



August 11, 2014

Lila Richardson
Kaili Kuiper
Staff Attorney
Office of the Health Care Advocate
P.O. Box 606
Montpelier, Vt. 05601

Subject: Lewis & Ellis (L&E) letter dated July 30th concerning MVP's rate filing

Dear Ms. Richardson and Ms. Kuiper:

As I stated in my original report on the 2015 MVP Vermont Health Connect rate filing, L&E did not provide quantitative support for the calculations behind its recommendations or provide a reference to exhibits supporting its recommendations. Therefore, I did not have sufficient time to research two of L&E's recommendations, namely:

- Increase the projected index rate by 2.8% to account for changes in demographics;
- Reduce the single contract conversion factor from 1.165 to 1.098.

I have now had time to research the methodology and assumptions behind these two recommendations.

Both recommendations are based on using the demographics of MVP's 2014 membership to predict its 2015 membership. In the absence of MVP doing a prediction of its 2015 membership MVP has used its 2013 demographics either explicitly in the calculation of the contract conversion factor or implicitly by not including an adjustment to its index rate for the impact of a change in average age. I would have preferred that MVP predict its 2015 demographics based on its business plan etc., but it did not. In the absence of an MVP prediction, the choice is between the 2013 and the 2014 populations. Due to the large change in membership between 2013 and 2014 I agree with L&E that 2014 is a better predictor of 2015.



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The 2.8% increase in the index rate is due to the increase in average age between 2013 and 2014. I believe that it is appropriate to make this adjustment in the index rate. The contract conversion factor recommended by L&E is the one based on 2014 membership. Due to the nature of this factor and the large changes in MVP's membership between 2013 and 2014, I agree that the 2014 demographics should be used to determine this factor rather than the 2013.

If you have any questions, do not hesitate to call me at 520-908-7246.

Sincerely,

Donna C. Novak, FCA, ASA, MAAA, MBA