

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

In re: Blue Cross and Blue Shield Vermont                    )  
3Q 2017 Large Group Rating Program Filing                )            GMCB-04-17-rr  
  )

Blue Cross and Blue Shield of Vermont’s Memorandum in Lieu of Hearing

Blue Cross and Blue Shield of Vermont (BCBSVT) requests the Green Mountain Care Board (GMCB) approve its 3Q2017 large group rating program filing as filed, after modifying the specialty drug trend consistent with the recommendation of Board’s independent expert Lewis and Ellis (L&E). With this modification, our request is consistent with L&E’s recommendation to the Board and results in factors that will produce average rate increases of approximately 10.1 percent.

This filing provides the formula, manual rate and factors that will be used to determine the rates of experience rated groups, including large groups and grandfathered groups with 51-100 employees.<sup>1</sup> The factors in the filing include the medical and pharmacy trends, benefit relativities, administrative costs, state and federal fees, contribution to reserve, specific and aggregate stop loss and large claim factors that will be applied to large group and grandfathered small group rates for the period covered by the filing.

The key findings and recommendations in L&E’s April 24, 2017 report to the GMCB with respect to this filing are as follows:

- **Medical Trend:** L&E found that the allowed medical trend of 6.0% “fits comfortably within the estimated range of actual results. Therefore, L&E considers the Company’s revised allowed medical trend of 5.8% to be reasonable and appropriate.” L&E Opinion, April 24, 2017, page 7. L&E concluded that a 6.0% allowed trend would not produce rates that were excessive, inadequate or unfairly discriminatory and should be approved without modification. Id., p. 10.
- **Pharmacy Trend:** L&E found that an allowed pharmacy trend of 10.6 percent, after adjustment in the calculation for the specialty drug trend, was reasonable and appropriate. Id., p. 7. L&E also found that BCBSVT’s more discrete method to project pharmacy

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<sup>1</sup> Grandfathered groups with 51-100 employees became reclassified as small groups by operation of Vermont law effective January 1, 2016. BCBSVT’s approach to rating them has not changed and their inclusion is immaterial to the rate calculation.

trend, i.e., the approach taken on generic dispensing ratio and to project expensive specialty drugs, to be reasonable and appropriate. Id. pp. 8-9.

- Leveraged Adjustments to Allowed Trends: L&E found that BCBSVT's approach to adjust allowed trends to paid trends is reasonable and appropriate. Id. p. 9.
- Administrative Costs: L&E found that BCBSVT's increase in administrative costs of 25.0 percent which reflects an increase of 1.5 percent to premiums to be reasonable and appropriate. Id. p. 9. The increase was attributable to the following components: a decrease in large group membership covered by this filing, an updated cost allocation, including the redistribution of large group costs after a large group became self insured, and administrative trend. L&E found that BCBSVT's assumptions for each component were reasonable and appropriate. Id. Furthermore, they found that BCBSVT's confidential response to the letter dated April 3, 2017, which provided additional detail related to the increase in administrative costs, was also reasonable and appropriate. L&E Amended Opinion, May 9, 2017, page 9.
- Federal Fees: With the reinstatement of the federal insurer fee, BCBSVT estimated that the fee will increase premiums by 2.7 percent in 2018. L&E found this change to be reasonable and appropriate. L&E Opinion, April 24, 2017, page 9. L&E also correctly noted that, should the federal insurer fee be repealed—one of many proposals being considered by Congress -- BCBSVT will update this part of its rating formula to reflect that activity. Id.
- Contribution to Reserve: CTR supports the overall financial health of the company for the benefit of all members. L&E found that BCBSVT's filed CTR of 2 % for fully insured groups and .5% for Cost Plus groups was reasonable "in order to maintain appropriate RBC levels in light of medical trend and provide an adequate margin over and above the minimum to keep appropriate RBC levels in the case of an adverse event without being excessive." Id. In its opinion, L&E also stated: "While L&E believes the proposed CTR of 2.0% for fully insured groups and 0.5% for Cost Plus groups is reasonable, reviewing the Company's current level of reserves is beyond the scope of this review. Therefore, the results of the Department of Financial Regulation's Solvency Analysis should also be considered." Id. p. 10.

In his April 26, 2017 solvency opinion the Commissioner of Department of Financial Regulation (DFR) found:

There is one element relevant to solvency that is worthy of specific attention. For the year ending December 31 2016 BCBSVT sustained a significant underwriting loss, resulting in a decrease to the Company's surplus and risk based capital ("RBC") ratio. ...The GMCB's reduction to BCBSVT's filed rates contributed, in part, to the underwriting loss, and corresponding decrease in surplus, in that both occurrences would have been lessened were rates approved as filed.

