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November 6, 2013

Mr. Phil Keller
Director of Rates and Forms
Vermont Department of Financial Regulation
89 Main Street, Drawer 20
Montpelier, VT 05620-3601

Subject: Blue Cross and Blue Shield of Vermont 2013 Exempt Association and Trust Rate Development for Vermont Auto Dealers' Association; Vermont Filing Number: 67217

Dear Mr. Keller:

The purpose of this letter is to provide our analysis and opinion regarding the reasonableness of the proposed Blue Cross and Blue Shield of Vermont (BCBSVT) 2013 Exempt Association and Trust rate development for the Vermont Auto Dealers' Association (VADA). The effective date of the proposed change is November 1, 2013.

In performing our analysis we used the filing document itself, as well as the following documents:

- The 3Q-4Q13 approved trend factors
- The 4Q13 approved administrative expense and contribution to surplus allowances
- The 2Q13 approved stop-loss charges

Background

The Vermont Auto Dealers' Association is an Exempt Association that offers coverage to its member group employers. The rates being proposed by VADA, effective November 1, 2013, are 1.9% higher than the current rates which were effective November 1, 2012.

As of February 2013 there were 1,376 contracts in force with 2,257 members. It is our understanding that VADA consists of both large and small groups, as defined by the Affordable Care Act (ACA). We have confirmed with BCBSVT that none of the currently active VADA policies are considered to be grandfathered. In addition, we have confirmed that any VADA policies that are defined as small groups will have the option to either purchase a new policy in Vermont Health Connect starting January 1, 2014 or wait until the end of their plan year ending in 2014, at which point thereafter they would then need to purchase coverage in Vermont Health Connect.

Development of BCBSVT Calculated Rate Change

We have reviewed the development of the November 1, 2013 rate change as calculated by BCBSVT on Exhibit I of the filing. In developing this rate change, BCBSVT first calculated the projected renewal period claims per member per month (PMPM) below the individual Stop-loss (ISL) threshold. Next, items such as retention charges, Stop-loss charges, and state and federal assessments were included to arrive at the total projected funding requirement PMPM. Finally, the total projected funding requirement PMPM for November 1, 2013 was compared to the current

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funding requirement PMPM to determine the necessary change to rates. We provide additional detail regarding this calculation in the subsections that follow.

Development of Projected Renewal Period Claims Below ISL

Incurred claims for the period March 1, 2012 through February 28, 2013 were used as the base period experience with payments through April 30, 2013 and excluding any large claim amounts in excess of \$300,000. We note that the \$300,000 level was selected since it represents the individual stop-loss level VADA elected to purchase from BCBSVT for the renewal period. In this instance, there were no claims that exceeded the \$300,000 threshold during the base period.

We also note that the current individual Stop-loss level is equal to \$260,000. Therefore, the newly selected level of \$300,000 represents roughly a 15% increase in the attachment point up to which VADA accepts risk. In addition, the aggregate Stop-loss limit for VADA was increased from 120% to 125% of expected claims. We agree that it is reasonable to increase the attachment points for Stop-loss coverage over time due to the continuously increasing nature of healthcare related costs. However, we did ask BCBSVT to provide the analysis which was performed to determine that VADA could accept the increase in risk it is being exposed to due to these changes. In response, BCBSVT provided results demonstrating that, under an adverse scenario in which the number of members who reach the individual stop-loss level is three times the total number of members who would typically be expected to reach that level and the aggregate claims are equal to or greater than 125% of expected, the increase in claims VADA would be exposed to due to these changes would be approximately \$582,000. Under this adverse scenario, the cost related to the increase in aggregate costs from 120% to 125% represents a worst case scenario. Based on our review, the assumption that 3 times the members who would be expected to exceed \$300,000 would exceed that level is also essentially a worst case scenario. BCBSVT then stated that VADA is currently holding about 70% of annualized projected claims in reserves and so "is able to take the additional risk." Total projected claim costs for the renewal period are equal to \$8,990,416 and, therefore, 70% of annualized projected claim costs are equal to \$6,293,291 (i.e., \$8,990,416 x 70%).

