STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: BCBSVT 3Q 2016 Large Group Rating Program Filing SERFF No.130453174	)))	GMCB 03-16-rr

MEMORANDUM IN LIEU OF HEARING

The Office of the Health Care Advocate (HCA) asks the Green Mountain Care Board (the Board) to modify the proposed rates for the above named filing by lowering the contribution to reserves for Insured Large Groups to 1.3% to make the rates more affordable and to promote access to health care while adequately protecting the insurer's solvency.

I. Introduction

For its Third Quarter 2016 Large Group Rating Program Filing, covering approximately 7800 subscribers and 15.500 lives, Blue Cross Blue Shield of Vermont (BCBSVT) proposes a rate increase which results in an expected average rate increase of 4.3%. GMCB 03-16-rr, System for Electronic Rate and Form Filing (SERFF Filing), Lewis & Ellis (L & E) Actuarial Opinion at 1. BCBSVT filed this rate request for review by the Board on February 18, 2016. GMCB 03-16-rr SERFF Filing. On April 7, 2016, the Department of Financial Regulation (DFR) submitted its review of BCBSVT's financial solvency, and on April 18, 2016, L & E, the contracted actuaries for the Board, submitted an Actuarial Opinion analyzing the filing. GMCB 03-16-rr, DFR Solvency Analysis and L&E Actuarial Opinion.

The HCA entered an appearance in this matter pursuant to GMCB Rule 2.000 §§2.105(b) and 2.303. The parties have agreed to waive the hearing for the filing.

II. Standard of Review

Health insurers operating in Vermont have the burden of showing that their rates are reasonable and meet the statutory criteria. GMCB Rule 2.104(c). The Green Mountain Care Board has the power to approve, modify, or disapprove requests for health insurance rates. 18 V.S.A. §9375(b)(6); 8 V.S.A. §4062(a).

When "deciding whether to approve, modify, or disapprove each rate request, the Board shall determine whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, is not unjust, unfair, inequitable, misleading, or contrary to law, and is not excessive, inadequate, or unfairly discriminatory." GMCB Rule 2.000 §2.301(b); GMCB Rule 2.000 §2.401; 8 V.S.A. §4062(a)(3). In addition, the Board shall take into consideration the requirements of the underlying statutes, changes in health care delivery, changes in payment methods and amounts, DFR's Solvency Analysis, and other issues at the discretion of the Board. GMCB Rule 2.000 §2.401; 18 V.S.A. §9375(b)(6). Further, the Board "shall consider any [public] comments received on a rate filing and may use them to identify issues." GMCB Rule 2.000 §2.201(d). The record for rate review includes the entire SERFF filing submitted by the insurer, questions posed by the Board to its actuaries, questions posed to the insurer by the Board, its actuaries, and DFR, DFR's Solvency Analysis, and the Actuarial Opinion from the Board's actuary. GMCB Rule 2.000 §2.403(a).

III. Actuarial Opinion and Solvency Analysis

L&E analyzed the filing to assist the Board in determining whether to approve, modify or disapprove the requested rate increase, focusing on whether the filing produces rates that are "excessive, inadequate, or unfairly discriminatory." L & E did not recommend any modifications to the requested rate. GMCB 03-16-rr Actuarial Opinion at page 10.

DFR's Solvency Opinion discusses the impact of the filing as proposed on the solvency and reserves of BCBSVT. GMCB 03-16rr Solvency Opinion at 1. It expresses DFR's belief that the range of surplus targeted by BCBSVT is "reasonable and necessary for the protection of policyholders and BCBSVT is within the range determined to be necessary." DFR notes that rates should be set at a level that "maintains adequate surplus" to keep pace with medical trend and membership growth. Id.

IV. Analysis

The HCA asks the Board to reduce the contribution to reserves (CTR) requested in this filing.This modification will result in a more affordable product for Vermont policyholders and thereby promote access to care.

