

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

In re: Blue Cross and Blue Shield Vermont )  
3Q 2016 Large Group Rating Program Filing ) GMCB-03-16-rr  
)

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 3Q2016 large group rating program filing as filed. This request is consistent with the Board’s independent expert Lewis and Ellis’s (L&E) recommendation to the Board.

This filing provides the formula, manual rate and factors that will be used to determine the rates of experience rated groups, including large groups and grandfathered groups with 51-100 employees.<sup>1</sup> The factors in the filing are the medical and pharmacy trends, benefit relativities, administrative costs, contribution to reserve, aggregate stop loss and large claim factors that will be applied to large group rates for the period covered by the filing.

The key findings and recommendations with respect to this filing are as follows:

- **Medical Trend:** L&E found that the allowed medical trend of 5.8% “fits comfortably within the estimated range of actual results. Therefore, L&E considers the Company’s revised allowed medical trend of 5.8 % to be reasonable and appropriate.” L&E Opinion, April 18, 2016, page 7. L&E concluded that a 5.8% allowed trend would not produce rates that were excessive, inadequate or unfairly discriminatory and should be approved without modification. *Id.*, p. 10.
- **Pharmacy Trend:** L&E found that BCBSVT’s proposed allowed pharmacy trend of 10.5% was reasonable and appropriate. *Id.*, p. 7. L&E also found that BCBSVT’s more discrete method to project pharmacy trend, i.e., the approach taken on generic dispensing ratio and to project expensive specialty drugs, to be reasonable and appropriate. *Id.* p. 8.
- **Leveraged Adjustments to Allowed Trends:** L&E found that BCBSVT’s approach to adjust allowed trends to paid trends is reasonable and appropriate. *Id.* p. 8.
- **Administrative Costs:** L&E found that BCBSVT’s increase in administrative costs of 7.3% to be reasonable and appropriate. *Id.* p. 9. The increase was attributable to four

---

<sup>1</sup> Grandfathered groups with 51-100 employees became reclassified as small groups by operation of Vermont law effective January 1, 2016. BCBSVT’s approach to rating them has not changed and their inclusion is immaterial to the rate calculation.

components: trend, year over year change in administrative costs, decrease in membership covered by this filing and updated cost allocation. L&E found that BCBSVT's assumptions for each component was reasonable and appropriate. The increase in administrative costs amounts to an increase of .4% of premium. *Id.*

- Reduction of Federal Fees: With the federal reinsurance program expiring and the temporary suspension of the Annual Fee on Health Insurance Providers under the Consolidated Appropriation Act of 2016, the net effect on rates of these two changes was a reduction of the overall average rate increase by 2.9 %. L&E found this reduction to be reasonable and appropriate. *Id.* p. 9.
- Contribution to Reserve: CTR supports the overall financial health of the company for the benefit of all members. L&E found that BCBSVT's filed CTR of 2 % for fully insured groups and .5% for Cost Plus groups was reasonable "in order to maintain appropriate RBC levels in light of medical trend and provide an adequate margin over and above the minimum to keep appropriate RBC levels in the case of an adverse event without being excessive." *Id.* In its opinion, L&E also stated: "While L&E believes the proposed CTR of 2.0% for fully insured groups and 0.5% for Cost Plus groups is reasonable, reviewing the Company's current level of reserves is beyond the scope of this review. Therefore, the results of the Department of Financial Regulation's Solvency Analysis should also be considered." *Id.* p. 10.

In her solvency opinion, the Commissioner of the Department of Financial Regulation made clear that the Department actively monitors BCBSVT's surplus and solvency as well as potential threats to surplus and solvency, using all available tools. Department of Financial Regulation Solvency Opinion, April 7, 2016, p. 1. The Commissioner further determined that the range of surplus targeted by BCBSVT is reasonable and necessary for the protection of its members and that BCBSVT is within the range determined to be necessary. *Id.* The Commissioner also opined that there is a significant risk that the sufficiency of BCBSVT's surplus would erode due to continued medical trend growth unless applicable rates are adequate and set at a level that maintains adequate surplus that keeps pace with those trends. *Id.*

Given its charge as BCBSVT's financial solvency regulator, 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 Vermont General Assembly 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). Finally, Department of Financial Regulation opined that the rates as filed likely will have the impact of sustaining the current level of solvency which is both appropriate and necessary. *Id.* p., 2.

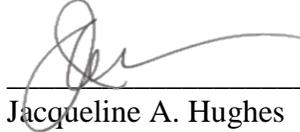
BCBSVT, a nonprofit hospital and medical service corporation, exists to make necessary health care affordable for Vermonters. By pooling the populations covered by its products, it protects individuals from the unaffordable and potentially ruinous costs associated with significant illnesses or injuries. 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 Vermont Health Connect, small group qualified health plans, Blueprint, and other programs designed to afford Vermonters access to well-designed insurance products that offer delivery of affordable and appropriate care. BCBSVT is supportive of GMCB efforts at containing provider cost—both professional and facilities—as those efforts should assist BCBSVT in offering the most affordable products possible.

These and other efforts would be seriously undermined without a financially strong BCBSVT, and that requires that BCBSVT 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. In her April 7, 2016 opinion, the Commissioner stated that “downward adjustments to rate components should not be made unless GMCB’s consulting actuary explicitly opines that the filed rates, without any modification, are excessive.” DFR solvency opinion, p. 2. The Board’s independent expert, L&E, has not recommended any changes to the filing and has concluded that “this filing does not produce rates that are excessive....” L&E, p. 10. BCBSVT agrees with both the Department and L&E that the filing as filed supports the requested rates and, further, that the rates are reasonable, appropriate and not excessive, inadequate or unfairly discriminatory. Given the recommendations, no changes to the filing are supported in the record and further downward adjustments would risk rate inadequacy.

We ask that the Board approve the filing in its entirety as filed.

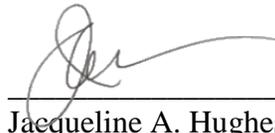
Dated at Berlin, Vermont, this 5<sup>th</sup> day of May, 2016.



Jacqueline A. Hughes  
Blue Cross and Blue Shield of Vermont  
PO Box 186  
Montpelier, VT 05601-0186  
Tel. (802) 371-3619

### **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the Memorandum in Lieu of Hearing has been duly served upon Judith Henkin, General Counsel to the Green Mountain Care Board, and Lila Richardson and Kaili Kuiper, Office of Vermont Health Advocate, by electronic mail, return receipt requested, this 5<sup>th</sup> day of May, 2016.



Jacqueline A. Hughes, Esq.  
Blue Cross and Blue Shield of Vermont  
PO Box 186  
Montpelier, VT 05601-0186  
Tel. (802) 371-3619