Next, the base period claims were completed and pooling charges based on the 2Q13 Stop-loss charges filing above the ISL level of \$300,000 were added. This adjustment for expected charges above the ISL threshold was based on the 2Q 2013 Stop-loss filing, and the inclusion of this adjustment reflects that, on average, although there were no actual claims above the threshold during the base period, there would be expected to be claims above the threshold on this book of business over the long run.

Projected costs for the autism mandate expansion, vaccine mandate, women's wellness mandate, and other reforms whose impacts were not fully reflected during the base period were then included. For example, the Autism expansion mandate was estimated to be worth approximately \$3.37 PMPM in last year's filing, which in our opinion was reasonable. Since the mandate became effective on VADA's last renewal date (November 1, 2012) the cost for this benefit is reflected in the base period experience for the period November 2012 through February 2013. Therefore, BCBSVT multiplied this estimate by 8/12 to include the cost for only those months in the base period for which the mandate was not in effect, resulting in the estimated cost of \$2.25 (i.e., \$3.37 x 8/12) to be added. In addition, charges for mental health claims, which were paid on a capitated basis during the experience period but will be reimbursed on a fee-for-service basis during the rating period, were added. The charge for this item was developed assuming that the fee-for-service

reimbursement for mental health claims will be consistent with the capitated amounts which were previously paid for mental health coverage. We have reviewed the adjustments for these items (summarized in the following table on a PMPM basis) and find them to be both reasonable and consistent with assumptions used in prior VADA filings.

	PMPM Charge
Autism Expansion Mandate	\$2.25
Women's Wellness	\$0.75
Vaccine Mandate	\$0.79
Transgender Surgery	\$0.01
Mental Health Claims	\$10.55

After adjusting for the items above, the projected claims were then divided by the average benefit relativity factor for the underlying plan designs held by members during the base period, resulting in a conversion of the projected paid amounts to an allowed basis. This amount was then trended forward twenty months from the midpoint of the experience period (September 1, 2012) to the midpoint of the rating period (May 1, 2014) using an annual trend assumption of 4.8%. We have verified that the 4.8% trend rate being used appropriately represents a weighted average of the 3Q13 approved trend rates, based on a distribution of enrollment by medical deductible and prescription drug benefits, as demonstrated in Exhibit III of the filing.

The total projected allowed costs for the rating period were then converted back to projected paid costs below the ISL threshold of \$300,000 by multiplying them by the projected renewal period benefit relativity factor, which accounts for the increased Rx out-of-pocket maximums relative to prior levels,¹ and by removing the projected amounts in excess of \$300,000. Finally, an adjustment of 0.988 was applied to reduce the projected renewal costs by an additional 1.2%. In Exhibit I, BCBSVT has named this adjustment "VADA Discretion" and, in its actuarial memorandum, BCBSVT describes that VADA has "used their discretion to lower the expected claims" as VADA considers the claims during the experience period to be "atypically high." We requested additional detail with respect to this adjustment during our review, to which BCBSVT provided that it was based on a comparison of claims PMPM for the current experience period to the weighted average claims cost PMPM for the two year experience period of March 1, 2011 through February 28, 2013, where 2/3 weight was given to the most recent 12 months and 1/3 weight was given to the prior 12 months. The average claim cost PMPM for the two year period, weighted as described above, was \$334.27 while the actual claim cost PMPM for the experience period was \$338.31. We believe that this adjustment and the methodology utilized to develop the adjustment are reasonable to ensure that the rates which are developed do not represent an overreaction to changes in claim costs from year to year.

