



ACTUARIAL MEMORANDUM

2023 Large Group MVPHP Manual Rate and Addendum Filing

Purpose of Filing

The purpose of this filing is to demonstrate the development of manual rates in support of MVP Health Plan's (MVPHP) Large Group HMO product portfolio and seek approval of the manual rates and factors used to develop group specific premium rates. The premium rates included in this filing are for group effective dates between 1/1/2023 and 12/31/2023. The rates are effective for 12 months. This rate filing has been prepared to satisfy the requirements of 8 V.S.A § 5104 and is not intended to be used for other purposes.

Scope of Filing

As of April 2022, there are 1,827 members enrolled in Large Group plans on MVPHP. Of these members, 1,421 have a 1st quarter renewal, 0 have a 2nd quarter renewal, 293 have a 3rd quarter renewal, and 113 have a 4th quarter renewal.

The overall projected annual revenue change for 1Q 2023 is 26.6% based on MVP's current membership distribution and is driven by two factors which are described below.

- Manual Rate Change: MVP is proposing a quarterly manual rate increase of 19.6% for Q1, followed by 2.9% for each of the subsequent quarters.
- Change in Target Loss Ratio: MVP is increasing its target loss ratio from 86.6% in the 1Q 2022 filing to 86.7% for this rate filing which is decreasing the overall revenue change by 0.02%. The drivers of this decrease include a decrease in the billback amounts paid to the state of Vermont, a decrease in the Vermont Vaccine Pilot Program Fee, and a decrease in the general administrative load as a percent of premium. This is offset by an increase in the contribution of reserves from 1.5% to 2.0%.

Please see the following table for a derivation of the overall revenue change for 1Q to 4Q 2023. It is important to note that the revenue change for all plans under our current distribution of members is 26.6%.

Derivation of Annual Revenue Change Based on Current Membership

	1Q '23 Annual Increase	2Q '23 Annual Increase	3Q '23 Annual Increase	4Q '23 Annual Increase
Manual Rate Changes	26.6%	27.7%	28.9%	30.0%
Impact of Changes in Target Loss Ratio	-0.02%	-0.02%	-0.02%	-0.02%
Proposed Annual Revenue Change	26.6%	27.7%	28.8%	30.0%

Experience Period Claims

Large group Vermont claims incurred between May 2021 and April 2022, paid through April 2022 (with incurred estimates updated through May 2022) were the basis of MVP's rate analysis. Fee-for-service (FFS) medical and pharmacy claims were projected to the 1Q 2023 rating period by applying 20 months of trend to the experience period data.

Pooling Charge

To account for volatility in high-cost claims, claims in excess of \$250,000 are being removed from the claim projection and replaced by a pooling charge. Because MVP has limited large group data in Vermont, the pooling charges in this filing align with MVP's large group business in New York, consistent with prior filings. The pooling charge of 4.57% is equal to the \$250,000 pooling charge included in MVP's LG Addendum which is included with this SERFF submission. For a summary of the high-cost claim ratio in recent time periods, please refer to the attached file, "Rolling 12 Medical and Rx Data – LG".

IBNR Factor

As previously stated, MVP is reflecting an incurred estimate with one month of claim run-out. We have completed the claims using an IBNR factor of 8.8% which is our best estimate of ultimate liabilities as of 5/31/22. MVP uses a combined trended PMPM and completion factor method to value its ultimate claim liabilities. Please see the following table comparing incurred and paid claim amounts by month for the experience period. Note that this IBNR model is not exclusive to this block of business, so the paid and incurred claim amounts will not tie out to the experience in the filing.

Incurred Month	Paid Claims	Incurred Claims	IBNR Factor
202204	\$5,374,782	\$16,830,047	3.131
202203	\$15,536,601	\$17,990,155	1.158
202202	\$13,787,242	\$14,973,226	1.086
202201	\$14,641,344	\$15,107,920	1.032
202112	\$19,483,497	\$19,890,911	1.021
202111	\$18,616,064	\$18,949,010	1.018
202110	\$17,864,651	\$17,997,568	1.007
202109	\$20,814,328	\$21,502,614	1.033
202108	\$16,958,421	\$16,836,178	0.993
202107	\$16,899,764	\$16,924,343	1.001
202106	\$17,959,976	\$17,979,041	1.001
202105	\$16,809,491	\$16,933,778	1.007
Total	\$194,746,161	\$211,914,792	1.088

Development of Manual Rate Increase

Exhibit 3a demonstrates the development of the proposed 1st quarter rate action. The experience period claims include FFS medical claims completed with IBNR, Rx claims, and rebates. Experience period claims were adjusted for the pooling charge. To project rebates, MVP has taken the experience period rebates as a percentage of the experience period allowed claims (35.6%) and applied that percentage to the rating period allowed claims. This represents MVP's best estimate of future rebates that will be shared between the PBM and MVP.

