



NovaRest
ACTUARIAL CONSULTING

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In Re: BlueCross BlueShield of Vermont

Rates Filed June 2, 2014 in Vermont BCVT-129572217
Docket number GMCB 18-14rr

REPORT OF DONNA NOVAK ASA, MAAA

August 4, 2014



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ATTACHMENTS

Attachment A Donna Novak Curriculum Vitae

Attachment B Materials Reviewed



I. NATURE AND PURPOSE OF REPORT

The purpose of this Report is to provide the results of the review and analysis of the premium rate filing of BlueCross BlueShield of Vermont (BCBSVT) and to provide the Office of the Health Care Advocate recommendations and approximate changes in BCBSVT's requested rates. The contents of this report are intended for the use of the Office of the Health Care Advocate and the Green Mountain Care Board. The report should be considered in its entirety and no part should be copied or provided without the whole.

II. PERSONAL QUALIFICATIONS

I am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries. I am also president of NovaRest, Inc., which I founded in 2002. According to the Actuarial Standards Board and Code of Professional Conduct, I am qualified to offer my opinion in this matter.

My qualifications include:

- Over forty years of experience in the insurance industry dealing with pension, life and health insurance products.
- Active in the Academy of Actuaries ("AAA") since becoming a member in 1993.
- Led the group that recently rewrote the Actuarial Standard of Practice (ASOP) number 8, Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits.
- Have performed rate filing reviews in 7 states, the District of Columbia, and Puerto Rico.
- Helped create an improved rate review process in 2 states, the District of Columbia and Puerto Rico.



My curriculum vitae is provided as Attachment A.

I have prepared this report on the basis of my review, analysis, research work to date, and knowledge gained working as an actuary. Revisions and supplementation may occur as further information becomes available or is otherwise discovered or developed or as any additional matters or issues may be raised.

III. BACKGROUND

BCBSVT filed on June 2, 2014 for premium rates in Vermont's combined Individual and Small Business Health Options Program ("SHOP") Exchange to be effective on January 1, 2015 through December 31, 2015.

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, the Board is required to determine whether the requested rate:

- is affordable,
- promotes quality care,
- promotes access to health care,
- protects insurer solvency,
- is not unjust, unfair, inequitable, misleading, or contrary to the law, and
- is not excessive, inadequate, or unfairly discriminatory.

In March 2010, the 111th Congress passed health reform legislation, the Patient Protection and Affordable Care Act ("ACA"; P.L. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 ("HCERA"; P.L. 111- 152) and other laws. The ACA expands federal private health insurance market requirements, and required the creation of health insurance exchanges effective January 1, 2014 to provide individuals and small groups with access to insurance. Beginning in 2014, BCBSVT was required to comply with all of the ACA requirements for plans that are sold through the



Exchange. Complying with the ACA required BCBSVT to redesign its product offerings.

IV. MATERIALS REVIEWED

In performing my analysis and preparing my report I reviewed the filing as well as all of the materials submitted by BCBSVT in response to data requests submitted as of July 30, 2014

A complete list of the materials provided can be found in Attachment B

V. FINDINGS

BCBSVT made inappropriate assumptions in calculating its requested rates that overstate its requested rates by at least 1%. The issue resulting in the overstatement by BCBSVT of its requested rates is described in detail in Sections A.

I have relied upon the information that BCBSVT used in its filing or included in its responses to questions and objections from the Green Mountain Board along with my knowledge of the health insurance market.

A. BCBSVT did not use the proposed federal reinsurance attachment point

On page 22 of its rate filing BCBSVT indicates that it used \$70,000 as the attachment point for its calculation of the estimated federal reinsurance recovery in 2015. It stated:

The Final Notice of Benefits and Payment Parameters rule (79 F.R. 13743) defined the 2015 Transitional Reinsurance Program parameters as:

- \$70,000 claims attachment point



- 50 percent coinsurance
- \$250,000 reinsurance cap

Using these parameters, BCBSVT estimated the expected recoveries for each plan design offered on the Exchange. The expected recoveries were then weighted based on projected membership by plan.

