

United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION

WASHINGTON, DC 20510-6125

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August 5, 2009

H. Edward Hanway
Chairman and Chief Executive Officer
CIGNA Corporate Headquarters
Two Liberty Place
1601 Chestnut Street
Philadelphia, PA 19192

Dear Mr. Hanway:

I am writing to request information about CIGNA's alleged practice of "purging" small businesses whose employees have serious health problems. While CIGNA's director of corporate communications recently denied that CIGNA "purges" small business group health accounts, the Committee has reviewed information suggesting otherwise.

On June 24, 2009, the Committee held a hearing examining transparency and accountability in the health insurance industry. Testifying at this hearing was Wendell Potter, who was CIGNA's chief corporate spokesperson at the time of his retirement in 2008. In his testimony, Mr. Potter described the following health insurance industry practice:

[Insurers] also dump small businesses whose employees' medical claims exceed what insurance underwriters expected. All it takes is one illness or accident among employees at a small business to prompt an insurance company to hike the next year's premiums so high that the employer has to cut benefits, shop for another carrier, or stop offering coverage altogether – leaving workers uninsured. The practice is known in the industry as "purging."¹

Mr. Potter's description of this practice is consistent with a discussion that occurred during a recent CIGNA investor teleconference. During that teleconference, an investment analyst from JP Morgan asked you and other top CIGNA officials about the "extra 100 basis points of medical loss deterioration" reported in CIGNA's 2008 financial statements. In response to this question, Mike Bell, CIGNA's Chief Financial Officer, offered the following possible explanations for the one percent increase in CIGNA's medical claims payments:

Well, you're obviously asking me to hypothesize here, and I would not over weight any particular quarter. But I do think it's fair to say that this could be a combination of bad

¹ Senate Committee on Commerce, Science and Transportation, *Hearing on Consumer Choices and Transparency in the Health Insurance Industry*, 111th Cong. (June 24, 2009), Testimony of Wendell Potter.

luck. It could be a combination of potentially some adverse selection, particularly in the small group markets that we've been slowly dwindling our membership in. And I think it may also be a combination of disenrollment and just the phenomenon of an older demographic that we referenced earlier.²

According to the transcript of this teleconference, David Cordani, CIGNA's President and Chief Operating Officer, then outlined the steps CIGNA was taking to reverse this "deterioration" in the company's medical loss ratio:

I would just add to Mike's point, in terms of his second point, in 2008 we were essentially actively decreasing our posture in several markets, particularly the under 50 book of business. **You could use the term purge if you'd like.** You could also use the term hard harvest or soft exits.³

Given Mr. Cordani's statement that CIGNA was "actively" trying to reduce its medical claims payments by "purging" small businesses with fewer than 50 employees, I find it hard to believe that CIGNA denies it engages in this practice. Yet in a recent media report, CIGNA's Director of Corporate Communications, Chris Curran, denied that CIGNA purges unprofitable small business accounts. In fact, Mr. Curran categorically stated that, "We do not practice that."⁴

Because Mr. Curran's statement appears to be at odds with both Mr. Potter's testimony and the statements of CIGNA's top executives, I ask you to answer the following questions:

- What did Mr. Cordani mean when he used the terms "purge," "hard harvest," and "soft exits" to describe CIGNA's approach to the small business group health insurance market in the February 5, 2009 investor teleconference?
- Why did CIGNA decide in 2008 to pursue the business strategy described by Mr. Cordani in the February 5 investor teleconference as "actively decreasing our posture in several markets, particularly the under 50 book of business"?
- What methods did CIGNA employ to execute its strategy of "actively decreasing our posture in several markets, particularly the under 50 book of business"?

² *CIGNA Corporation 4th Quarter 2008 Investor Teleconference* (Feb. 5, 2009) (online at: http://www.cigna.com/about_us/investor_relations/release/4Q08Transcript.pdf).

³ *Id.*

⁴ *Ex-executive accuses insurance giant of 'purging' customers*, CNN Morning America (July 2, 2009) (online at: <http://www.cnn.com/2009/US/07/02/insurance.purging/>).

Letter to Mr. Hanway

August 5, 2009

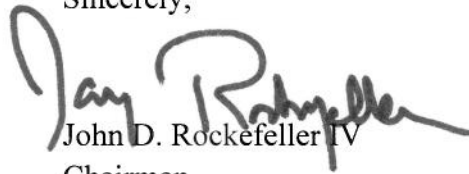
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- To date, how much money has CIGNA saved in medical claims payouts as a result of its strategy of “actively decreasing our posture in several markets, particularly the under 50 book of business”?

I request that you provide these answers to the Committee by August 19, 2009.

The Committee is making this request under the authority of Senate Rules XXV and XXVI. If you have any questions, please contact Erik Jones or John Williams with the Committee staff at (202) 224-1300.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Rockefeller". The signature is fluid and cursive, with the first name "Jay" being particularly prominent.

John D. Rockefeller IV
Chairman

cc: Kay Bailey Hutchison
Ranking Member