April 26, 2017 Department of Financial Regulation Commissioner Solvency Opinion. p. 3.

The Commissioner also made clear that the Department actively monitors BCBSVT's surplus and solvency as well as potential threats to surplus and solvency, using all available tools. Department of Financial Regulation Solvency Opinion, April 26, 2017, p. 1. The Commissioner further determined that the range of surplus targeted by BCBSVT is reasonable and necessary for the protection of its members and that BCBSVT is within the range determined to be necessary. *Id.* The Commissioner also opined that there is a significant risk that the sufficiency of BCBSVT's surplus would erode due to continued medical trend growth unless applicable rates are adequate and set at a level that maintains adequate surplus that keeps pace with those trends. *Id.*

DFR concluded that it "does not expect this rate as filed to have a significant impact on [its] overall solvency assessment. However, DFR is of the opinion that a downward adjustment to any rate components of this filing could negatively impact BCBSVT's solvency." *Id.* p., 3.

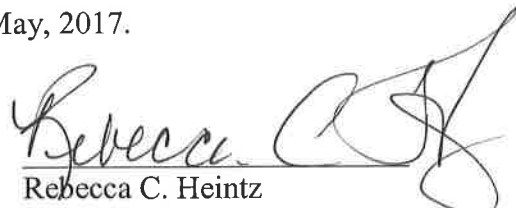
BCBSVT, a nonprofit hospital and medical service corporation, exists to make necessary health care affordable for Vermonters. By pooling the populations covered by its products, it protects individuals from the unaffordable and potentially ruinous costs associated with significant illnesses or injuries. BCBSVT products promote preventive care, health maintenance and health improvement, and it has in place strong utilization management programs that support members who require medical care and assure that they have access to high value care while avoiding unnecessary costs.

BCBSVT also works with providers to dampen cost increases through reimbursement strategies that include capitation and incentives to both provide and properly manage care. And, BCBSVT continues to be a strong partner with the state in efforts to bend the cost curve by its participation in Vermont Health Connect, small group qualified health plans, Blueprint, and other programs designed to afford Vermonters access to well-designed insurance products that offer delivery of affordable and appropriate care. BCBSVT is supportive of GMCB efforts at containing provider cost—both professional and facilities—as those efforts should assist BCBSVT in offering the most affordable products possible.

These and other efforts would be seriously undermined without a financially strong BCBSVT, and that requires that BCBSVT be allowed to charge rates that cover the medical expenses of the populations it serves, as well as federal taxes, the Plan's own administrative expenses, which are consistent with applicable benchmarks and its capitalization needs. In his April 26, 2017 opinion, the DFR Commissioner stated that "downward adjustments to rate components should not be made unless GMCB's consulting actuary explicitly opines that the filed rates, without any modification, are excessive." DFR solvency opinion, p. 2. The Board's independent expert, L&E, recommended one minor revision to the filing (which BCBSVT agrees with) and has concluded that, after that slight modification is made, "this filing does not produce rates that are excessive, inadequate or unfairly discriminatory" L&E, p. 10. BCBSVT agrees with both the Department and L&E that the filing (once modified) supports the requested rates and, further, that the rates are reasonable, appropriate and not excessive, inadequate or unfairly discriminatory.

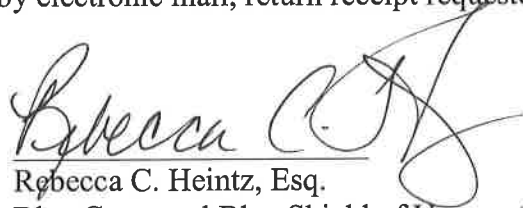
BCBSVT respectfully requests that the Board approve the filing, including L&E's suggested revision of the specialty drug trend.

Dated at Berlin, Vermont, this 12 day of May, 2017.

  
Rebecca C. Heintz  
Blue Cross and Blue Shield of Vermont  
PO Box 186  
Montpelier, VT 05601-0186  
Tel. (802) 371-3256

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the Memorandum in Lieu of Hearing has been duly served upon Judith Henkin, General Counsel to the Green Mountain Care Board, and Lila Richardson and Kaili Kuiper, Office of Vermont Health Advocate, by electronic mail, return receipt requested, this 12 day of May, 2017.



Rebecca C. Heintz, Esq.  
Blue Cross and Blue Shield of Vermont  
PO Box 186  
Montpelier, VT 05601-0186  
Tel. (802) 371-3256