Development of Total Funding Requirement and Calculated Change

After developing the projected renewal period claims PMPM below the ISL threshold, BCBSVT then added amounts for capitation (\$0.95 PMPM), the net cost of private reinsurance (\$0.62 PMPM), Rx

¹ Rx out-of-pocket maximums increase from \$1,200 to \$1,250 for individuals and from \$2,400 to \$2,500 for families. The Rx out-of-pocket maximums are set each year to be equal to the minimum dollar amounts of Health Savings Account deductibles, as set forth by the Internal Revenue Code for that year.

rebates (-\$2.31 PMPM), stop-loss charges (\$11.48 PMPM), administrative expenses (\$35.26 PMPM), and contribution to reserves (\$1.94 PMPM).

In developing the stop-loss charge, the amount equal to \$11.48 PMPM reflects the originally proposed charge for a \$320,000 individual stop-loss level in the 2Q13 stop-loss filing. We note two items with respect to this charge:

- BCBSVT states in its actuarial memorandum that the reason for utilizing the charge for a \$320,000 stop-loss level as opposed to a \$300,000 stop-loss level, which is the actual ISL threshold for the renewal period, is because VADA “negotiated” stop-loss fees below filed levels. BCBSVT has stated that, in consideration of the fact that VADA was taking more of their claim risk, VADA asked that BCBSVT in turn offer stop-loss coverage and a level of \$300,000 for the rate of coverage at a \$320,000 level.
- The Green Mountain Care Board has approved stop-loss charges in the 2Q13 stop-loss filing which were below the levels originally proposed by BCBSVT.² If the approved \$300,000 individual stop-loss charges had been utilized in BCBSVT’s rate change calculation in Exhibit I, the resulting “Change to Current Rates” would have been 8.1% instead of 8.2%. However, BCBSVT notes that this change would not have impacted VADA’s proposed billed rates which remain lower than either of these calculated changes, at 1.9%.

In developing the administrative expenses, BCBSVT started with the originally proposed 4Q13 administrative expense filing. The per unit per month (PUPM) charges from this filing for large groups were multiplied times the corresponding units (i.e., number of accounts, number of groups, and number of members) to develop the annual charge of \$1,085,681. A decision was then made to reduce the calculated charge by \$131,502. We asked BCBSVT how they arrived at this level of reduction. BCBSVT responded that VADA actively negotiates its administration fee each year and that both parties agreed to cap the fee at a 10% increase relative to the currently filed level. The amount of the cutback reflects the difference between BCBSVT’s originally proposed expenses and the 10% agreed upon increase. After this reduction, the calculated annual load was \$954,179, or \$35.26 PMPM, roughly a 12% reduction from the originally proposed administrative expense rates. We note that, since this filing was submitted, the Green Mountain Care Board has subsequently approved administrative expenses for 4Q13 which are below those that were originally proposed. Based on the approved expense charges, the calculated annual charge before any strategic cutback would have been reduced from \$1,085,681 to approximately \$1,053,175, or \$38.92 PMPM. Therefore, the filed VADA expense load of \$35.26 PMPM reflects a reduction of approximately 9.5% from BCBSVT’s currently approved administrative expense levels as opposed to 12%.

Next, the following state and federal assessments were added to develop the final calculated rate PMPM:

	Charge
Patient-Centered Outcomes Research Trust Fund Fee	\$0.18 PMPM
Blueprint for Health Program	\$1.85 PMPM
VITL	\$0.60 PMPM
Health Care Claims Assessment	\$2.40 PMPM

² http://gmcbboard.vermont.gov/rate_review/RRDecisions

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Finally, the total developed funding requirement was compared to the current funding requirement, resulting in a calculated rate change of 8.2%.

This calculated change does not include the cost of the federal transitional reinsurance fee equal to \$5.25 PMPM, which will be collected effective January 1, 2014 per the Affordable Care Act and is being proposed to be incorporated into the VADA rates beginning on January 1, 2014. BCBSVT states at the bottom of Exhibit V that a “group’s rates will increase by \$5.25 PMPM on January 1, 2014 for the Federal Transitional Reinsurance Program.”

