



625 State Street, PO Box 2207  
Schenectady, NY 12301-2207  
[mvphealthcare.com](http://mvphealthcare.com)

August 25, 2016

Mr. Kevin Ruggeberg, ASA, MAAA  
Lewis & Ellis, Inc.  
P.O. Box 851857  
Richardson, TX 75085

Re: 1Q/2Q 2017 Vermont Small Group AR42 Rate Filing  
SERFF Tracking #: MVPH-1306818193

Dear Mr. Ruggeberg:

This letter is in response to your correspondence received 08/22/16 regarding the above mentioned rate filing. The responses to your questions are provided below.

*1. Exhibit 5 states that the average renewal date for 2Q groups is 4.21 months later than the average renewal date for 1Q groups. Please explain why only 3 months of trend are being applied to 1Q rates to obtain rates for 2Q groups.*

Response: MVP has consistently in the past applied its medical and pharmacy trends from the end of the experience period to the end of the rating period for the earliest possible renewal. We recognize that since this is a closed block, the average quarterly renewal is unlikely to vary considerably over time, but MVP has chosen to be consistent in its trend application among all of its filings. MVP estimates that the 2Q rate increase would be approximately 0.6% higher if an additional 1.2 months of 2018 trend were added.

*2. The description provided with the Rx trends seems to suggest that the change in 2016 trend from the prior filing is due solely to the application of PBM trends to MVP data rather than a more aggregated dataset. Is this correct? Does MVP have an understanding of why the generic cost trend is low when based on Vermont data?*

Response: MVP attributes the majority of trend changes to be driven by using MVP Vermont small group and individual data rather than a more aggregated data set. However, it is also possible that the PBM has changed its unit cost projections for individual drugs between the two filings. The extent to which these changes would have changed the original projections is unknown. MVP has noted that the Vermont-specific generic unit cost trends are much lower than the trends for its other entities, and data provided by the PBM has pinpointed several drug categories that have a material impact on the lower trends. The specific drugs in these categories that are impacting the trends are unknown.

*3. When were the policy duration factors last updated? We would expect that medical trends would reduce the seasonality impact of a given deductible over time.*

Response: The policy duration factors were updated prior to the 2017 Exchange filing and reflect data from 2014 dates of service. MVP has recognized a shift in the cumulative distribution function of allowed claims towards larger amounts over time, and agrees that this shift results in MVP's liability being more evenly distributed across the contract period. Please see the following tables which reflect the duration factors used in the 3Q/4Q 2016 filing and the 1Q/2Q 2017 filing.



625 State Street, PO Box 2207  
Schenectady, NY 12301-2207  
[mvphealthcare.com](http://mvphealthcare.com)

**3Q/4Q 2016 Policy Duration Factors by Deductible**

Deductible Level	1	2	3	4	5	6	7	8	9	10	11	12
\$1,500	0.37	0.72	0.88	0.97	1.03	1.08	1.11	1.14	1.16	1.17	1.18	1.19
\$2,000	0.32	0.67	0.84	0.95	1.03	1.08	1.12	1.15	1.18	1.20	1.22	1.23
\$2,500	0.29	0.63	0.81	0.94	1.02	1.08	1.13	1.17	1.20	1.22	1.25	1.26
\$2,600	0.29	0.63	0.81	0.93	1.02	1.08	1.13	1.17	1.20	1.23	1.25	1.27
\$5,000	0.20	0.53	0.73	0.87	0.98	1.07	1.14	1.21	1.26	1.30	1.34	1.37

**1Q/2Q 2017 Policy Duration Factors by Deductible**

Deductible Level	1	2	3	4	5	6	7	8	9	10	11	12
\$1,500	0.41	0.77	0.91	0.98	1.03	1.07	1.10	1.12	1.14	1.15	1.16	1.17
\$2,000	0.37	0.72	0.88	0.97	1.03	1.07	1.11	1.13	1.15	1.17	1.19	1.20
\$2,500	0.34	0.68	0.85	0.96	1.03	1.08	1.12	1.15	1.17	1.19	1.21	1.23
\$2,600	0.33	0.67	0.85	0.96	1.03	1.08	1.12	1.15	1.17	1.20	1.21	1.23
\$5,000	0.24	0.58	0.76	0.89	1.00	1.08	1.14	1.19	1.23	1.27	1.30	1.32

The factors here represent the ratio of MVP's assumed liability PMPM for a given month to MVP's assumed liability PMPM over the entire contract. As you can see, the updated factors show an increase in MVP's liability in earlier months, consistent with an increase in morbidity over time, and a corresponding (relative) decrease in later months to compensate.

4. Please support the 0.75% assumption for the Insurer Fee assessed on 2Q 2017 renewals.

Response: Assuming that a renewal month of 1.0 reflects an actual renewal date of January 1, an average renewal month of 5.37 reflects an approximate renewal date of May 11. This means that the average second quarter renewal will spend 7.63 (12 – 4.37) months of their contract in 2017 and 4.37 months of their contract in 2018. To calculate the ACA Insurer Fee for second quarter renewals, MVP multiplied the proportion of the average contract spent in 2018 (4.37 / 12) times the assumed 2.0% Insurer Fee for 2018 to get to 0.73% (rounded to 4 decimal places). MVP has rounded this number to 0.75% in the filing.

If you have any questions or require any additional information, please contact me at 518-386-7213.

Sincerely,

Eric Bachner, ASA  
Senior Actuarial Analyst  
MVP Health Care