In its final rule for the benefit and payment parameters for 2015, CMS indicates its intention to propose a lower attachment point for the temporary reinsurance parameters for 2015, lowering the 2015 attachment point from \$70,000 to \$45,000. Specifically on page 75 of the final rule for the benefit and payment parameters for 2015 CMS states:

We intend to propose changes to the reinsurance parameters for 2015 generally consistent with these recommendations. Specifically, in the proposed 2016 Payment Notice, we intend to propose to lower the 2015 attachment point from \$70,000 to \$45,000. We may also propose to modify the target 2015 coinsurance rate based on estimates of roll-over of funding from 2014 and estimates of collections and payments for 2015. These proposals will be subject to notice and comment rulemaking.¹

For a number of reasons we believe that this proposal will be implemented or if not implemented, it is still appropriate to use the lower attachment point, including:

- 1) CMS made the proposal publically and, therefore, appears committed to implement the decrease.

¹ final rule for the benefit and payment parameters for 2015, <http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/508-CMS-9949-F-OFR-Version-5-16-14.pdf>,



- 2) The Department of Health and Human Services (HHS) published their Final Rule establishing benefit and payment parameters for 2015 health care Exchanges on March 11, 2014. Within that rule, HHS decreased the 2014 attachment point to \$45,000. Therefore, there is a precedent of reducing the attachment point again in 2015.
- 3) BCBSVT benefited from the lower attachment point in 2014 so even if the 2015 proposal is not implemented, the benefit from the 2014 change may result in a neutral overall effect.

In answer to The Green Mountain Care Board July 8, 2014 Order containing questions originally suggested by the Office of the Health Care Advocate (HCA) question #1, BCBSVT shows that the estimated reinsurance recovery of \$31.02 in its 2014 filing will actually be \$40.49. This is a 31% increase in the amount of reinsurance that BCBSVT is now projected to receive compared to the projection in the 2014 filing.

As shown on Page 22 of its 2015 Actuarial Memorandum BCBSVT is projecting a transitional reinsurance recovery of \$13.96. The impact of a reduction in attachment point in 2015 to \$45,000 would be more than the 2014 reduction since the original attachment point in 2015 is \$70,000 rather than the 2014 attachment point of \$60,000. If the 31% increase in 2014 was repeated in 2015, it would result in almost a 1% reduction in premium rates. We recommend that BCBSVT be asked to project the impact of the transitional reinsurance program using the \$45,000 attachment point and re-calculate their rates with the new projection.



VI. CONCLUSIONS

For the foregoing reasons, BCBSVT's requested rates should be reduced by at least 1% based on a new projection of the impact of the transitional reinsurance program with a \$45,000 attachment point. The significant individual and small Group market reforms introduced in 2014 by the ACA have created uncertainty. As compared to last year, we now know more about who is enrolling, but meaningful claim experience is not yet available for new members. In determining appropriate rates, decision makers should give any benefit of the doubt to consumers and to taxpayers who, together, bear the cost of Vermont health insurance coverage.

VII. L&E'S RECOMMENDATIONS

In a letter dated July 29th, Lewis & Ellis (L&E) provided four recommendations concerning the BCBSVT's rate filing including:

- Use standard HHS induced utilization factors for the Benefit Richness factors: - 0.2%;
- Adjust the Pricing AV by the Changes in Family Tiering adjustment factor: 0.0%;
- Reduce the insurer fee to 2.5% of premium: -0.4%; and
- Use the reduced reinsurance parameter of \$45,000 to estimate the reinsurance recoveries: -2.0%.

Concerning the induced utilization factor, I agree that there is some impact from individuals with higher morbidity selecting richer plans in large group claim experience.



It seems reasonable to me that the HHS induced utilization factors be used since HHS made an effort to eliminate the impact of morbidity when developing those factors.

I agree that the Pricing AV is the appropriate place to make the Family Tiering adjustment.

I did not have sufficient information concerning the rounding indicated by L&E in the BCBSVT's development of the insurer fee. I therefore cannot comment on that adjustment.

I agree that the \$45,000 attachment point should be used in the estimate of the reinsurance recoveries from the federal reinsurance program for the reasons detailed in this report.

VIII. RELIANCE

In reaching my conclusions I have relied on the materials listed in Attachment B – Materials Reviewed as provided by the Office of the Health Care Advocate.

IX. ASOP 41 DISCLOSURES

The contents of this report are intended for the use of the Office of the Health Care Advocate and the Green Mountain Care Board.

