STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: MVP Health Insurance Company Third and Fourth Quarter 2014 Individual Indemnity Rate Filing	)))))	GMCB-014-14rr SERFF No.: MVPH-129401327

MEMORANDUM IN LIEU OF HEARING

MVP Health Insurance Company (MVP) submitted its Third and Fourth Quarter 2014 Individual Indemnity Filing (Filing) for review by the Green Mountain Care Board (GMCB) on February 5, 2014. MVP requested an average rate increase of 9.4%. On April 4, 2014, Lewis and Ellis (L&E), the contracted actuaries for the GMCB, presented its Actuarial Opinion on this filing and the Department of Financial Regulation (DFR) included its review of MVP's financial solvency.

The Office of Health Care Advocate (HCA) entered an appearance pursuant to GMCB Rule 2.000 §§2.105(b) and 2.303. The hearing for the filing has been waived by the parties.

I. Standard of Review

Health insurance organizations operating in Vermont must obtain approval from the GMCB before implementing health insurance rates. 8 V.S.A. §4062(a). The carrier has the burden of justifying its requested rate. GMCB Rule 2.000 §2.104(c).

The GMCB may approve, modify, or disapprove requests for health insurance rates. 18 V.S.A. §9375(b)(6); 8 V.S.A. §4062(a). "In deciding whether to approve, modify, or disapprove each rate request, the Board shall determine whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, is not unjust, unfair, inequitable, misleading, or contrary to law, and is not excessive, inadequate, or unfairly discriminatory." GMCB Rule 2.000 §2.301(b); GMCB Rule 2.000 §2.401; 8 V.S.A. §4062(a)(3).

In making its decision, the GMCB must consider the requirements of the underlying statutes, changes in health care delivery, changes in payment methods and amount, the Solvency Analysis prepared by DFR in connection with each filing and other issues at the discretion of the GMCB. GMCB Rule 2.000 §2.401; 18 V.S.A. §9375(b)(6). Further, the GMCB "shall consider any [public] comments received on a rate filing and may use them to identify issues." GMCB Rule 2.000 §2.201(d). The record for rate review includes the entire System for Electronic Rate and Form Filing (SERFF filing) submitted by the insurer; questions posed by the GMCB to its actuaries; questions posed to the insurer by the GMCB, its actuaries, and DFR; DFR's Solvency Analysis; and the Opinion from the GMCB's actuary. GMCB Rule 2.000 §2.403(a).

II. DFR Solvency Analysis

DFR reviewed both the solvency of MVP and how the particular filing could affect that solvency. DFR emphasized in its analysis that it "considers the solvency of insurers to be the most fundamental aspect of consumer protection" and that solvency analysis involves "an intricate analysis of many factors." Solvency Analysis at 2. New York rather than Vermont is MVP's primary regulator. Id. DFR ensures that foreign companies like MVP "meet certain solvency-based licensing criteria necessary to continue to operate in Vermont" and, in analyzing MVP's solvency "has reached out to MVP's primary regulators in New York" and learned that they do not have any concerns about the company's solvency. Id. Moreover, the company's Vermont operations, representing only a small percentage of the total premiums earned, "pose very little risk to its solvency. Id.

For this filing, DFR asserted that MVP's "proposed rate will likely have no impact on MVPHIC's solvency." Solvency Analysis at 2.

III. L&E Actuarial Opinion

L&E, the contracted actuaries for the GMCB have analyzed the filing to determine whether the filing will produce rates that are excessive, inadequate, or unfairly discriminatory. Actuarial Opinion at page 7. Its analysis does not include a consideration of some of the other factors considered by the GMCB in deciding whether to accept, modify or reject proposed rates, i.e. whether those rates will be affordable, promote quality care and promote access to health care. See GMCB Rule 2.401.

As part of its analysis, L&E notes that the proposed rate increase will result in 9.4% higher rates compared to third and fourth quarter 2013 rates for third and fourth quarter renewals, but the increase will result in 14.3% higher rates for first and second quarter renewals. Actuarial Opinion at 1, 6-7. L&E recommends reducing the contribution to surplus for this filing to 1% and then approving the filing. Actuarial Opinion 6-7. L&E points out that this modification is "consistent with past Board decisions." Actuarial Opinion at 6. L&E states that after the contribution to surplus is reduced, "L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory." Id.

IV. Analysis

In order to increase affordability and the associated access to health care for policyholders represented by this filing, the HCA asks the GMCB to return the administrative expense load to 11% of premiums and decrease the contribution to surplus from 2% to 0%.

MVP's projected traditional loss ratio for this filing is low at 76.9%[1] and its federal MLR ratio of 80.1% barely crosses the rebate threshold of 80%. See Actuarial Analysis at 5 and GMCB 14-14rr Filing. This minimal MLR adequacy warrants increased scrutiny on MVP's administrative costs and profits.

