consultants, to file products and correspond with your Department on our behalf.

Signature: _____



Printed Name: Robert D. Morrow, Jr. _____

Title: Assistant V.P. _____

Date: 11/9/12 _____