

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

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| In re: Blue Cross and Blue Shield of Vermont |) | GMCB-012-14rr |
| Third Quarter 2014 and Fourth Quarter |) | |
| 2014 Trend Filing |) | SERFF No.: BCVT -129403752 |
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DECISION & ORDER

Introduction

As of January 1, 2014, Vermont law requires that health insurers submit major medical rate filings to the Green Mountain Care Board which shall approve, modify, or disapprove the filing within 90 calendar days of its receipt. 8 V.S.A. § 4062(a)(2)(B) (*as amended by 2013, No. 79, §5c*). On review, the Board must determine whether the proposed rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair inequitable, misleading or contrary to Vermont law. 8 V.S.A. § 4062(a)(3).

Procedural History

On February 4, 2014, Blue Cross and Blue Shield of Vermont (BCBSVT) submitted its Third Quarter 2014 (3Q14) and Fourth Quarter 2014 (4Q14) Trend Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). *See* <http://ratereview.vermont.gov/sites/dfr/files/BCVT-129403752.pdf>. The Office of the Health Care Advocate (HCA), representing the interests of Vermont consumers of health insurance, entered an appearance as a party to this rate filing.

On April 4, 2014, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E), [http://ratereview.vermont.gov/sites/dfr/files/BCVT-129403752 ActMemo Final.pdf](http://ratereview.vermont.gov/sites/dfr/files/BCVT-129403752_ActMemo_Final.pdf), and the Vermont Department of Financial Regulation's (Department) analysis and opinion of regarding the impact of the proposed filing on the insurer's solvency. *See* http://ratereview.vermont.gov/sites/dfr/files/css/012_Solvency_Analysis.pdf.

The Board received no public comments during the public comment period that ran from February 4 through April 21, 2014.¹ The parties have waived a hearing pursuant to GMCB Rule 2.000 and each has filed a memorandum in lieu of hearing; BCBSVT has filed a reply memorandum.

¹ The period during which the Board accepted comments ran from January 14 through March 28, 2014.

Findings of Fact

1. BCBSVT is a non-profit hospital and medical service corporation that provides Vermonters a variety of health insurance plans, services and products in the individual and group markets.

2. The trend factors requested in this filing are not rates, but instead represent the percentage by which BCBSVT expects its medical and prescription drug costs to increase for policyholders who enroll or renew coverage during 3Q14 and 4Q14. These trends, when approved, will be used for all future large group renewals until superseded by another filing

3. BCBSVT proposes an allowed medical trend of 4.7% and allowed pharmacy trend of 7.6%, for a combined allowed trend of 5.2%. The total allowed trend represents the change in total medical spending and includes payments from both insurance company and member cost sharing.

4. The average proposed paid trends for this filing are 5.3% and 7.9% for medical and pharmacy trends, respectively, resulting in a 5.5% average combined paid trend.² Paid trends directly impact the premium that employers are charged and reflect the change in payments from only the insurer, and exclude member cost sharing.

5. This filing affects approximately 16,400 subscribers and 33,100 covered lives.

6. BCBSVT developed the trend factors using a base experience period from January 1, 2010 to October 31, 2013, with payments through December 2013. Because BCBSVT and The Vermont Health Plan (TVHP), a for-profit subsidiary of BCBSVT, cover substantially similar populations under similar benefit packages, the company combined claims from BCBSVT Cost Plus groups, BCBSVT Insured Large Groups and TVHP Insured Large Groups, and made adjustments to account for network differences.

7. On review, L&E independently calculated an estimated allowed medical trend of 4.7% – the same as that proposed by L&E – and a reasonable range of trend from 3.5% to 5.8%.³

² The combined trend is not a weighted average of medical and pharmacy paid trends, but results from applying the 5.2% allowed trend to the plans with an integrated medical and pharmacy benefit design.

