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November 3, 2014

Green Mountain Care Board
 State of Vermont
 89 Main Street, Third Floor, City Center
 Montpelier, VT 05620

Re: 1Q15 – 2Q15 MVPHIC Large Group EPO/PPO Rates
 SERFF #: MVPH-129676042

The purpose of this letter is to provide a summary and recommendation regarding the large group filing submitted by MVP Health Insurance Company (MVPHIC) for its existing EPO/PPO experience-rated products for the first and second quarters of 2015 and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. This filing demonstrates the premium rate development of MVPHIC's large group EPO/PPO product portfolio, comprising of both high deductible health plans (HDHP) and non-high deductible plans (Non-HDHP), and includes proposed rates for both the first and second quarters of 2015.
2. The proposed rates in this filing will affect approximately 6,700 Vermonters:
 - HDHP Groups: 4,300
 - Non-HDHP Groups: 2,400
3. This rate filing is requesting a quarterly rate change of:

Quarterly Rate Change			
	Large Group PPO/EPO	1Q15	2Q15
HDHP	Medical + Rx	-7.0%	1.5%
	Medical	8.0%	1.5%
Non-HDHP	Rx Riders	-3.2%	1.5%

The requested quarterly rate increases, seen above, would result in the following annual rate changes for 1st quarter group renewals and 2nd quarter group renewals, when combined with prior approved filings:

Annual Rate Change			
Large Group PPO/EPO		1Q15	2Q15
HDHP	Medical + Rx	-6.8%	-6.7%
Non-HDHP	Medical + Rx	6.3%	6.5%

Standard of Review

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received

MVPHIC provided the methodology used in premium rate development (Exhibit 2b, Exhibit 2c, and Exhibit 3b) and details pertinent to its actuarial assumptions/experience driving the rate change request. This includes supplemental exhibits comprising historical claim data (split by HDHP and Non-HDHP products) and the membership summary for 36 months grouped into rolling 12 month periods, pricing trend assumptions (Exhibit 2a), experience rating formula (Exhibits A-C), and additional supporting exhibits, as requested during review of the filing.

Company's Analysis

1. *HDHP and Non-HDHP Rate Development:* MVPHIC utilized large group claim data (constituting HDHP and EPO/PPO products) for the period from January 1, 2013 through December 31, 2013 and paid through May 31, 2013 as the base period experience.

Exhibit 3b illustrates both the claim projection from the experience period to the rating period and also the accompanying adjustments applied in deriving the rates for 1Q15.

From the historical experience, claims in excess of \$100,000 were replaced with a pooling charge. The pooling charge reflects the average cost of claims in excess of \$100,000 and is based on historical experience. The run out for the experience period is five months.

The adjusted claims were projected forward to the midpoint of the 1Q15 rating period using an annual effective medical trend assumption of 8.1% (elaborated further in item 2 below) for Non-HDHP products and an annual effective medical trend assumption of 8.2% for HDHP products. The effective medical trend reflects MVPHIC's paid trend and is derived from its

proposed allowed cost trend rates and the impact of cost share leveraging¹. The prescription claims were projected forward to the midpoint of 1Q14 rating period using an annual effective Rx trend of 7.8% (elaborated further in item 3 below) for Non-HDHP products and an annual effective Rx trend of 10.2% for HDHP products.

The trended claim cost was further adjusted to develop the projected claim costs as of 1Q15. These adjustments include projected cost of benefit mandates, non-FFS claim expenses, and Rx rebates.

The required 1Q15 manual claim cost was calculated by further adjusting the projected claim cost to normalize² for the impact of age/gender and industry.

The required premium revenue PMPM for the 1st quarter of 2015 was compared to the re-sloped³ 4th quarter 2014 manual premium rates for the membership underlying the experience period to determine the required rate change of 0.2%.

MVPHIC developed the 2Q15 premium by applying 1.5% (which is one quarter of medical paid trend) to the 1Q15 rates for each product type. Rx Riders were trended at 1.5% (which is slightly lower than one quarter of Rx annual paid trend rate) from 1Q15 Rx rider rates.

2. *Medical Trend:* The assumed unit cost trends reflect a combination of known and assumed price increases from MVPHIC's provider network. The 2014/2015 unit cost trend factors are consistent with the unit cost trend factors used in MVPHIC's 2015 Exchange filing. Consistent with recently submitted filings, MVPHIC is utilizing a 0% utilization trend to its data. MVPHIC opines that based on regression analysis of its utilization data in the past, the predictive ability of the historical utilization trends was weak and not reliable.