Contribution to Reserves

The HCA's request to reduce the CTR is consistent with the documentation provided in BCBSVT's SERFF filing. Exhibit 7A demonstrates that the CTR factor required to maintain the current levels of reserves is 1.3%. See also GMCB 03-16-rr Actuarial Opinion at page 8. The Board found a 1% CTR to be sufficient for BCBSVT's 2016 Vermont Exchange Products filing, concluding that it "adequately protects BCBSVT's solvency and therefore its continued ability to provide health insurance coverage to Vermonters." GMCB 8-15rr Decision at 10. In the 2015 Large Group Rating Program filing, the Board reduced a requested 2% CTR to 1.1% which was "the amount required by BCBSVT to retain its risk based capital assuming a 7.2% combined trend – which is consistent with the Department's concern that the carrier "'sustain its current solvency level.'" GMCB 03-15rr Decision at 5.

BCBSVT has described a risk based capital (RBC) target level in Exhibit 7A of the SERFF filing. BCBSVT has previously described a target range for RBC. GMCB 08-15rr Hearing Transcript, p. 27. The insurer's current RBC level as demonstrated in figures from its

2015 Annual Statement, p. 29 (attached) has been near the top of the target range in 2014 and 2015.

BCBSVT argues that it needs a CTR that is higher than the amount that is necessary to maintain current RBC levels because, "unexpected events or periods of sustained losses may lead to financial deterioration of sufficient magnitude to render a company insolvent" and further notes that this "is the basic tenet of classical ruin theory." GMCB 03-16rr SERFF Filing, Actuarial Memorandum at 24. This general explanation of possible risks to surplus does not meet the insurer's burden of proof to demonstrate there is a specific threat to solvency in the period represented by the filing that would justify a 2% CTR. Because BCBSVT's current RBC level is sufficient, the insurer's rates should not be increased beyond the level needed to maintain that RBC.

Consumer Affordability

The proposed rate increase for this filing will be difficult for its policyholders to afford and therefore the increase should be kept to the lowest reasonable level. A significant portion of employed Vermonters struggle to afford their health insurance. According to the Vermont Department of Financial Regulation 2014 Vermont Household Health Insurance Survey (Survey), almost 60% of uninsured working Vermont residents report that they did not enroll in their employer's health plan because it was too expensive. Comprehensive Report, 2014 Survey, p. 46. A quarter of uninsured adults work for employers that offer health insurance, and slightly more than a quarter of working adults with uninsured children, work for companies that offer some type of health insurance. Survey, p.13, 24.

The fact that many Vermonters find their employer sponsored health insurance to be unaffordable is especially concerning because federal rules disqualify most people who are offered employer sponsored health insurance from receiving premium subsidies for health insurance purchased on the state health insurance exchange. Unless the actuarial value of the employer sponsored insurance is below 60% or the employee's share of the premium to cover just the employee (not including the expense of covering family members) exceeds 9.5% of the employee's income, the employee is not eligible to receive premium tax credits through the state insurance exchange. Survey, p. 38.

Wages in Vermont have not increased enough in recent years to allow Vermonters to afford the increases in insurance costs requested in this filing. Wages in Vermont increased just 3% between the third quarter of 2014 and the third quarter of 2015 according to recent statistics from the Vermont Department of Labor. http://www.vtlmi.info/indareanaics.cfm?areatype=01.

Increases in premiums for employer sponsored health insurance are very difficult for employers to absorb. The increases are typically passed on to the employees through increased employee contributions to insurance or through lost wages, or both. Sarah Kliff, The Washington Post, You're Spending Way More on Your Health Benefits than You Think, August 30, 2013.

V. Conclusion

The HCA asks the Board to modify this filing by reducing the CTR from the requested 2% to 1.3%. This will produce a more affordable rate increase for policyholders and thereby improve access to health care and will maintain the current level of risk based capital to adequately protect solvency.

