

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Blue Cross and Blue Shield Vermont)
4Q 2014-3Q 2015 Administrative Expense) GMCB-16-14-rr
And Contribution to Reserve Filing)

Blue Cross and Blue Shield of Vermont’s Memorandum in Lieu of Hearing

Blue Cross and Blue Shield of Vermont (BCBSVT) requests the Green Mountain Care Board (GMCB) approve its 4Q 2014-3Q 2015 Administrative Expense filing as filed. For the reasons set forth below, BCBSVT requests that the Board reject L&E’s recommendation. The administrative expense filing is a “factor” filing used to determine the rates of experience rated large groups. Specifically, the filing provides the amount of monthly fees (expense) that will be charged for administering the benefits for large groups for the period covered by the filing. The filing also includes the calculation of the contribution to reserve (CTR) for the large group market renewing during the period covered by the filing. CTR supports the overall financial health of the company for the benefit of all members. BCBSVT requests the Board adopt the recommendation of the Department of Financial Regulation (DFR) and approve its CTR *without modification*.

1. Contribution to Reserve

The DFR made clear in its recommendation that the requested 2 % CTR *should not* be adjusted by the Board. DFR stated that:

Because of the many threats to solvency, the strength of a company’s surplus may erode even when its rates are adequate. Consequently, analysis of a contribution to surplus is equally as important as rate analysis when determining solvency. BCBSVT’s current surplus level is appropriate and necessary. This filing includes a contribution of 2 % of premium for insured plans, and .5 % of equivalent premium for cost plus plans, to BCBSVT’s surplus. DFR has reviewed and analyzed the filing’s proposed contribution to surplus, and is of the opinion that it would support and maintain the surplus targets of BCBSVT within the range that DFR deems reasonable and necessary for the protection of policyholders. *If GMCB reduced the proposed contribution to surplus, the reduction will contribute to an erosion of the sufficiency of BCBSVT’s surplus, which could threaten BCBSVT’s solvency.*

April 30, 2014 Department Solvency Recommendation, page 4 (emphasis supplied).

We realize that L&E may not have had the benefit of the Department’s recommendation when it made its own recommendation and L&E acknowledges that “the results of the Department of Financial Regulation’s Solvency Analysis should also be considered.” June 3, 2014 L&E Opinion, page 3. Further, L&E’s recommendation should be rejected because it is based on a misinterpretation of BCBSVT’s comments with respect to the setting of an appropriate CTR level. In its response to questions posed by L&E, BCBSVT explained why CTR is necessary and provided examples. BCBSVT did not mean to suggest that its requested CTR is based solely on “a 1 % provision to offset the impact of trend” and “a 1 % provision to recover the costs of a major flu epidemic in approximately two years.” BCBSVT explained that various events may affect the surplus of insurers. These events may include random fluctuations from expected results, trends, e.g., medical trend, as well as exceptional or non-recurring events which are typically not provided for in pricing. An *example* of this last type of event provided to L&E by BCBSVT, but by no means the only type of event contemplated, is a flu epidemic. Typically in the experience rating process “excess” flu related claim costs are excluded. This is analogous to the risk contemplated by self-funded employers when they purchase aggregate stop loss coverage. This type of contingency is addressed through the maintenance of adequate surplus.

Contrary to L&E’s approach, by its very nature this third type of event is *unpredictable and as such does not necessarily lend itself to computational determination*. The NAIC specifically recognizes this, for example, in the “NAIC Own Risk and Solvency (ORSA) Guidance Manual:”

The assessment of each risk will depend on its specific characteristics. For some risks, quantitative methods may not be well established and, in these cases, a qualitative assessment may be appropriate.¹

The NAIC also specifically recognizes the need for, and appropriateness of, the use of management judgment:

Unless a particular assumption is stochastically modeled, the group’s management should set assumptions regarding the expected values based on its current

¹ NAIC *Own Risk and Solvency (ORSA) Guidance*, p 7.

anticipated experience, what it expects to occur during the next year or multiple future years, and consideration of expert judgment.²

DFR is uniquely positioned to assess the appropriateness of contributions to reserves. As part of its examination and monitoring process, it gathers ongoing information about BCBSVT's risk situation and management's risk assessments as well as making assessments of its own. In setting up the rate review process, the legislature explicitly recognized this by requiring DFR to provide the GMCB with an analysis and opinion on the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062 (a)(2)(B). In turn, the GMCB's rate determination must, among other things, protect insurer solvency. 8 V.S.A. § 4062 (a)(3).

