



July 31, 2018

Green Mountain Care Board  
State of Vermont  
144 State Street  
Montpelier, VT 05620

Re: MVP Health Plan 2019 Individual and Small Group Rate Filing (SERFF # MVPH-131497138)  
Filing Addendum

The purpose of this letter is to provide an official opinion and recommendations regarding rate revisions submitted by MVP Health Plan, Inc. (MVP) after the release of the report regarding this filing.

### ***History of this Filing***

MVP initially filed rates reflecting an overall change of 10.9% <sup>1</sup>over 2018 premiums. L&E issued a report to the Green Mountain Care Board on July 10, 2018 recommending that the approved rate increase be reduced to 8.5%. This recommended reduction was based on changes to the projected risk adjustment payable and the mid-year termination factor. L&E also recommended that the Board consider any updated information regarding hospital budget increases in the final rate determination, as provider reimbursement is a major determining factor in health insurance premiums.

MVP representatives testified during the July 24<sup>th</sup> hearing that they agreed with L&E's recommendation regarding risk adjustment but disagreed with the recommendation regarding the mid-year termination factor. This disagreement amounts to a 0.3% discrepancy between MVP's rate proposal and L&E's recommendation as of the original report. Additionally, MVP provided an updated analysis of 2019 unit cost increases based on facility-level rate change proposals as of July 13<sup>th</sup>. MVP's estimated impact of setting the unit cost trends equal to the hospital proposals is an increase of 0.5%. Therefore, it is L&E's understanding that MVP is currently proposing an overall rate increase of 9.3%.

### ***L&E Analysis***

#### **Mid-Year Termination Factor**

L&E's opinion regarding the mid-year termination factor has not changed. L&E does not agree with MVP's assumption that all policyholders will be in force for 12 months with no deaths or terminations mid-year. Standard actuarial practice requires that the rates be based on a reasonable likely future outcome, not on the most extreme possible scenario.

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<sup>1</sup> A portion of the rate increase of 10.9% is funded entirely by the federal government. The rate increase felt by Vermonters is 6.1%. See the L&E Report dated 7/10/2018 for more information.

### Impact of Updated Hospital Budget Information

Regarding hospital budget proposals, L&E believes the best estimate of actual 2019 unit cost increases should be reflective of the oversight role played by the Green Mountain Care Board in the hospital budget process.

On July 17<sup>th</sup>, MVP stated that the initially proposed rate change needed to be increased by 0.5% to reflect the recently submitted hospital budget proposals.

In recent years, the variance between submitted budgets and approved budgets has been as follows:

<b>Calendar Year</b>	<b>Submitted Increase</b>	<b>Approved Increase</b>	<b>Variance</b>
<b>2014</b>	5.5%	5.2%	-0.3%
<b>2015</b>	6.8%	6.8%	0.0%
<b>2016</b>	4.4%	4.4%	0.0%
<b>2017</b>	2.2%	1.8%	-0.4%
<b>2018</b>	2.3%	2.0%	-0.3%
<b>5-Year Average</b>	4.2%	4.0%	-0.2%
<b>2-Year Average</b>	2.3%	1.9%	-0.4%
<b>2019</b>	3.1%	TBD	TBD

L&E agrees with MVP that up-to-date information regarding 2019 unit costs should be used in the development of 2019 premium rates. However, due to the pattern reflected above, L&E believes it prudent to assume that the approved hospital budgets will be approximately 0.3% lower in aggregate and weighted by facility than the current hospital submissions. The estimate of this impact is that the unit cost change would be an increase of 0.2% relative to the initial filing, rather than 0.5% as described by MVP.

### ***L&E Recommendation***

After modifications, L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory. Therefore, L&E recommends that the Board make the following modifications:

- *2017 Actual/Projected Claims Experience*: Modify the mid-year enrollment/termination factor to adjust only small-group policies. This results in a decrease in rates of 0.3%.
- *Changes to Risk Adjustment*: Modify the projected risk adjustment payable reflect the most recent data available, resulting in a decrease in rates of 1.9%.
- *Trend from 2018 to 2019*: Modify the unit cost trends to reflect the most recent hospital budget numbers, reduced by 0.3% in aggregate to account for patterns in historical Board orders.

These modifications result in a rate increase of approximately 8.7%.

As discussed in the prior report, a significant portion of the Company's proposed increase results from the increase in premium for Silver CSR ("Loaded") members. Since the federal government provides subsidies to CSR eligible members, this portion of the increase is funded entirely by the federal

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government. Therefore, in addition to summarizing the overall rate increase proposed by the Company, the table below includes the effective rate increase, which is the impact of the rate increase that will actually be felt by Vermonters.

These modifications result in a rate increase felt by Vermonters of approximately 4.0%.

Sincerely,



Kevin Ruggeberg, ASA, MAAA  
Associate Actuary  
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA  
Vice President & Consulting Actuary  
Lewis & Ellis, Inc.



David M. Dillon, FSA, MAAA  
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Lewis & Ellis, Inc.

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**ASOP 41 Disclosures**

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>2</sup>, promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct<sup>3</sup>, to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

**Identification of the Responsible Actuary**

The responsible actuaries are:

- Kevin Rugeberg, ASA, MAAA, Associate Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

These actuaries are available to provide supplementary information and explanation.

**Identification of Actuarial Documents**

The date of this document is July 31, 2018. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 31, 2018.

**Disclosures in Actuarial Reports**

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but we have not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- We are not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

**Actuarial Findings**

The actuarial findings of the report can be found in the body of this report.

**Methods, Procedures, Assumptions, and Data**

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<sup>2</sup> The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

<sup>3</sup> These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

The methods, procedures, assumptions, and data used by the actuary can be found in body of this report.

**Assumptions or Methods Prescribed by Law**

This report was prepared as prescribed by applicable law, statues, regulations, and other legally binding authority.

**Responsibility for Assumptions and Methods**

The actuaries do not disclaim responsibility for material assumptions or methods.

**Deviation from the Guidance of an ASOP**

The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.