³ According to L&E, each of the numbers within an estimated range are not equally likely; the trends at the low and high ends of the range are not as likely to occur as those in the middle. Actuarial Memorandum at 7, available at http://ratereview.vermont.gov/sites/dfr/files/BCVT-129403752_ActMemo_Final.pdf.

8. Looking at the pharmacy trend, L&E identified several issues with BCBSVT's generic dispensing ratio (GDR)⁴ and calculated that the proposed pharmacy trend, if the issues were addressed, should have been 8.2%, rather than 7.6%. Despite being informed of the errors, the carrier chose not to change the 7.6% proposed trend. L&E calculated a range of reasonable pharmacy trend from 5.9% to 10.5%.

9. In sum, L&E opines that the company's medical and pharmacy trend developments and the leveraged adjustments to allowed trends are reasonable, do not produce rates that are excessive, inadequate or unfairly discriminatory, and recommends that the Board approve the filing as submitted.

10. Pursuant to 8 V.S.A. § 4062(a)(2)(B), the Department provided the Board an opinion and analysis of the effect of the proposed filing on BCBSVT's solvency. DFR observed that BCBSVT's surplus level is currently below the mid-point DFR considers necessary to ensure carrier solvency, and opined that "downward adjustments to these [proposed] trend factors should not be made unless absolutely necessary to prevent the resulting rate from being excessive" *See Solvency Impact Letter (April 4, 2014) at 3, available at http://ratereview.vermont.gov/sites/dfr/files/css/012_Solvency_Analysis.pdf.*

Standard of Review

1. The Board reviews rate filings to ensure that rates are not "excessive, inadequate or unfairly discriminatory," that they promote quality care and access to health care, protect insurer solvency, and are not unjust unfair, inequitable, misleading or contrary to Vermont law. 8 V.S.A. §§ 4512(b); 4062(a)(2). In addition, the Board takes into consideration changes in health care delivery, changes in payment methods and amounts, and other issues at its discretion. 18 V.S.A. § 9375(b)(6).

2. As part of its review, the Board will consider the Department's analysis and opinion on the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062(a).

3. The insurer proposing a rate change has the burden to justify the requested rate. GMCB Rule 2.000: Rate Review, § 2.104(c).

⁴ Generic dispensing ratio (GDR), refers to the number of generic drug prescription fills divided by the total number of prescriptions. Higher GDRs are considered important because they consistently produce lower prescription drug costs.

Conclusions of Law

1. We accept the actuarial recommendation that this filing should be approved as requested. BCBSVT’s proposed medical trend equals our actuaries’ independently calculated best estimate of medical trend, the proposed pharmacy trend is slightly below the best estimate of pharmacy trend, and both trends fall midway in the range of trends that are actuarially reasonable.

2. In addition, while we acknowledge that the resulting rate increases for affected groups would be slightly lower if we chose the lowest end of the ranges calculated by our actuaries – a modification we have made to trend filings in the past – the most likely actual trends do not fall at points on either end of the continuum, but in the middle. This, coupled with concerns expressed by DFR regarding additional downward adjustments to the trend factors, support our decision to approve the filing as submitted.

Order

For the reasons discussed above, the Board approves Blue Cross and Blue Shield of Vermont’s Third and Fourth Quarter 2014 Trend Factor Filing.

So ordered.

Dated: May 5, 2014 at Montpelier, Vermont.

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| s/ <u>Alfred Gobeille</u> |) | GREEN MOUNTAIN CARE BOARD OF VERMONT |
| s/ <u>Karen Hein</u> |) | |
| s/ <u>Cornelius Hogan</u> |) | |
| s/ <u>Betty Rambur</u> |) | |
| s/ <u>Allan Ramsay</u> |) | |
| |) | |

Filed: May 5, 2014

Attest: s/ Janet Richard
Green Mountain Care Board, Administrative Services Coordinator

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Board (by e-mail, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (E-mail address: Janet.Richard@state.vt.us). Appeal of this decision to the Supreme Court of Vermont must be filed with the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or

appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.