MVP's proposed increase in administrative expense load for this filing is excessive. MVP proposes to increase its administrative expense load from 11% to 18%, which represents 9.3% of the overall proposed increase for the filing. *See* GMCB 14-14rr Filing and Actuarial Opinion at 3.

To review, this filing covers a closed block book of business, and MVP predicts a 0% utilization trend for the filing. GMCB 14-14rr Filing and Actuarial Opinion at 6. If implemented, MVP's proposed 9.4% average premium increase will create a larger pool of money. Then, the 18% administrative expense load will be applied to this larger pool of money. Thus, MVP is proposing to collect a significantly larger percentage of a significantly larger amount of money for administrative costs. Yet, the group size and utilization are not changing. Therefore the cost of administering the plan should not significantly rise.

In contrast to MVP's proposed administrative costs, Blue Cross Blue Shield proposed an increase in its administrative trend of 1.7% in its 2013 factor filing. GMCB-24-13rr. The GMCB reduced this trend to 0%. Id. In the 2013 Exchange filings, Blue Cross proposed a 7.3% general administrative expense load and MVP proposed a 9.5% general administrative expense load. GMCB 16-13rr and GMCB 15-13rr. The 2013 Exchange filings covered new plans which would logically necessitate higher administrative costs for implementation than would be necessary to continue to administer a grandfathered, closed block plan with a 0% utilization trend. If MVP finds that its administrative costs exceed its revenue, MVP can look for ways to increase

[1] $1,679,251 (projected incurred claims) / $2,184,072 (projected earned premiums) = 76.9%

administrative efficiency. We believe the proposed administrative cost increase for this plan is excessive and ask that this plan be held to the previous 11% general administrative expense load.

To further increase affordability, the HCA additionally requests that the GMCB lower MVP's contribution to surplus for this filing from 2% to 0%. This request is reasonable considering average increases in medical costs, the GMCB's previous rulings for similar filings, and affordability for policyholders. MVP's requested medical trend of 7.8% is significantly above the average national increase in medical costs. According to the Consumer Price Index, on average the cost of medical care commodities rose 1.3% and medical care services rose 2.4% between April 2013 and March 2014. Consumer Price Index. *Economic News Release.* April, 2014. http://www.bls.gov/news.release/pdf/cpi.pdf. This differential should provide a profit cushion for MVP.

In addition, approximately 700 Vermonters will be affected by the proposed rates in this filing. Actuarial Opinion at 1. While the proposed rates will likely have a significant impact on the household finances for each of these individuals, it is a small enough number that any contribution to surplus collected from this group will have a minimum impact on MVP's overall solvency.

Finally, the proposed rate increases of 14.3% for first and second quarter renewals and 9.4% for third and fourth quarter renewals are not affordable to Vermonters. As the GMCB has pointed out, "double digit increases, though actuarially reasonable, are significant and adversely affect renewing policyholders. We again voice our concern that such increases 'weigh heavily against approval of the proposed rates [and] cannot be considered affordable, are unsustainable, and exceed recent growth in other areas of spending and projected national trends in health care expenditures." GMCB-026-13rr Decision at 4-5.

The majority of policyholders will not have experienced income growth in recent years comparable to MVP's requested rate increase. Nationally, salaries rose an average of only 2.8% in 2013 and are expected to rise an average of 2.9% in 2014. Mercer. *Pay Increases for US Employees Illustrates the "New Normal" by Staying the Course.* July 16, 2013. http://www.mercer.us/press-releases/1539840. In Vermont, wages increased an estimated 2.8% between 2012 and 2013, the most recent time period for which there is data. Department of Labor, Economic & Labor Market Information. *Per Capita Personal Income, Vermont and the United States.* March 28, 2014. http://www.vtlmi.info/pcpivt.htm.

V. Conclusion

Based on the record for this filing and the HCA's examination of the affordability of the rate increase, the HCA asks the GMCB to modify the filing by returning the general administrative expense load to 11% and reducing the contribution to surplus to 0%.

Dated at Montpelier, Vermont this 23rd day of April, 2014.

s/ *Kaili Kuiper*
Kaili Kuiper
Staff Attorney
Office of Health Care Advocate

CERTIFICATE OF SERVICE

I, Kaili Kuiper, hereby certify that I have served the above Memorandum on Michael N. Donofrio, General Counsel to the Green Mountain Care Board, Judith Henkin, Health Policy Director of the Green Mountain Care Board, and Susan Gretkowski, representative of MVP, by electronic mail, return receipt requested this 23rd day of April, 2014.

s/ *Kaili Kuiper*___________

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