

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

In re: MVP Health Insurance Company	)	GMCB-004-16rr
Third Quarter 2016 and Fourth Quarter	)	
2016 Large Group EPO/PPO Rate	)	SERFF No.: MVPH-130454426
Filing	)	
	)	

**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 the filing within 90 calendar days of its receipt. 8 V.S.A. § 4062(a)(2)(B). 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 22, 2016, MVP Health Insurance Company (MVPHIC) submitted its Third Quarter 2016 (3Q16) and Fourth Quarter 2016 (4Q16) Large Group EPO/PPO Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF).<sup>1</sup> The Office of the Health Care Advocate (HCA), representing the interests of Vermont consumers of health insurance, entered an appearance as a party to this filing.

On April 18, 2016, the Board posted to the web the Department of Financial Regulation's (Department) analysis regarding the filing's impact on the insurer's solvency. On April 22, 2016, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E). The Board received no public comment on the filing.

The parties have waived a hearing pursuant to GMCB Rule 2.000, § 2.309(a)(1) and have filed memoranda in lieu of hearing.

Findings of Fact

1. MVPHIC is a for-profit New York health insurer that provides EPO and PPO products to individuals and employers in the small and large group markets in New York and

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<sup>1</sup> The contents of the SERFF filing and all documents referenced in this Decision and Order can be found at [http://ratereview.vermont.gov/rate\\_review/MVPH-130454426](http://ratereview.vermont.gov/rate_review/MVPH-130454426).

Vermont. MVPHIC is owned by MVP Health Care, Inc., a New York corporation that transacts health insurance business in New York and Vermont through a variety of for-profit and non-profit subsidiaries.

2. The present filing includes the proposed manual rates for MVPHIC's large group EPO/PPO products for 3Q16 and 4Q16.<sup>2</sup> These rates will affect approximately 2,256 Vermonters covered under 20 group policies.

3. MVPHIC proposes an average annual rate decrease of -8.6% for members renewing in 3Q16 and an average annual rate decrease of -9.6% for those renewing in 4Q16. MVPHIC states that while actuarial data could justify a larger decrease, limiting the size of the proposed decrease will reduce the necessity for future increases.

4. MVPHIC used a paid pharmacy trend factor in its rate development that was supplied by its newly-contracted pharmacy benefit manager (PBM) and which does not take into consideration MVPHIC's Vermont book of business. MVPHIC anticipates that it will use Vermont-specific data starting with its 2017 Vermont Health Connect (Exchange) filing.

5. Beginning in 2016, MVPHIC proposes to use a "manual rate cap" when rating group policyholders. This cap would increase or reduce the manual rate to be within 15% of a group's experience.

6. MVPHIC assumes a general administrative expense load of 8.0%, and proposes a 2.0% contribution to reserve.<sup>3</sup>

7. MVPHIC anticipates that the proposed rates would generate a traditional loss ratio of 84.4%. The anticipated loss ratio using the federal formula is 88.1%.<sup>4</sup>

8. Pursuant to 8 V.S.A. § 4062(a)(2)(B), the Department assessed the impact of the proposed filing on the carrier's solvency. Noting that it is not MVPHIC's primary regulator, that New York State regulators have expressed no concerns about the company's solvency, and that

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<sup>2</sup> 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. Its weight in calculating rates for a specific group will vary according to the group's size and actuarial credibility.

<sup>3</sup> In various documents submitted with this filing, the terms "contribution to surplus" and "contribution to reserve" are used interchangeably. For the purpose of this Decision & Order, the latter term is used for consistency and because the funds at issue are not extra, or "surplus" funds, but are funds reserved solely to cover anticipated future claims.

<sup>4</sup> As opposed to calculation of the traditional loss ratio, calculation of the federal minimum loss ratio under the ACA allows insurers to adjust for quality improvement activities and expenditures on taxes, licensing and regulatory fees.

all of MVP's health operations in Vermont account for approximately 3.7% of its total premiums earned, the Department determined that the carrier's Vermont operations pose little threat to the company's solvency. *See Solvency Analysis at 2.*

9. On review, L&E recommends three modifications to the filing. First, L&E recommends modifying the allowed trend assumption to incorporate the year-over-year change in cost distribution among category-specific cost trends, adding approximately 0.1% to the proposed rates. *See L&E Analysis at 5.*

10. Second, L&E recommends that the pharmacy trend be modified to reflect the one-time cost savings associated with switching to a new pharmacy benefit manager in 2015, reducing the proposed rates by approximately 0.1%. This modification of the pharmacy trend would have the effect of offsetting the effect of the modification to the allowed trend assumption. *Id.* at 6.