Prudence requires that insurers maintain appropriate surplus levels and equity implies that all generations of policyholders exposed to the risk (whether before or after the occurrence of an exceptional surplus reducing event) contribute to the recovery from the event. BCBSVT requests that the Board reject L&E's recommendation with respect to CTR and instead adopt the DFR's recommendation.

2. Administrative Expense

BCBSVT's per member administrative expenses have been declining over time as the company has become more efficient and has added additional members over which to spread its fixed costs. BCBSVT requests the Board approve its proposed administrative expense as filed. We request the Board consider the following points in making its decision.

- The impact of the filing is mischaracterized in L&E's memo wherein it states: "The overall impact of this filing: Administrative Expenses: *1.2% annual increase* (\$0.67 PMPM increase)" when in point of fact the schedule in the filing proposes a *6.8% decrease* in administrative fees (for January renewals) from the previous filing. See L&E Memo, page 1 (emphasis supplied). The "increase" language in the L&E memo is inaccurate.³

² *Id.*

³ We also note that the 1.5% decrease L&E later cites is across the entire enterprise. Much of that decrease is driven by efficiencies realized through the addition of a single large ASO customer and cannot be fairly attributed across all large groups.

- The nature of the filing is also mischaracterized on the GMCB’s rate review website “BCBSVT proposes a 1.2% administrative expense *trend*.” This is not an administrative trend filing but rather the filing represents the amount of administrative fees that will be charged.
- We are concerned with the introduction of membership gains and losses in projecting administrative costs which have not historically been considered. It is important that changes in methodology and approach be consistent over time and that BCBSVT is treated equitably in the future – that is, should membership in some future period be projected to remain flat or decrease, we would expect the Board to consider that impact to be an allowable part of the filing.

* * *

Blue Cross and Blue Shield of Vermont exists to make health care affordable for Vermonters. By pooling the populations covered by its products, it protects individuals from the unaffordable and potentially ruinous costs associated with significant illnesses or injuries. Its products promote preventive care, health maintenance and health improvement, and it has in place strong utilization management programs that support members who require medical care and assure that they have access to high value care while avoiding unnecessary costs.

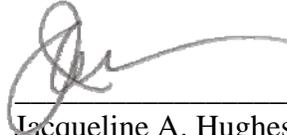
BCBSVT also works with providers to dampen cost increases through reimbursement strategies that include capitation and incentives to both provide and properly manage care. And, BCBSVT continues to be a strong partner with the state in efforts to bend the cost curve by its participation in the extension of plans into 2014, Vermont Health Connect, Blueprint, and other programs designed to afford Vermonters access to well-designed insurance products that offer delivery of affordable and appropriate care. BCBSVT urges the GMCB to continue its cost containment work with providers—both professional and facilities—so that health plans such as BCBSVT can continue to offer the most affordable products possible.

None of this work is possible unless BCBSVT remains financially strong, and that requires that it be allowed to charge rates that cover the medical expenses of the populations it serves, as well as the Plan’s own administrative expenses, which are among the lowest in the industry, and its capitalization needs.

Given the Department’s recommendation on CTR, we ask that the Board approve the filing as filed. This will help ensure that BCBSVT will have sufficient resources to pay claims.

It will also help ensure that distortion among participants in the large group market, of which there are more than 33,100 members covered by the filing, is kept to a minimum as well as even-handed treatment among market segments.

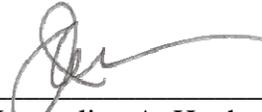
Dated at Montpelier, Vermont, this 17TH day of June, 2014.



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Memorandum in Lieu of Hearing has been duly served upon Michael Donofrio, General Counsel to the Green Mountain Care Board, and Lila Richardson, Office of Vermont Health Advocate, by electronic mail, return receipt requested, this 17th day of June, 2014.



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