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June 3, 2014

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

Re: Blue Cross and Blue Shield of Vermont, Q4 2014 – Q3 2015 BCBSVT Admin Filing (SERFF # BCVT-129486744)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Q4 2014 – Q3 2015 Admin Filing for Blue Cross and Blue Shield of Vermont (BCBSVT) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. BCBSVT is a non-profit hospital and medical service corporation. BCBSVT provides large group coverage to employers in Vermont.
2. This filing develops administrative charges to be used in the rate development for the Company's Large Group accounts beginning 10 business days after the date of approval. Contribution to Reserves (CTR) for Insured and Cost Plus large groups are also documented.
3. This filing addresses BCBSVT Insured and Cost Plus large groups. There are approximately 33,100 lives affected.
4. The overall impact of this filing:
 - Administrative Expenses: 1.2% annual increase (\$0.67 PMPM increase)
 - Contribution to Reserve:
 - Insured Large Group: 2.0% of premium (\$8.94 PMPM)
 - The previously approved CTR is 1.0%.
 - Cost Plus Large Group: 0.5% of equivalent premium (\$2.39 PMPM)
 - The previously approved CTR is 0.5%.

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

BCBSVT provided the methodology used to calculate the proposed increase in administration costs and support for the proposed contribution to reserves. The Company provided 2013 administration costs and trended them forward based on historical CPI-U data. The Company demonstrated the CTR that is needed to maintain the target capital due to trend and the impact of a potential flu epidemic.

Company's Analysis

1. The proposed administration costs are developed by trending forward the 2013 administration costs using historical CPI-U¹ data. The Company feels that CPI-U data is more appropriate than using internal historical data because it does not include the effects of changes in the number of members over time. The Company used a 2-year regression on the CPI-U data to estimate the annualized trend factor of 1.2%.
2. The proposed CTR is 2.0% for Insured Large Groups. The CTR represents management's judgment of the appropriate level of contribution to be assessed to customers over the long term to maintain the company's reserve level at the target level. The Company believes it is sufficient to offset the impact due to trend as well as other events such as a major flu epidemic.

The proposed CTR of 0.5% for Cost Plus Large Groups is set relative to the insured CTR of 2.0%.

L&E Analysis

1. The proposed administration costs are based on trending actual 2013 administration costs. However, the Company expects the 2014 administration costs on a PMPM basis to decrease by 1.5% compared to 2013 administration costs. The decrease on a PMPM basis is due to an increase in membership for 2014, which allows the Company to spread fixed administration costs over a larger number of insured members.

In their analysis, the Company ignores the projected 2014 data when estimating the administrative costs in this filing. However, the 1.5% decrease in 2014 will offset the expected inflation trend in 2015. Therefore, we recommend applying a 0.0% trend to the actual 2013 administration costs to more accurately project the future costs.

2. The proposed CTR of 2.0% for Insured Large Groups includes a 1.0% provision to offset the impact of trend and a 1.0% provision to recover the costs of a major flu epidemic in approximately two years. However, the Company did not provide any support for the frequency of an event such as a major flu epidemic or the current need to recover costs from recent experience. As a result of not providing adequate support, we recommend modifying the CTR for Insured Large Groups down to 1.0%, which should be sufficient to offset the impact due to trend.

¹ Data source: <http://www.bls.gov/data/#prices> (CPI – All Urban Consumers, Northeast Urban, All Items, 1982-1984=100, data through February 2014)

The Company did not provide support for the relativity of the CTR between Insured and Cost Plus business, but it appears to be appropriate and reasonable. Therefore, we recommend making a similar modification to the CTR for Cost Plus Large Groups down to 0.25%.

While we believe the recommended modifications to the CTR are reasonable and allow the Company to offset the impact of trend, the results of the Department of Financial Regulation's Solvency Analysis should also be considered.

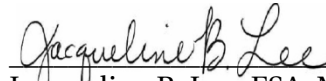
Recommendation

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 modify the administrative trend to 0.0%, the contribution to reserve to for Insured Large Groups to 1.0% and the contribution to reserve for Cost Plus Large Groups to 0.25%.


Sincerely,



Josh Hammerquist, ASA, MAAA
Assistant Vice President & Consulting Actuary
Lewis & Ellis, Inc.



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Vice President & Consulting Actuary
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations², 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 Conduct³, 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:

- Joshua A. Hammerquist, ASA, MAAA, Assistant Vice President 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 June 3, 2014. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is June 2, 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.

² 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.

³ These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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.
- 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.