The table below illustrates the trend factors for various benefit categories:

Annual Allowed Cost Trend		
Market Segment	2014 Annual Trend	2015 Annual Trend
Inpatient	6.0%	6.0%
Outpatient & Other Medical	5.4%	5.4%
Physician	15.3%	3.5%
Total Medical Trend	8.8%	4.9%

¹ Leveraging is the result of the fixed nature of deductibles and copays causing the carrier to bear a greater portion of the cost of the medical inflation

² In developing the manual pure premium which will be charged to groups, group-specific demographic and industry factor will be applied and is based on the weighted average demographic/industry factor for the group. This step in the rating methodology removes the effect of demographics and industry from the average claim cost by using the reciprocal of the weighted average demographic/industry factor for each product type (Non/HDHP, HDHP).

³ The re-sloped 4Q14 rates were derived from MVPHIC's updated benefit pricing model, which reflects updated claim utilization data, claim distribution tables and factor tables. Exhibit 3a demonstrates that the re-sloped manual rates are revenue neutral to the 4Q14 manual rates weighted on the calendar year 2013 membership.

MVPHIC adjusted the allowed cost trends illustrated above to account for the impact of cost share leveraging and derived the effective paid medical trend factors (8.1% for Non-HDHP and 8.2% for HDHP products), as indicated in item 1 above.

Rx Trend: MVPHIC analyzes its pharmacy data by product type (HDHP vs. Non-HDHP) and drug category (Generic, Brand, Specialty). Annual trend factors by drug category were supplied by MVPHIC's pharmacy vendor and did not account for MVPHIC's Vermont specific book of business, given the partnership with this vendor is new.

MVPHIC felt that the data supplied by the vendor did not accurately reflect the impact of the drug Sovaldi⁴ in the specialty trend. MVPHIC used its commercial book of business to analyze the impact of Sovaldi on specialty trend from January to April 2014. To account for the impact of Sovaldi on its specialty trend, MVP increased the 2015 specialty unit cost trend from 8.6% to 13.1%.

The overall annual requested Rx trend reflected is 7.8% for Non-HDHP and 10.2% for HDHP products.

3. *Experience Rating Formula:* As in the prior approved filing, retention charges (including 9.5% for general administrative expenses) are added to the blended pure premium in deriving the group required premium. MVPHIC provided the filed and approved experience rating formula and addendum as part of this filing.

L&E Analysis

1. *HDHP and Non-HDHP Rate Development:* During our analysis of MVPHIC's rate development methodology, we reviewed the assumptions and adjustments made to the experience data set for large claims and expense loads. We also reviewed the projected loss ratios and how these amounts compared to the company's historical experience.

We note that MVPHIC's loss ratio for the large group AR42 product portfolio (excluding the Agri Services portfolio) in the experience period (January 2013 – December 2013) was 85.2%. The loss ratio filed with federal government for large group AR42 (including Agri Services) was 91.6% for 2013, which exceeded the minimum loss ratio requirement of 85%.

MVPHIC's 2014 anticipated traditional loss ratio and federal loss ratio (which adjusts the loss ratio for quality improvement expenses and taxes) for this AR42 block and the entire large group market, as illustrated below, exceed the minimum loss ratio requirement.

Projection Period (2014)		
Market Segment	Traditional Loss Ratio	Federal Loss Ratio
Large Group AR42 Only	87.1%	93.3%
All Large Group	86.6%	92.5%

We reviewed the methodology adopted by MVPHIC in developing updated premium relativities using a revamped benefit pricing model. We note that MVPHIC's updated benefit

⁴ Sovaldi, a high cost prescription drug, approved for use in December 2013, is used to treat Hepatitis C.

pricing model reflects calendar year 2012 allowed medical and Rx claims from its entire New York and Vermont commercial membership and includes adjustments for induced utilization adjustments based on plan richness.

The re-sloped 4Q14 HDHP rates in the updated benefit pricing model are lower than the corresponding approved 4Q14 HDHP rates, while the re-sloped 4Q14 Non-HDHP rates are higher than the approved 4Q14 Non-HDHP rates. In other words, the revised pricing model indicates that the HDHP plans should have been priced lower and non-HDHP plan should have been priced higher than the filed and approved 4Q14 rates. As a result of the revamped pricing model and associated benefit relativity changes, we note that the requested rate increase is non-uniform unlike the prior filing of this product (MPVH-129389053).

