

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Blue Cross and Blue Shield of Vermont)	GMCB-003-16rr
Third Quarter 2016 Large Group)	
Rating Program Rate Filing)	SERFF No.: BCVT-130453174
)	

In re: The Vermont Health Plan Third Quarter)	GMCB-005-16rr
2016 Large Group Rating Program)	
Rate Filing)	SERFF No.: BCVT-130457790
)	

DECISION & ORDER

Introduction

Vermont law requires that health insurers submit major medical rate filings to the Green Mountain Care Board which shall approve, modify, or disapprove a rate filing within 90 calendar days of its receipt. 8 V.S.A. § 4062(a)(2)(A). On review, the Board must determine whether the proposed rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading or contrary to Vermont law. 8 V.S.A. § 4062(a)(3).

Procedural History

On February 18, 2016, Blue Cross and Blue Shield of Vermont (BCBSVT) submitted its Third Quarter 2016 (3Q16) Large Group Rating Program Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). On February 22, 2016, The Vermont Health Plan (TVHP), a for-profit subsidiary of Blue Cross and Blue Shield of Vermont (BCBSVT), submitted its Third Quarter 2016 Large Group Rating Program Rate Filing to the Board via SERFF. The filings incorporate the factor and rate development from combined BCBSVT and TVHP experience and propose identical changes to manual rates; we therefore consider both filings at the same time.¹ The Office of the Health Care Advocate (HCA), representing the interests of Vermont consumers of health insurance, has entered an appearance as a party to these rate filings.

¹ For simplicity, we will generally refer to both insurers as BCBSVT, or as “the carrier.” The SERFF filings, as well as all documents referenced in this Decision and Order, can be found at <http://ratereview.vermont.gov/BCVT-130453174> (BCBSVT) and http://ratereview.vermont.gov/rate_review/BCVT-130457790 (TVHP).

On April 7, 2016, the Board posted to the web the Department of Financial Regulation's (Department) analysis regarding the filing's impact on the BCBSVT's solvency. On April 18, 2016, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E). The Board posted materially identical documents regarding TVHP on April 18 and April 20, respectively. The Board received no comments during the public comment period for either filing.

The parties have waived hearings pursuant to GMCB Rule 2.000 and each has filed memoranda in lieu of hearing. BCBSVT has also filed a reply memorandum for each filing.

Findings of Fact

Nature of the Filing

1. BCBSVT is a non-profit hospital and medical service corporation. TVHP is a licensed health maintenance organization (HMO) and for-profit subsidiary of BCBSVT. Each offers a variety of plans and products in the group market in Vermont.

2. This filing establishes the formula, manual rate, and accompanying factors that will be used to establish premiums as members renew their coverage. It combines five factors that have historically been filed separately: trend; benefit relativities; administrative costs and contribution to surplus; aggregate stop loss; and large claim factors.

3. There are 67 groups, 7,800 subscribers and 15,500 covered lives in the BCBSVT insured and Cost Plus large groups affected by the filing. For TVHP, there are 24 fully insured groups, approximately 2,400 subscribers and 4,500 covered lives affected by its filing.

4. The filing proposes a 4.3% increase to the carrier's large-group manual rate.²

Summary of the Data and Analysis

5. For the base experience period, BCBSVT used claims data from BCBSVT insured and Cost Plus large groups and TVHP insured large groups for the period from November 1, 2011 to August 31, 2015, and paid through October 31, 2015.

6. BCBSVT projected adjusted claims forward using a 5.8% allowed medical trend based on 1.3% utilization and 4.4% unit-cost trends.

² A manual rate is a baseline rate structure that a carrier will blend with a specific group's claims experience to produce the group's actual rates. The weight of the manual rate in calculating rates for a specific group will vary according to the size and actuarial credibility of the group.

7. Using a regression analysis of 24 months of historical data, a projected generic dispensing ratio (GDR) of 88.5% and taking into account the impact of high-cost specialty drugs, BCBSVT calculated an overall allowed pharmacy trend of 10.5%.

8. BCBSVT trended administrative costs forward by 2.4% over actual administrative costs for the year ending October 2015. The carrier based the cost trend on the assumption that wages and benefits will increase at 3.0%, and operating costs and membership will remain level.

9. BCBSVT requests a 2.0% contribution to reserve (CTR). The request includes 1.3% to maintain risk based capital (RBC) at the current levels due to the impact of the 6.6% total allowed trend, plus a margin to keep pace with trend and ensure stability should a significant adverse event create a shock to capital.

