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July 28, 2014

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

**Re: Solvency Impact of “2015 Vermont Exchange Products Rate Filing (SERFF # BCVT-129572217)” 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 filing: “2015 Vermont Exchange Products 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. DFR’s opinion, and a brief analysis underlying the opinion, is below. 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’s filing for 2015 Vermont Exchange Products consists of various components. One component of the overall rate is a contribution to surplus (referred to by BCBSVT as a contribution to reserve, or “CTR”). In this filing, BCBSVT has requested a 1.0% contribution to surplus. Analysis of the justification for contribution to surplus is largely beyond the scope of an actuarial review. It relates directly to the solvency of BCBSVT, and solvency is the responsibility of DFR. DFR has analyzed all relevant quantitative data and qualitative information in reviewing the contribution to surplus, including significant proprietary and confidential information in DFR’s exclusive possession.<sup>1</sup> DFR is concerned about the impact of BCBSVT’s Vermont Health Connect rates on its solvency. Therefore, DFR’s opinion is that a 2.0% contribution to surplus would be more appropriate in light of BCBSVT’s current solvency level, but a 1.0% contribution should be considered the absolute minimum. Because it only began operating in 2014, there is significant uncertainty inherent in rate development for

<sup>1</sup> 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.



Vermont Health Connect products. Further, these rates account for a significant number of covered lives and dollars. Thus, it cannot be overstated that under no circumstances should the contribution to surplus be reduced.

Rates consist of other components in addition to the contribution to surplus, many of which are actuarially determined. BCBSVT's 2015 Vermont Exchange Products rate filing seeks an average 9.8% rate increase. The contribution to surplus proposed by BCBSVT is 1.0%, meaning the vast majority of the increase is driven by actuarially determined components. If these components are consistently reduced to the low end of a range of reasonableness, the likelihood of insufficient rates is increased. Because the contribution to surplus is dwarfed by all other components of the rate increase, it is easy to see that underestimating the other components can quickly eliminate any protection offered by the contribution to surplus. Therefore, DFR is also of the opinion 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.

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

Sincerely,

/s/ Susan L. Donegan

Susan L. Donegan  
Commissioner, Department of Financial Regulation