Several adjustments to the experience period incurred claim costs were necessary to adjust for items not captured in the experience period. The adjustments are explained below.

MVP is removing \$3.62 PMPM to account for cost sharing related to the COVID-19 pandemic including treatment, visits, testing and telehealth that was waived during the experience period. It is expected that the cost sharing will shift back to the members in 2023.

MVP analyzed the total expense in the experience period associated with COVID treatment, visits, and testing. After consultation with MVP's medical team, we decided to assume a 30% reduction in Covid cost in the projection period, resulting in the removal of \$4.06 PMPM.

MVP is using the CMS unit cost projection of 2023 vaccines as \$104 per shot which represents an increase over our 2021 experience due to having to pay the ingredient cost in 2023. MVP's own utilization experience was used. This results in an additional \$3.17 PMPM.

The state of Vermont has mandated that insulin cost share for a 30-day supply be capped at \$100 per member starting in 2022. MVP analyzed historical insulin utilization by member and determined this mandate would result in an additional \$0.06 PMPM.

MVP is adding vision coverage to all plans in 2023. MVP's studied historical vision claims from members with riders and used this to derive the \$1.24 PMPM additional cost for this benefit.

Adjustments are made to the projected net claims cost to account for average industry factor and the impact of membership changes over the experience period.

MVP is making an adjustment to the claim projection for the impact of membership not representing a full 12-month contract over the experience period. Because deductibles are present in most these products, paid claims are suppressed in the early months of a member's contract and are higher than average in later contract months. Therefore, if the experience period membership is not evenly distributed by contract month, an adjustment to the claim costs should be made to reflect the expected claim costs for a 12-month contract period.

To determine the adjustment factor for the experience period claims cost, MVP used deductible suppression factors which were developed by analyzing commercial claims for members with 12 months of medical and Rx benefit coverage. MVP assumed that allowed claims were uniformly distributed by month and determined the expected paid claim cost for a given month relative to the average paid amount for 12 months. Factors were developed for a number of different deductible levels, and MVP split its experience period membership by these deductible levels to compute the appropriate adjustment factors. This adjustment factor equals 0.982 and can be found in Exhibit 3a. A quantitative derivation of this factor can be found in the file, "Impact of Membership Growth_Divide on Experience Pd Claims".

The average age/gender factor of the population in this experience period compared to the prior filing is 1.037. The inverse of this factor was applied to experience period claims which results in a revenue decrease of 3.5%. The age/gender table is included in Appendix B of the file, "Appendices A-C – 1Q 2023.xlsx".

The industry normalization factor shown on Exhibit 3a was computed using MVP's census over the experience period along with the industry factors included in Appendix A of the file, "Appendices A-C – 1Q 2023.xlsx" which is included with this SERFF submission. Over the experience period, the average industry factor was 1.016. To neutralize the impact of this factor on the required rate change, MVP is multiplying the 1Q 2023 claim projection times the reciprocal of this factor.

Medical Trend Factors

The development of annual medical paid claim trend factors for 1Q 2023 is illustrated in Exhibit 2a. MVP is reflecting 1.0% medical utilization trends in the current filing, and the assumed unit cost trends reflect known and assumed price increases from MVP's provider network as of the filing date.

MVP analyzed historical medical utilization trends for its VT block of business and determined that the data has been too volatile in recent years to use for medical utilization trend purposes. MVP attributes this volatility to the significant membership growth for this block of business and COVID-19. During the 2020 filing, "L&E [Lewis & Ellis Actuaries and Consultants] performed a series of independent trend calculations using market wide utilization data from 2015 to 2018" and found that "After assessing all the market wide results, L&E believes that a reasonable range for market wide utilization trend to be 1% to 4%" (L&E Actuarial Memo, SERFF # MVPH-131934219, page 7). Because MVP believes

that their data still lacks necessary stability and L&E’s view of utilization trend encompasses the entire market, MVP has built in a 1% annual utilization trend for this filing.