11. Third, L&E recommends that the Board implement an average manual rate change of -11.8%, rather than the approximate -8.1% change proposed by MVPHIC. L&E opines that a change of -16.1% is actuarially indicated, but that a reduction of -11.8% would eliminate the need for a 5.2% increase in MVPHIC's next filing should current paid-trend assumptions prove accurate.<sup>5</sup> L&E agrees with MVPHIC that a smaller reduction than -16.1% is appropriate for the sake of future rate stability, but opines that MVPHIC's proposed -8.1% is higher than is actuarially justified. *See Id.* at 5.

12. L&E makes no specific recommendation concerning the proposed 2.0% contribution to reserve, noting that the Board has reduced the contribution in the past two filings from 2.0% to 1.0%. L&E recommends that the Board consider the Department's solvency analysis when making changes to the assumption. *Id.* at 6.

13. L&E's recommended changes to allowed trend, pharmacy trend, and manual rates would reduce the 3Q16 average annual rate change from -8.6% to -12.3%, and would reduce the 4Q16 average annual rate change from -9.6% to -13.3%.

14. L&E expressed concern regarding MVPHIC's new manual rate cap, stating that it would have the effect of assigning very high actuarial credibility to any group with outlier experience, even if the group's size did not warrant such credibility. L&E stated that the cap has

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<sup>5</sup> L&E noted that MVPHIC is assuming a 0.0% utilization trend, and that as a result this 5.2% paid-trend assumption may be understated.

not yet materially affected any existing group's rates, but opined that it should be closely monitored because it could result in unreasonable or unfairly discriminatory rates for MVPHIC policyholders.

15. MVPHIC disagrees with L&E's recommended manual rate change of -11.8%, arguing that it would rather have no quarterly rate change or another rate reduction in 1Q17 than risk the rate volatility possible with L&E's recommendation. *See MVP Memorandum in Lieu of Hearing.*

16. The HCA requests that the Board reduce the proposed CTR by an unspecified amount and adopt a manual rate change of -16.1%, producing more affordable rates for consumers. Further, the HCA contends that MVPHIC should not retain excess premiums with no guarantee of future reductions, and requests that the Board address concerns regarding rate stability by requiring MVPHIC to notify its policyholders that future rate volatility can be expected.

#### Standard of Review

1. The Board reviews rate filings to ensure that rates are "affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust unfair inequitable, misleading, or contrary to the laws of this State." 8 V.S.A. § 4062(a)(2)(B); GMCB Rule 2.000, § 2.301(b). 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); GMCB Rule 2.000 at § 2.401.

2. In arriving at its decision, the Board will consider the Department's analysis and opinion of the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062(a)(3).

3. The insurer proposing a rate change has the burden to justify the requested rate. GMCB Rule 2.000 at, § 2.104(c).

#### Conclusions of Law

1. We agree with and adopt L&E's recommendations to modify the filing. First, we modify the allowed medical trend assumption to incorporate the year-over-year change in distribution among category-specific cost trends, resulting in an approximately 0.1% increase to MVPHIC's proposed rates.

2. Second, we modify the pharmacy trend to reflect the one-time cost savings associated with MVPHIC switching to a new pharmacy benefit manager in 2015, resulting in an approximately 0.1% decrease to all proposed rates.

3. Third, we modify the filing to incorporate L&E's recommended average manual rate change of -11.8%. Both MVPHIC and L&E agree that increasing the actuarially indicated rate change for the sake of future rate stability for policyholders is appropriate. However, we conclude that L&E's recommendation results in actuarially justified and more affordable rates for 3Q16 and 4Q16 while using currently available trend figures to target a stable rate for 1Q17.

4. In addition, we agree with and adopt L&E's recommendation to monitor closely MVP's use of a "manual rate cap" in future filings. Since it is not clear whether this cap can be used without producing unreasonable or unfairly discriminatory rates, approval of the present filing shall not be construed as a general approval of the manual rate cap methodology in future filings.

5. Finally, we conclude that the 2.0% CTR proposed by MVPHIC is reasonable and appropriate to maintain current RBC levels while also providing adequate margin for unidentifiable future risks within Vermont's large group market

6. With the above-stated modifications, we estimate that the proposed rate changes will be reduced from -8.6% to approximately -12.3% for members renewing in 3Q16, and from -9.6% to approximately -13.3% for those renewing in 4Q16.

Order

For the reasons discussed above, the Board modifies and then approves MVPHIC’s 3Q16 and 4Q16 Large Group EPO/PPO Rate Filing. Specifically, the Board orders that MVPHIC adjust its allowed medical trend to account for a changing distribution of specific costs, adjust its pharmacy trend to reflect savings associated with using its new PBM, and reduce its average manual rate change to -11.8%. The effect of these modifications will be an average annual rate change of approximately -12.3% for members renewing in 3Q16, and approximately -13.3% for those renewing in 4Q16.

**SO ORDERED.**

Dated: May 23, 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/ Betty Rambur</u>	)	
	)	
<u>s/ Allan Ramsay</u>	)	

Filed: May 23, 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](mailto: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.*