In addition, there is another comment at the bottom of Exhibit V which states that a “group’s rates may increase by an as yet unknown factor on January 1, 2014 for the Federal Reinsurer Fee.” We questioned this statement during our review, and BCBSVT has confirmed that it no longer believes the fee will apply to any component of cost plus rates and, therefore, has stated that it expects there will be “no increase to rates effective January 1, 2014” for this item.

Membership and Credibility

There were on average 2,283 members per month during the base period. BCBSVT treats the underlying base experience as 100% credible. We believe this approach is reasonable given the presence of large claim pooling, and the fact that it is consistent with the currently filed and approved credibility procedures.

VADA Proposed Rate Change

While an 8.2% increase was calculated by BCBSVT as described in the section above, VADA is proposing to increase its rates by only 1.9%. In addition, VADA is proposing to apply the same increase to all benefit plans as opposed to varying the changes by plan design to align the benefit relativity factors in this filing with those approved in BCBSVT’s 2Q 2013 Benefit Relativity Factor filing. VADA’s stated reason for this is to minimize disruption to their member groups.

The final rates expected to be charged by VADA are shown in Exhibit VIII. They contain a 2.5% allowance for VADA and a rate subsidy of 7.0%. Effectively, as described by VADA in response to our questions, the 2.5% allowance described here covers “fees for consultant and administrative support from VADA staff, which includes enrollments, terminations, processing of premium payments, financial oversight and coordination of payments to providers and carriers, marketing development materials, handling customer service inquiries from group benefits managers and insureds, wellness program development and implementation, facilities and equipment overhead.” The 7.0% subsidy, on the other hand, is the downward adjustment which is applied after adding the 2.5% allowance to the BCBSVT calculated rates such that the net final increase over the prior VADA rates is 1.9%. We note that the prior rates charged by VADA contained a 3.2% allowance and 2.0% rate subsidy. VADA has stated that it has been able to reduce the allowance being charged from 3.2% to 2.5% due to lower overhead costs and improved administrative efficiencies resulting from IT investments.

Cost Plus groups like VADA have agreed to fund their own claims with minimal insurance protection. In VADA’s case, they are insured by BCBSVT for the excess of \$300,000 per individual claimant for the policy year and aggregate claims in excess of 125% of expected. Other than that, VADA is responsible for all of the claims that do not reach these thresholds. Since VADA is acting

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as the primary insurer of the claims, DFR has historically asked for a statement each year that VADA has the reserves to fund the claims if the premium rate estimates turn out to be deficient. Such a statement was provided again this year by Marilyn B. Miller, Executive Director of VADA. We have attached it to this opinion for your convenience. You will note that while the attestation is quite positive about the reserve level, there are no reserve amounts provided in the statement. We offer no opinion as to the reasonability of the VADA reserves.

Opinion

In our opinion, the BCBSVT calculated rates in total are reasonable in relation to the benefits and should produce premiums that are not excessive, deficient, or unfairly discriminatory. VADA is self-insured and takes on liability for the value of claims that do not exceed the individual or aggregate stop-loss attachment points. Therefore, our opinion is limited to the rates developed by BCBSVT in Exhibit VII. The rates expected to be charged by VADA, which include a 2.5% allowance for VADA as well as a rate subsidy of 7.0%, are shown in Exhibit VIII.

In providing this opinion, we relied on the data and other information provided by BCBSVT in the filing. If this information is inaccurate, incomplete, or out of date, our findings and conclusions may need to be revised. While we have relied on the data provided by BCBSVT without independent investigation or verification, we have reviewed the data for consistency and reasonableness. Where we found the data inconsistent or unreasonable, we have requested clarification.

Since the recommended rates are an estimate of future contingent events, the actual results may vary.

I am a member of the American Academy of Actuaries and meet all of its requirements to render this opinion. I have utilized generally accepted actuarial methodology in reaching this opinion.

Please do not hesitate to contact me if you have any questions.

Sincerely,



Ryan Schultz, FSA, MAAA
Senior Consultant

Copy: Tammy Tomczyk, Oliver Wyman Actuarial Consulting, Inc.