The assumed unit cost trends reflect known and assumed price increases from MVP’s provider network. The 2022 unit cost trends for VT hospitals reflect the approved Green Mountain Care Board hospital budgets. Please see Exhibit 2a for the unit cost trends by claim category by year. The 2023 unit cost trends for VT hospitals reflect the proposed commercial rate requests from the hospitals to the GMCB. MVP’s unit cost trends for non-VT providers for both years reflect the best estimate of MVP’s contract negotiations. MVP has assumed that the 2024 annual trend is equal to the 2023 trend, as we lack information on unit cost trends for 2024 at this time.

In addition to the medical cost inflation rate assumed from the historical experience period to the rating period, an adjustment is needed to reflect the impact of cost share leveraging on the carrier’s share of the medical cost. Leveraging is a result of the fixed nature of deductibles and copays in health benefit plans. When there are fixed member deductibles and copays, the carrier bears a greater portion of the cost of medical inflation. Therefore, an additional factor adjustment is made to the trend assumption to capture this cost.

The trend applied to the deductible portion of the experience period was derived using the distribution of claims for MVP’s VT book of business. Claims below the average deductible amount over the experience period were trended at the applicable allowed trend rate while claims greater than the deductible were held flat.

Rx Trend Factors

Annual Rx trend factors split by generic, brand and specialty drugs are illustrated in Exhibit 2a. These trend factors were supplied by MVP’s pharmacy benefit manager (PBM) and reflect their best estimate of expected changes to pharmacy costs and drug utilization, given MVP’s data as a starting point. Supporting documentation illustrating how the Rx trends shown on Exhibit 2a were converted to paid trends for 1Q 2023 can be found in Exhibit 2b.

The PBM has provided trends for 2022 and 2023. The trends for 2024 are assumed to be equal to the 2023 trends. The trend forecast provided by MVP’s PBM accounts for drugs coming off patent, changes in average wholesale price, new drugs being released to the market, and price competitiveness amongst generic and brand drug manufacturers. Please see the following table which displays MVP’s pharmacy trends in this filing.

Rx Trends Used in 2023 MVP VT Large Group Filing						
	2022/2021 Trend		2023/2022 Trend		2024/2023 Trend	
	Unit Cost	Utilization	Unit Cost	Utilization	Unit Cost	Utilization
Generic	-3.7%	2.4%	-1.2%	2.9%	-1.2%	2.9%
Brand	7.0%	3.9%	3.4%	0.3%	3.4%	0.3%
Specialty	4.0%	9.4%	6.1%	12.2%	6.1%	12.2%

Please see the attached file, “Rolling 12 Medical and Rx Data - LG.xlsx” which contains a rolling 12-month summary of total Rx claim costs as well as Rx data broken out by Generic, Brand, and Specialty.

The annual paid claim trend projection factor on Exhibit 3a represents the blended FFS annual trend projection. To arrive at the blended trend projection, the following calculation is performed: [Annual Paid Medical Trend ^ (20/12) * Experience Period Incurred Medical Claims + Annual Paid Rx Trend Net of Rebates ^ (20/12) * Experience Period Rx Claims (Net of Rebates)] / [Experience Period Incurred Medical Claims + Experience Period Rx Claims (Net of Rebates)] ^ (12/20). The annual trend is then applied for 20 months to move the experience period data from the experience period to the rating period.

An adjustment to the claim projection is made to account for New York’s HCRA Surcharge. The New York HCRA Surcharge included in the claim projection is based only on claims paid for services performed by New York hospitals. The load for this surcharge equals 0.15% and is based on historical HCRA fees incurred by Vermont members.

Non-FFS claim expenses and capitation expenses are added to the claim projection. Please see the following table for a summary of non-FFS and capitation expenses reflected in MVP’s rate development for this filing.

Summary of Capitations and Non-FRDM Claim Expenses	
Other Medical Expense not in warehouse	\$2.96
Net Reinsurance Expense	\$0.44
Medical Home and PCP Incentive	\$2.85
Total	\$6.25

The expected non-FFS medical expenses added to the claim projection reflect costs associated with net reinsurance expense, PCP incentive payments and Medical Home, and other miscellaneous MVP claim expenses not included in the historical experience period data such as manual checks and Massachusetts surcharges. The Other Medical Expense data is comprised of data for all Vermont group sizes and companies (MVPHIP and MVPHIC) in order to minimize random variation in this block of business.

To arrive at the data suggested quarterly rate change for 1Q 2023, the normalized net claim projection is compared to the 4Q 2022 manual rate that would be collected for the experience period enrollment to indicate the suggested quarterly manual rate change.