The purpose of this Report is to provide the results of my review and analysis of the premium rate filing of BlueCross BlueShield of Vermont (BCBSVT) and to provide the Office of the Health Care Advocate alternative recommendations and calculations of BCBSVT's requested rates.

I am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries. I am also president of NovaRest, Inc., which I founded in 2002.



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According to the Actuarial Standards Board standards and Code of Professional Conduct, I am qualified to offer my opinion in this matter.

The report should be considered in its entirety and no part should be copied or provided without the whole. Distribution of this letter to parties other than the Green Mountain Care Board by us or any other party does not constitute advice by us to those parties. The reliance of parties other than the Green Mountain Care Board on any aspect of our work is not authorized by us and is done at their own risk.

NovaRest does not and has never affiliated with the health plan or health insurance issuer whose rate filing we have reviewed. We have no conflicts of interest.

In arriving at our opinion, we used and relied on information (listed in Attachment B) provided by the company without independent investigation or verification. If this information is inaccurate, incomplete or out of date, our findings and conclusions may need to be revised. While we have relied on the data provided by the company without independent investigation or verification, we have reviewed the information for consistency and reasonableness.

Information that was reviewed for the purposes of developing this opinion was provided through July 30, 2014.

We are not aware of any subsequent events at the time of this report.

August 4, 2014

By: _____

Donna C. Novak

Donna Novak, ASA, MAAA



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ATTACHMENT A - DONNA NOVAK CURRICULUM VITAE



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CURRICULUM VITAE

NAME

Donna C. Novak

BUSINESS ADDRESS

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Sahuarita, AZ, 85629
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EDUCATION

DePaul University, BA in Mathematics and Business, 1972
Post graduate work Illinois Institute of Technology, 1972-1973.
Northwestern University (Kellogg), Masters in Health Care Management and Finance, 2000

CONTINUING EDUCATION

An estimated 90 hours annually of sessions at the National Association of Insurance Commissioners (NAIC) quarterly meetings
Prepare and speak annually at Society of Actuaries (SOA) meetings
Meet all continuing education requirements of the American Academy of Actuaries (AAA) necessary to sign public statements of actuarial opinion

MEMBERSHIP IN PROFESSIONAL ORGANIZATIONS

Fellow of the Conference of Consulting Actuaries (FCA)
Associate of the Society of Actuaries (ASA)
Member of the Academy of Actuaries (MAAA)
Fellow, Life Management Institute (FLMI)
Health Insurance Associate (HIA)

PROFESSIONAL ACTIVITIES

Prior Vice-Chair of the AAA Health Practice Council
Prior Vice-President of the AAA Financial Reporting Council
Prior Board member of the Conference of Consulting Actuaries (CCA)



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PROFESSIONAL ACTIVITIES

(Continued)

Led numerous AAA projects including the project to draft the NAIC Health Reserve Guidance Manual and other advisory letters

Participated in numerous AAA projects including the project to develop the NAIC Risk-based Capital standard and other projects for the NAIC

Prior member of the General Committee of the Actuarial Standards Board (ASB)

Member of the Health Committee of the Actuarial Standards Board

Led the 2014 update of ASOP No. 8 *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits*

PROFESSIONAL EXPERIENCE

Contracted advisor to HHS on the implementation of the ACA

Member of the Advisory Board to the HHS Consumer Operated and Oriented Plan (CO-OP) Program.

Hired by the NAIC to write the NAIC Health Financial Analyst Manual

Perform audits of Medicare Risk Plan Adjusted Community Rated (ACR) filings for 2004 and 2005 ACRs

Perform Medicare bid desk reviews and audits 2006 to present

Rate filing reviews in 7 states, the District of Columbia, and Puerto Rico

Helped create an improved rate review process in 2 states, District of Columbia and Puerto Rico

Actuarial support for state financial audits of HMOs, Blue Cross Blue Shield Plans and commercial carriers

Assisted states in structuring programs to reduce the uninsured

Prepare reports on the impact of mandated benefits for states and consumers

Provide consulting services to state regulators reviewing the Form A filings for carrier business affiliations and mutual holding company conversions



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PROFESSIONAL EXPERIENCE
(Continued)

For state reviews of specific carrier solvency levels, determine optimum capital level for financial protection

Monitored the solvency of BlueCross BlueShield Plans and their recovery initiatives when they fell below Association requirements

