

July 8, 2016

Mr. Alfred Gobeille, Chair
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

**Re: Solvency Impact of 2017 Exchange Rate Filing (SERFF # BCVT-130567350)” of
Blue Cross and Blue Shield of Vermont**

Dear Mr. Gobeille:

This letter is to fulfill the Department of Financial Regulation’s (“DFR”) responsibility under 8 V.S.A. § 4062(a)(2)(B) regarding Blue Cross and Blue Shield of Vermont (“BCBSVT”) and its recent 2017 Exchange Rate Filing. Under 8 V.S.A. § 4062, DFR must provide to the Green Mountain Care Board (“GMCB”) an analysis and opinion on the impact of the filing as proposed on the solvency and reserves of BCBSVT. Below is a brief analysis and DFR’s opinion regarding the solvency of BCBSVT, the company, followed by analysis and opinion regarding the impact this filing could have on the solvency of BCBSVT. Background and additional analysis of both solvency and the effect of rates on solvency can be found in previous opinions provided by DFR. The background and analysis in previous opinions remains applicable to this filing.

BCBSVT Solvency Opinion

DFR has and will continue to monitor BCBSVT’s surplus and its solvency, as well as potential threats to surplus and solvency, using all available tools.¹ DFR believes that the range of surplus targeted by BCBSVT is reasonable and necessary for the protection of policyholders and BCBSVT is within the range determined to be necessary. There is a significant risk that the sufficiency of BCBSVT’s surplus erodes due to continued medical trend growth and membership growth unless applicable rates are adequate and set at a level that maintains adequate surplus to keep pace with those trends.

¹ DFR analyzes solvency using many tools, including periodic financial examinations, review of corporate governance, and analyses of such areas as risk-based capital, claims reserve development, and risk mitigation strategies. Solvency analysis is a dynamic prospective analysis that must account for many threats, including adverse medical cost trends, adverse utilization, premium inadequacy, and membership growth.



Impact of the Filing on Solvency

Unless GMCB's consulting actuary opines that modifications are necessary to produce rates that are not inadequate or excessive, the financial impact of this filed rate is unlikely to significantly impact DFR's overall assessment of BCBSVT's solvency.

There is one element in the filing relevant to solvency that is worthy of specific attention. BCBSVT filed a contribution to reserves ("CTR") of 2.0 percent for 2017 despite calculating that a CTR of 3.8 percent would be required to maintain Risk Based Capital percentage ("RBC"). This is noteworthy because the filing applies to over \$400 million of projected premium, and RBC did decrease slightly in 2015. Therefore, if the underlying assumptions and projections are accurate, this rate is expected to have further downward pressure on RBC if approved as filed.

RBC is an important metric in DFR's solvency assessment, and is one of many tools and methods used by the DFR analysts and examiners in our solvency oversight. While this RBC impact is notable, DFR does not expect this rate as filed to have a significant impact on our overall solvency assessment. However, given the significance of this filing on the solvency of BCBSVT and the potential CTR inadequacy discussed above, DFR is of the opinion that further downward adjustments to any rate components of this filing should not be made unless GMCB's consulting actuary explicitly opines that the filed rates, without any modification, are excessive.

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

Sincerely,



Michael S. Pieciak
Commissioner, Department of Financial Regulation