MVP has also developed 2Q 2023 to 4Q 2023 manual rates for this rate filing. Please see Exhibit 3b which applies one additional quarter of trend to the projected claims on Exhibit 3a. Comparing the 2Q 2023 projected claims to the 1Q 2023 claim projection determines the quarterly manual rate change, and similarly for 3Q 2023 and 4Q 2023.

Retention Expenses

Retention expenses are outlined in the attached Addendum. The following table represents MVP’s Large Group administrative expenses as filed in the Supplemental Health Care Exhibit over the past four years:

Administrative Expense Summary - Data Taken from Supplemental Health Care Exhibit				
VT Large Group – MVPHIC & MVPHIP				
	Member Months	Premium PMPM	Admin PMPM	Admin Expense Ratio
2018	26,765	\$484.55	\$48.67	10.0%
2019	22,511	\$499.97	\$46.35	9.3%
2020	23,424	\$540.97	\$38.45	7.1%
2021	25,201	\$568.90	\$47.93	8.4%

Admin PMPM reflects the following lines from Part I of the SHCE: 6.6, 8.3, 10.1, and 10.4

Changes have been made to the following retention items since the 1Q 2022 filing:

- Administrative Load: MVP is proposing to reduce the administrative expense load in the current filing from 8.2% of premium to 7.8% of premium.
- Covered Lives Assessment: The 2023 covered lives assessment has yet to be finalized by New York State. MVP is assuming a 5% increase in the 2022 covered lives assessment, consistent with prior filings.

The following taxes/assessments are included in the attached Addendum:

VT Paid Claim Tax

The State of Vermont charges a 0.999% tax on paid claims.

18 V.S.A § 9374 (h)(1) Billback

\$1.34 PMPM is added for fees MVP must pay to the State of Vermont to help fund expenses incurred by state agencies and other non-profit organizations on MVP’s behalf, including the Green Mountain Care Board, the Vermont Program for Quality in Health Care, Inc. and the Office of the Health Care Advocate. This is found by using the best available information about the market-wide cost of each of the programs and then accounting for MVP’s growth in market share from 2021 to 2023.

VT Vaccine Pilot

Based on information provided by the Vermont Vaccine Purchasing Program (VVPP), MVP’s rates are \$9.98 per covered child and \$1.68 per covered adult for 2023, followed by an estimate of \$10.96 per covered child and \$1.82 per covered adult for 2024. Based on a blend of MVP’s child and adult membership in the projection period, the total PMPM costs were determined for each year and given an equal weight, resulting in a \$3.00 PMPM. This blended PMPM was then compared to the projection period premium PMPM before the assessment load to convert the assessment to a percent of premium load of 0.43%.

Loss Ratio Information

The traditional target loss ratio (claims cost / premium) for the manual rates proposed in this rate filing is 86.7%. After adjusting for taxes/assessments and expenses associated with quality improvements, the Federal target loss ratio for the rates proposed in this filing is 87.7%. Please see the following table for more detail:

Target Loss Ratio for LG VT in 1Q 2023	
	Large Group VT
A) Claims Expense	\$593.18
B) Taxes/Assessments	\$4.53
C) Quality Improvement	\$3.20
D) Premium	\$684.27
E) Traditional Loss Ratio = A) / D)	86.7%
F) Federal Loss Ratio = [A) + C)] / [D) - B)]	87.7%

Supplemental Exhibits

Also included with this filing is a historical claim and membership summary for the past 36 months grouped into rolling 12-month periods. Incurred claims from May 2019 – April 2022 completed through May 2022 are reflected in the data.

Re-Sloping of Benefits

MVP has used its proprietary benefit relativity model to update the relativities for all existing plan offerings. Exhibit 3c shows the 4Q2022 net required revenue before and after the benefit re-sloping for all medical/pharmacy/safe harbor plan combinations along with the membership for the plan. The membership weighted net required revenue after adjusting the relativities is equal to before, ensuring revenue neutrality.

New Products

MVP is not offering any new products in Vermont in 2023.

Retired Products

MVP is not retiring any products in Vermont in 2023.

Actuarial Certification

I, Christopher Pontiff, am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries. I have examined the assumptions and methods used in determining MVP's requested rates. Based on my review and examination, it is my opinion that the proposed premium rates are reasonable in relation to the benefits provided and that they are not excessive, inadequate, nor unfairly discriminatory. This rate filing conforms to the applicable Standards of Practice as promulgated by the Actuarial Standards Board.



Christopher Pontiff, ASA, MAAA
Director, Commercial Market Actuary
MVP Health Care

08/09/2022

Date