

July 6, 2016

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

**Subject: Your 07/01/2016 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 July 1, 2016, here are *your questions* and our answers:

- We note that House Bill 873 allocates the expenses incurred by the Office of the Health Care Advocate for services related to the Green Mountain Care Board's and Department of Financial Regulation's regulatory and supervisory duties. Was the allocation of these expenses accounted for in the proposed rates?*

We did not specifically adjust our projected administrative expenses for this bill. The difference between the new allocations included in H873 and the amount included in our experience administrative charges for the Office of the HCA is estimated to be less than \$20,000.

- Per page 19 of the 2017 URRT Instructions, "Utilization Trend also includes any effects of selection since this cannot be reflected in the relative cost of the various products and plans offered." Please justify including the impact of selection (line C6 in Exhibit 5) in the other factor in the URRT or modify the URRT to comply. We note that this will not have an impact on the rates.*

After reviewing the 2017 URRT instructions, we agree with your interpretation that the impact of selection is more appropriately included in the Utilization Trend rather than the Other factor. We will reflect this change in our revised URRT submitted at the conclusion of the rate review process.

- Please provide additional detailed descriptions for the calculations of the values in rows 19 and 20 in Exhibit 2F.*

Row 19 in Exhibit 2F was calculated by comparing the actual allowed PMPM for each metal level to the average allowed PMPM. The comparison was done at the metal level, rather than the plan level, for credibility purposes.

Metal	Actual CY 2015 Allowed PMPM	Projected CY 2017 Membership	Benefit Richness Adjustment
Platinum	\$787.46	12,995	1.5891
Gold	\$499.88	15,243	1.0088
Silver	\$447.83	38,949	0.9037
Bronze	\$305.25	10,182	0.6160
Catastrophic	\$120.01	169	0.2422
Total	\$495.55	77,538	

Please note that we noticed an error on exhibit 2F, where the Benefit Richness Adjustment (row 19) is not the value in the table above. This error has a de minimis impact on rates.

Row 20 in Exhibit 2F is the Base Paid to Allowed ratio also shown on Exhibit 6B, row 11.

4. *Please confirm that cells O6 and AK6 should be labeled as GMCB in the confidential response provide on May 31, 2016.*

Yes, cells O6 and AK6 should have been labeled as GMCB.

5. *Please provide additional detail for the “potential up-take in 2015” on the top of page 16 in the Actuarial Memorandum.*

While reviewing the data used to calculate the utilization trend, it became apparent that the monthly patterns for QHP claims were not as expected based on our re-adjudication models. With approximately three-quarters of the membership enrolled in plans with high deductibles (of over \$1,000), we expected that monthly claims would follow a more seasonal pattern than that experienced in 2015 (see Exhibit 3C for monthly claims details). While hard evidence of up-take is difficult to quantify, it is commonly experienced in plans that have seen a major change in benefits - the rollout of QHPs in this case. This phenomenon is referred to in the literature as the “hush, rush, crush cycle¹”. In the period preceding the change, there is an increase (rush) in claims due to the impending change in benefit. This then dampens the claims in the period following the benefit change (hush), due to members having already received elective services, along with uncertainty in how to use the new benefit package. Finally, the last period (crush - calendar year 2015 in this case) experiences an increase in claims as members better understand their benefits and revert to a more typical pattern of utilization. This year-over-year increase in utilization artificially increases trend. We therefore do not believe that the artificially high trend experienced in early 2015 is indicative of future expectations, and have adjusted our assumptions accordingly.

6. *Does BCBSVT have any concerns with the proposed rates in light of the updated 2015 risk adjustment information released on June 30th by CMS?*

The final risk adjustment information published by CMS leads us to believe that our projection of the 2017 risk adjustment payment was overly optimistic. The actual 2015 transfer is \$581,288, which is some \$2 million less than originally anticipated and included in our financial statements.

We updated our estimate of the 2017 projected risk adjustment transfer in light of this new information. Pursuant to earlier conversations with you, we also adjusted the calculation to reflect the impact of groups with 51-100 employees (estimated to have risk scores proportional to their claims, both relative to other small group members) and members previously in Medicaid expected to join MVP (10% of former Medicaid members expected to join QHPs). In adding the groups of 51-100, we updated the membership used in the calculation to match our 2017 projection (the original calculation simply referred to 2015 membership). The updated risk adjustment for 2017 is a *payment* from BCBSVT to MVP of approximately \$680,000. This would increase our projected rate increase to 8.6 percent.

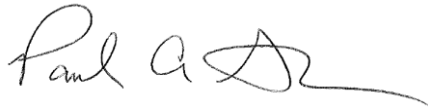
Please find attached *Reponses to BCBSVT 2017 QHP Filing Inquiries Letter 5.xlsx*, which includes versions of Exhibits 4 and 9 that have been updated for details of the final 2015 risk adjustment transfer calculation and its projected impact on rates.

¹ Skwire, Daniel D. (2016) Group Insurance, Seventh Edition, New Hartford, CT: ACTEX Publications

Please note that the restated contribution to reserve for 2015, including the final 2015 risk adjustment information along with the final coinsurance percentage for transitional reinsurance (and with 3R payments reflected in the year they were incurred), is negative 2.4 percent, while the cumulative five year CTR is negative 0.8 percent for the Small Group and Individual markets.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul Schultz", with a long horizontal flourish extending to the right.

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