We validated that the re-sloped HDHP and non-HDHP 4Q14 rates would produce an actuarially equivalent expected gross claim liability of \$316.32 PMPM, when weighted with experience period membership, as the previously approved 4Q14 rates. As done in prior filings, the aggregate required revenue change of 0.2% was determined by re-weighting the required revenue change by product type based on current enrollment. We note that this required rate change of 0.2%, illustrated in Exhibit 3b, is with reference to the re-sloped 4Q14 rates and not the approved 4Q14 rates.

We validated that the requested 0.2% rate change from re-sloped 4Q14 rates translates to an equivalent rate change from the approved 4Q14 rates as follows:

Non-HDHP Quarterly Rate Change:	8.0%
HDHP Quarterly Rate Change:	-7.0%

In light of revised benefit relativities, we note that the requested rate change will result in a non-uniform rate change⁵ that varies by product type and plan. The quarterly change for non-HDHP plans vary from a minimum of 2.3% to a maximum of 20.0%. The quarterly rate change for HDHP products vary from a minimum of -9.6% to a maximum of -4.0%. The higher impact on Non-HDHP plans reflects higher benefit relativity corrections.

Since MVPHIC has used credible experience from its own block of business in creating its updated pricing model, we consider the pricing methodology to be reasonable and appropriate.

2. *Medical Trend:* We consider the utilization of recently approved allowed medical trends (filed in 2015 Exchange rate filing) and the development of paid trends to be reasonable and appropriate.

Given that MVPHIC is assuming a 0% utilization trend, we note that if higher utilization is actually materialized in the rating period, then future rate increases could be higher than anticipated.

The 2Q15 rate change is also based on this medical trend assumption. We consider the quarterly rate increase for 2Q15 to be reasonable and appropriate.

⁵ We envisage that the 3Q15/4Q15 rates will not reflect such high non-uniform swings as the benefit relativity corrections will already be in place by the proposed 1Q15/2Q15 rates.

Rx Trend: We consider MVPHIC's approach of using Rx trends from its vendor without accounting for its Vermont specific block of business to be a limitation on the reasonableness of their proposed Rx trend assumption.

We analyzed MVPHIC's development of assumed impact of Sovaldi on specialty unit cost trend. In the 2015 Exchange Rate filing, MVPHIC's PBM had assumed a lower projected impact (1.3% for 2014 and 1.6% for 2015) of Sovaldi on projected specialty claim forecast. MVPHIC had independently analyzed the impact of Sovaldi on specialty trend from its January to April 2014 Rx experience and determined that shortfall of Sovaldi projected impact was \$0.76 PMPM. This translates to a 4.1% trend shortfall to the specialty allowed cost. We consider this to be within the range of our expectations and consider this reasonable.

We recommend using the approved Rx trend from the 2015 Exchange filing as the starting point for the Rx trend. The adjustment to the specialty trend is still appropriate, since this analysis was based on MVPHIC's own experience. This will decrease the overall annual requested Rx trend from 7.8% to 7.2% for Non-HDHP and from 10.2% to 9.6% for HDHP products. This will result in a -0.1% change to the overall rate change for 1Q15 and the Rx riders rate change for 2Q15.

3. *Experience Rating Formula:* We assessed that MVPHIC's assumed general administrative load of 9.5% to be lower than the actual expense of 10.8% as illustrated in MVPHIC's 2013 Supplemental Health Care Exhibit (for all markets). If MVPHIC's envisioned strategy to reduce its administrative expenses does not materialize, future rate increases could be higher than anticipated.

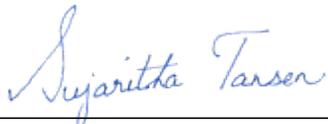
There were no changes to the experience rating formula other than updated fees related to ACA (such as federal reinsurance assessment). We find the development to be reasonable and appropriate.

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 modification:

- Decrease the starting Rx trend to match the approved Rx trend in the 2015 Exchange filing (resulting in a -0.1% change to the overall rate change for 1Q15 and the Rx riders rate change for 2Q15).

Sincerely,



Sujaritha Tansen, ASA, MAAA, MS
Associate Actuary
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations⁶, 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 Conduct⁷, 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:

- Sujaritha Tansen, ASA, MAAA, MS, Associate Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President 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. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents

The date of this document is November 3, 2014. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is September 24, 2014.

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.

⁶ 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.

⁷ These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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

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.