

May 31, 2015

Mr. Josh Hammerquist, A.S.A., M.A.A.A.
Assistant Vice President & Consulting Actuary
Lewis & Ellis, Inc.

**Subject: Your 05/23/2016 Questions re: Blue Cross and Blue Shield of Vermont
2017 Qualified Health Plan Filing (SERFF Tracking #: BCVT-130567350)**

Dear Mr. Hammerquist:

In response to your request dated May 23, 2016, here are *your questions* and our answers:

1. This question involves confidential and proprietary information and will be provided under separate cover.
2. This question involves confidential and proprietary information and will be provided under separate cover.
3. *Provide quantitative support for the considerably unfavorable paid claims experience. Source: Actuarial Memorandum page 4*

Responses to BCBSVT 2017 QHP filing inquiries - 05.23.2016.xlsx, tab Q3 provides a comparison of actual 2015 paid fee-for-service claims to the projected 2015 fee-for-service claims implicit in the 2016 rate filing. Driven primarily by actuarial values that were significantly higher than expected, actual paid fee-for-service claims were 7.7 percent higher than projected.

This was modestly offset by experience in other than fee-for-service claims, which had a 1.2 percent favorable impact on claims, as shown in the table below:

CY 2015 PMPM	2016 QHP Rate Filing	2017 QHP Rate Filing	Increase
Medical and Pharmacy Allowed Charges	\$491.19	\$503.97	2.6%
Other Claims (Pediatric Dental and Vision, Rebates, Blueprint, ITS fees)	\$7.67	\$1.81	-1.2%
Total	\$498.86	\$505.78	+1.4%

In aggregate, 2015 paid claims were approximately 6.5 percent higher than the projection implicit within the 2016 QHP rate filing, driving a premium increase of 5.4 percent.

4. *Please provide an actual to expected comparison of the contributions to reserves for the most recent 5 years based on the final premiums after amendments made by regulators.*

The chart below shows the expected contribution to reserves based on our forecasting model, which incorporates final premiums including amendments ordered by regulators for the Individual and Small Group markets. Note that the expected result for 2014 also

recognizes the impact of the decision to allow individuals and small groups to continue in their 2013 plan through the first quarter of 2014.

The actual results for 2014 and 2015 include the impacts of the Transitional Reinsurance and Risk Adjustment program in the year they were incurred, not in the year when they were booked.

Year	Expected	Actual
2011	-0.3%	1.9%
2012	0.9%	-3.4%
2013	-2.0%	-2.0%
2014	-1.6%	2.8%
2015	0.8%	-1.8%
Cumulative	-0.4%	-0.7%

As the chart demonstrates, actual results have fluctuated uniformly around our expectation, implying that filed pricing assumptions have been free of implicit margin over the past five years.

5. *Please provide quantitative support for the increase in the experience period administrative costs from \$28.40 in the prior filing to \$32.93 in the current filing.*
Source: Actuarial Memorandum page 24 and 2016 Actuarial Memorandum page 28

There are three main drivers of the increase in the experience period administrative cost. First, the fee for the Vermont Collaborative Care (\$0.87 PMPM) is now included in the experience period.

Second, there was a 5.7 percent increase in enterprise operating expenses on a per member per month basis from 2014 to 2015. This was largely driven by the commencement of a multi-year project to migrate to a new operating platform, along with some significant upgrades to our cybersecurity protocols.

Finally, BCBSVT completed a comprehensive cost accounting study for the first time in a number of years. As part of the study, each department was asked to reassess the direct attribution of allocation of their resources by line of business. The resulting costs of operations by segment increased the QHP administrative cost PMPM by 6.4 percent.

	2016 QHP Rate Filing	Updated Experience Period	2017 QHP Rate Filing
Experience Period	CY 2014	CY 2015	CY 2015
Base Administrative Charges	\$28.40		
Vermont Collaborative Care fee	\$0.87		
Total Administrative Charges	\$29.27	\$30.94	\$32.93
Change		+5.7%	+12.5%

6. *Confirm that the projected period membership in the exhibit on the top of page 25 in the Actuarial Memorandum is correctly allocated between “Enrolled through VHC” and “Directly Enrolled with BCBSVT.”*

The projected membership in the table on page 25 of the Actuarial Memorandum was typed in the wrong column. Below is the corrected table.

	Enrolled through VHC	Directly Enrolled with BCBSVT	Total
Experience Member Months	336,288	429,765	766,083
Experience PMPM	\$37.97	\$28.99	\$32.93
Projected Period Membership	27,708	49,830	77,538
Projected PMPM			\$32.20
Impact			= \$32.20/\$32.93 = 0.9778

7. *What percentage of groups with 51 - 100 employees that were expected in the prior filing to offer a QHP, have offered or have informed you that they intend to offer a QHP?*
Source: Actuarial Memorandum page 9

In the 2016 QHP rate filing, we expected 43 groups with 51-100 employees to offer QHPs. 15 of those 43 groups have decided to offer QHPs in 2016.

The table in *Responses to BCBSVT 2017 QHP filing inquiries - 05.23.2016.xlsx, tab Q7* summarizes the member months and allowed charges PMPM for each category of groups from the 2016 QHP Rate Filing and the 2017 QHP Rate Filing.

While fewer groups than expected selected QHPs in January 2016, a number of groups changed their renewal date to December, thereby allowing themselves an additional eleven months to make a final decision. Our assumption for the total impact of these groups in the 2016 filing was directionally accurate, and we expect the total number of groups joining the single risk pool to be consistent with the 2016 assumption. Experience for this subset of groups worsened considerably from 2014 to 2015.

8. *Please reconcile Exhibit 2B with the table in section 3.4.1 of the Actuarial Memorandum.*

The table in section 3.4.1 of the Actuarial Memorandum shows experience allowed claims and experience member months while Exhibit 2B uses projected membership and allowed claims adjusted for the network, as shown on Exhibit 2E. Please see attached *Responses to BCBSVT 2017 QHP filing inquiries - 05.23.2016.xlsx, tab Q8* for a detailed reconciliation.

9. *Please provide the projected number of contracts by plan by tier.*

Please see attached *Responses to BCBSVT 2017 QHP filing inquiries - 05.23.2016.xlsx, tab Q9* for the projected number of contracts by plan and by tier.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,



Paul Schultz, F.S.A., M.A.A.A.