STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: The Vermont Health Plan, LLC	)	
First and Second Quarter 2014 Trend Filing	)	GMCB-036-13-rr
	)	
	)	

TVHP MEMORANDUM IN LIEU OF HEARING

The Vermont Health Plan, LLC (TVHP) requests the Green Mountain Care Board (GMCB) adopt the Department of Financial Regulation Commissioner's recommendation to approve the filed 1Q and 2Q 2014 trends.

The Commissioner's recommendation relied in part on the findings by its actuary Oliver Wyman (OW) that the proposed trends are actuarially reasonable and already fall within the low to middle range of OW's independently calculated range of reasonable trends and are in the bottom quartile of countrywide trends. Commissioner's December 5, 2013 Recommendation at 5. The Commissioner's recommendation also relied on the opinion of the Department's Director of Company Licensing and Examinations, who cautioned against reducing trends in a manner that increases the company's exposure to unexpected adverse events. Id.

TVHP expects that all of its small group business will migrate to Vermont Health Connect (VHC) during 2014. Like its parent company Blue Cross and Blue Shield of Vermont (BCBSVT), TVHP faces a time of unprecedented uncertainty with the advent of the VHC but also with VHC's lack of functionality. TVHP has willingly partnered with the state to assure the greatest number of Vermonters have health coverage as of January 1, 2014. TVHP agreed to permit extensions of existing plans for up to three months in 2014, despite the fact that rates will be inadequate for plans extended into 2014

TVHP, like its parent company BCBSVT, exists to make health care affordable for Vermonters. By pooling the populations covered by its products, it protects individuals from the unaffordable and potentially ruinous costs associated with significant illnesses or injuries. Its products promote preventive care, health maintenance and health improvement, and it has in place strong utilization management programs that support members who require medical care and assure that they have access to high value care while avoiding unnecessary costs.

TVHP also works with providers to dampen cost increases through reimbursement strategies that include capitation and incentives to both provide and properly manage care. And, TVHP continues to be a strong partner with the state in efforts to bend the cost curve by its participation in the extension of plans into 2014, Blueprint, and other programs designed to afford Vermonters access to well-designed insurance products that offer delivery of affordable and appropriate care. TVHP urges the GMCB to continue its cost containment work with providers—both professional and facilities—so that health plans such as TVHP can continue to offer the most affordable products possible.

None of this work is possible unless TVHP remains financially strong, and that requires that it be allowed to charge rates that cover the medical expenses of the populations it serves, as well as the Plan's own administrative expenses, which are among the lowest in the industry, and its capitalization needs. In her recommendation, the Commissioner found that:

> TVHP is required to maintain certain minimum surplus levels set by the Department and the national Blue Cross BlueShield association. Maintenance of adequate surplus is a critical consumer protection, particularly for entities that are not members of an insurance guaranty association. In evaluating the current financial position of TVHP, the Director of Company Licensing and Examinations has reviewed current surplus levels, the potential impact of past rate decisions not yet in effect and the uncertainty due to market and regulatory changes. Given these factors, he cautions that reducing trends in a manner that increases the company's exposure to unexpected adverse events is not advisable at this time.

Commissioner's December 5, 2013 Recommendation at 5.[1]

We note that the generic dispensing rate (GDR) assumption is a key determinant of the drug trend projection and the drug trend should include a reasonable GDR assumption based on the most complete information available. We also note that the low end of the OW trend range, 5.3%, assumes an ongoing annual 4% increase in the GDR. This GDR assumption falls outside the range of reasonable actuarial expectation and should not be considered in establishing a reasonable range of trend assumptions. In particular:

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[1] TVHP is not a member of the Vermont Life and Health Guaranty fund established under Chapter 112, subchapter 1 of title 8 nor is it a member of the Vermont HMO guaranty fund, Chapter 112, subchapter 2 (8 V.S.A. §§ 4181 et seq.) because that guaranty fund association has not been established.; see also http://www.dfr.vermont.gov/insurance/company-licensing/vermonts-insurance-guaranty-associations for an explanation of the role of guaranty funds generally.

- TVHP performed an extensive analysis and projection of the GDR in its drug trend development, using the history of BCBSVT/TVHP drug scripts combined with the generic launch dates for brand drugs with a material impact on pharmaceutical utilization (as shown in Page 6 of Exhibit II of the filing). Information regarding generic launch dates is based upon the most recent market intelligence available at the time of the filing (CVS Caremark reports and Society of Actuaries presentations). The resulting projected GDR of 83.4% for the 12 months ending March 2015 reflects the decreasing number of blockbuster brand drugs going into the generic pipeline as compared to recent history.

- OW recognizes this in that it states "…it is our belief that the significant growth in the GDR of approximately 4% which has been experienced in recent years simply cannot continue indefinitely." However, OW's drug trend of 5.3% *does* assume an ongoing annual 4% increase in GDR, rising to the level of 88.5% for the 12 months ending March 2015. This assumption ignores the more specific drug-level detail available from industry sources, calling into question its reasonability. Furthermore, even if one were to use a broad assumption rather than a fact-based approach, the assumption chosen in fact assumes an even *faster* rate of generic conversion than what has been experienced in recent years (over 25% of brand scripts would need to convert to generic – an unprecedented rate of generic conversion).

The low end of the OW trend range relies upon a GDR assumption that is well above the reasonable actuarial range, and is therefore itself below the range of reasonable pharmacy trend rates. TVHP's proposed trend of 7.2% falls at approximately "the 25th percentile (7.0%) of nationwide trends [based on a survey of 66 national health care carriers covering 108 million lives conducted by Oliver Wyman in mid-2013]." Commissioner's December 5, 2013 Recommendation at page 4, footnote 4. Given that the GDR experienced by BCBSVT/TVHP is well above industry benchmarks (and higher GDR means that fewer brand scripts exist for potential conversion to generic, leading to higher trend rates), it stands to reason that our proposed trend of 7.2% is already at the low end of the reasonable range.

In conclusion, the filing as recommended by the Commissioner meets the statutory criteria for approval and is expected to result in rates that are affordable, reasonable in relation to the benefits and not excessive, inadequate or unfairly discriminatory and should be approved as filed.

Dated at Montpelier, Vermont, this 20th day of December 2013.

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CERTIFICATE OF SERVICE

I hereby certify that this Memorandum in Lieu of Hearing has been duly served upon Michael Donofrio, General Counsel to the Green Mountain Care Board, and Lila Richardson, Office of Vermont Ombudsman, by electronic mail, return receipt requested, this 20th day of December, 2013.

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