10. L&E performed an independent calculation of utilization and unit-cost components of medical trend. L&E reviewed the annual change in the total allowed medical claims for the prior 24 months, adjusting this data to account for the “buy down” effect on utilization caused by groups moving to higher cost-sharing plans. L&E also reviewed confidential data on unit-cost trends, resulting in an estimated range for overall medical trend of 3.4% to 7.5%. L&E opined that BCBSVT’s proposed 5.8% trend was reasonable and comfortably within estimated range.

11. L&E’s independent analysis produced a pharmacy trend figure of 10.4%, one-tenth of a percentage point lower than that proposed by BCBSVT, with an estimated range of 8.7% to 12.1%. L&E opined that all adjustments used by BCBSVT to account for generic dispensing ratio and expensive specialty drugs were reasonable and did not offer alternative adjustments.

12. L&E opines that the carrier’s proposed 2.0% CTR for fully insured groups and 0.5% CTR for cost-plus groups is reasonable, not excessive, and allows for a margin to protect against adverse events. L&E states that a review of BCBSVT’s company-wide reserve level is beyond the scope of its review, and recommends consideration of the Department’s solvency analysis to determine an appropriate CTR figure.

13. The Department reviewed the filing in light of BCBSVT’s financial status, and states that the “rates as filed likely will have the impact of sustaining the current level of solvency, which DFR has determined to be appropriate and necessary.”

14. The HCA requests that the Board reduce the carrier’s CTR to 1.3%, arguing that the Board should adopt the minimum figure necessary to maintain RBC and that BCBSVT has not

demonstrated any specific risks to its solvency. BCBSVT opposes reduction of the proposed CTR, arguing that the purpose of CTR is precisely to guard against unidentifiable risks, and that a reduction would be inconsistent with L&E's analysis and recommendations.

Standard of Review

1. The Board reviews rate filings to ensure that rates are affordable, that they are not "excessive, inadequate or unfairly discriminatory," that they promote quality care and access to health care, protect insurer solvency, and are not unjust, unfair, inequitable, misleading or contrary to Vermont law. 8 V.S.A. §§ 4512(b); 4062(a)(2); GMCB Rule 2.000, §§ 2.301(b), 2.401. In addition, the Board takes into consideration changes in health care delivery, changes in payment methods and amounts, and other issues at its discretion. 18 V.S.A. § 9375(b)(6).

2. As part of its review, the Board will consider the Department's analysis and opinion on the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062(a)(2), (3). In addition, the Board shall consider any public comments received on a rate filing. Rule 2.000, §2.201.

3. The burden falls on the insurer proposing a rate change to justify the requested rate. *Id.* § 2.104(c)

Conclusions of Law

1. First, we accept our actuary's assessment that BCBSVT's allowed medical trend of 5.8% is reasonable and appropriate. As L&E discussed in its actuarial memorandum, BCBSVT's figure is within the midrange of L&E's total estimated range, and within the narrower range that has the highest likelihood of accuracy.

2. Secondly, we accept our actuary's assessment that BCBSVT's allowed pharmacy trend of 10.5% is reasonable and appropriate. Again, BCBSVT's figure is at the near-midpoint of L&E's estimated range, and well within the range that L&E considers to have the highest likelihood of accuracy.

3. Finally, we conclude that the 2.0% CTR proposed by BCBSVT for fully insured groups and 0.5% CTR proposed for cost-plus groups is reasonable and appropriate to maintain current RBC levels while also providing adequate margin for unidentifiable future risks within Vermont's large group market.

Order

For the reasons discussed above, the Board approves as filed the large group rating program filings from BCBSVT and TVHP, including the overall 4.3% increase to the carrier's large-group manual rate.

So ordered.

Dated: May 18, 2016 at Montpelier, Vermont

<u>s/ Alfred Gobeille</u>)	
)	
<u>s/ Cornelius Hogan</u>)	GREEN MOUNTAIN
)	CARE BOARD
<u>s/ Jessica Holmes</u>)	OF VERMONT
)	
<u>s/ Allan Ramsay</u>)	
)	
<u>s/ Betty Rambur</u>)	

Filed: May 18, 2016

Attest: s/ Janet Richard
Green Mountain Care Board, Administrative Services Coordinator

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Board (by e-mail, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (E-mail address: Janet.Richard@vermont.gov). Appeal of this decision to the Supreme Court of Vermont must be filed with the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.