Dated at Montpelier, Vermont this 5th day of May, 2016.

s/ Lila Richardson
Lila Richardson, Staff Attorney
Office of the Health Care Advocate

CERTIFICATE OF SERVICE

I, Lila Richardson, hereby certify that I have served the above Memorandum on Judith Henkin, General Counsel to the Green Mountain Care Board, Noel Hudson, Health Policy Director of the Green Mountain Care Board, and Jacqueline Hughes, representative of Blue Cross Blue Shield of Vermont, by electronic mail, return receipt requested, this 5th day of May, 2016.

s/ Lila Richardson
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FIVE-YEAR HISTORICAL DATA

	1 2015	2 2014	3 2013	4 2012	5 2011
BALANCE SHEET (Pages 2 and 3)					
1. TOTAL Admitted Assets (Page 2, Line 28)	266,570,682	256,062,656	214,094,889	208,160,092	186,635,196
2. TOTAL Liabilities (Page 3, Line 24)	118,146,927	117,699,267	81,725,393	82,209,981	72,721,131
3. Statutory minimum capital and surplus requirement					
4. TOTAL Capital and Surplus (Page 3, Line 33)	148,423,755	138,363,389	132,369,496	125,950,111	113,914,065
INCOME STATEMENT (Page 4)					
5. TOTAL Revenues (Line 8)	539,866,593	470,609,637	420,770,140	382,465,965	290,617,981
6. TOTAL Medical and Hospital Expenses (Line 18)	477,997,865	421,302,703	393,428,827	351,308,410	254,938,292
7. Claims adjustment expenses (Line 20)	23,875,148	18,657,595	23,526,449	23,591,986	22,578,958
8. TOTAL Administrative Expenses (Line 21)	29,156,887	25,508,112	15,213,050	14,147,348	12,960,576
9. Net underwriting gain (loss) (Line 24)	8,836,693	5,141,227	(5,248,186)	(12,731,779)	140,155
10. Net investment gain (loss) (Line 27)	4,154,355	4,626,710	4,382,220	5,226,990	4,398,857
11. TOTAL Other Income (Lines 28 plus 29)	2,636,986	3,245,968	2,949,818	4,111,939	4,437,819
12. Net income or (loss) (Line 32)	12,200,330	9,891,577	3,848,264	(4,744,932)	5,928,656
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	6,253,943	7,507,744	(6,569,621)	10,195,145	6,159,468
RISK-BASED CAPITAL ANALYSIS					
14. TOTAL Adjusted Capital	148,423,755	138,363,389	132,369,496	125,950,111	113,914,065
15. Authorized control level risk-based capital	22,381,451	20,764,628	23,006,123	21,472,507	16,729,016
ENROLLMENT (Exhibit 1)					
16. TOTAL Members at End of Period (Column 5, Line 7)	209,435	209,167	157,247	141,566	123,116
17. TOTAL Members Months (Column 6, Line 7)	2,517,344	2,439,765	1,871,853	1,678,869	1,448,572
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. TOTAL Hospital and Medical plus other non-health (Lines 18 plus Line 19)	88.5	89.5	93.5	91.9	87.7
20. Cost containment expenses	1.0	1.1	1.4	1.6	2.0
21. Other claims adjustment expenses	3.5	2.9	4.2	4.5	5.8
22. TOTAL Underwriting Deductions (Line 23)	98.4	98.9	101.2	103.3	100.0
23. TOTAL Underwriting Gain (Loss) (Line 24)	1.6	1.1	(1.2)	(3.3)	0.0
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5)	29,229,658	24,800,516	22,536,918	14,319,490	13,191,933
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)]	36,071,648	29,298,049	26,852,178	19,038,119	15,772,950
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
26. Affiliated bonds (Sch. D Summary, Line 12, Column 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Column 1)					
28. Affiliated common stocks (Sch. D Summary, Line 24, Column 1)	62,805,121	61,931,709	58,201,513	57,025,600	45,752,287
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)					
30. Affiliated mortgage loans on real estate					
31. All other affiliated					
32. TOTAL of Above Lines 26 to 31	62,805,121	61,931,709	58,201,513	57,025,600	45,752,287
33. TOTAL Investment in Parent Included in Lines 26 to 31 above					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes[ ] No[ ] N/A[X]

If no, please explain::