Advised large employers concerning their future health insurance cost and the primary drivers of their health insurance cost

Advised large self-insurance employers concerning recommended employee contributions for various benefit options

Advised large employers when negotiating rates with providers and tracking actual experience with contracted providers

Provided actuarial audit support for two “big four” accounting firms

Reviewed Premera BlueCross and BlueShield pricing methodology and provided a report recommending improvements based on industry best practices

PUBLICATIONS
Authored 2002-2014

AAA Professional Practice Notes regularly published on the AAA website

2014 rewrite of ASOP No. 8 *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits.*

Participated in developing comment letters to the NAIC and HHS on the implementation of PPACA for the AAA that are published in the NAIC and CCIIO websites

PROFESSIONAL PRESENTATIONS

Speak regularly at Society of Actuaries meetings on such topics as:

Medicare bid audits and desk reviews

Professional Standards

Health Risk-based Capital

Health Reserving

Coordinator of the SOA Valuation Boot Camps

California Department of Managed Health Care Solvency Board on HMO financial standards



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PROFESSIONAL PRESENTATIONS

(Continued)

National Conference of Insurance Legislators on Association Health Plans

NAIC Conference on the Uninsured on state solutions to the uninsured

EXPERT TESTIMONY ETC.

Years 2010-2014

For an individual insured, provided expert report on insurance pricing of prosthetic devices in 2010 in a dispute concerning coverage of repairs in Arbitration in Nebraska.

Deposition in a case concerning Molina Healthcare of Wisconsin post purchase financial reconciliation that went to arbitration in Wisconsin in 2013.

Expert report for the California Dental Association in case concerning dentist reimbursement before the American Arbitration Association in 2014 and is ongoing.



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ATTACHMENT B - MATERIALS REVIEWED



Attachment B	
BlueCross BlueShield Materials Reviewed by NovaRest	
File Name	Contents
Rate Data Template - BCBSVT - Issuer 13627 - 06.02.2014	SERFF Rates Table Template prepared by BCBSVT
Unified_Rate_Review_Template_2015_BCBSVT_13627	Federal Part I Justification Unified Rate Review Template Prepared by BCBSVT
BCBSVT 2015 Exchange Filing - Exhibits	Excel file of actuarial memorandum exhibits prepared by BCBSVT
BCBSVT - 2015 Exchange - Actuarial Dataset	Excel file prepared by BCBSVT
018_14rr_6_5_2014	SERFF Pipeline on or around June 5
Confidential Responses (1) to BCBSVT 2015 Exchange Filing Inquiries 06_11_2014.docx	BCBSVT response to L&E objections dated 6/11/2014
018_14rr_6_17_2014_Q&R1	SERFF Pipeline on or around June 17
L&E_Interrogatories2_6_25_14	L&E additional objections dated 6/25/2014
Responses to BCBSVT 2015 Exchange Filing Inquiries - 06.11.2014 (Excel)	BCBSVT excel file provided as response to objections
Unified_Rate_Review_Template_BCBSVT_2014_Final_Amended_Rates_Excel	Updated Federal Part I Justification Unified Rate Review Template prepared by BCBSVT
Response_narrative_2	BCBSVT response to L&E objections dated 6/30/2014
Response_2_xlsx	Excel file demonstrating impact of a generic copaxone on specialty trend
Response_2_Excel	PDF file demonstrating impact of a generic copaxone on specialty trend
Supplemental_Health_Care_Exhibit_Filed_BCBSVT_2013	BCBSVT's 2013 NAIC Supplemental Exhibit
Supplemental_Health_Care_Exhibit_Filed_TVHP_2013	TVHP's 2013 NAIC Supplemental Exhibit
BCBSVT_GMCB_Response_to_HCA_Qs	The Green Mountain Care Board questions originally suggested by the Office of the Health Care Advocate (HCA) dated 7/8/14



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Response_3_BCBSVT	BCBSVT RESPONSE TO L&E OBJECTIONS DATED 7/8/2014
2013 NAIC Annual Financial Statement of BCBSVT	BCBSVT's 2013 annual statement
BCBSVT 2015 Exchange Filing Summary (BCVT-129572217) 20140729	L&E's letter dated July 29, 2014 with a summary and recommendation regarding BCBSVT's proposed 2015 Exchange Filing