

STATE OF VERMONT  
GREEN MOUNTAIN CARE BOARD

In re: BCBSVT 3Q 2017 )  
Large Group Rating Program Filing ) GMCB 04-17-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 10.7% rate increase for the above named filing by reducing the change in administrative charges from 1.5% to 1% of the increase for this filing and by lowering the contribution to reserves (CTR) level to no more than 1.4 %.

I. Introduction

Blue Cross Blue Shield of Vermont (BCBSVT) proposes an average 10.7% rate increase for this filing. GMCB 04-17-rr, System for Electronic Rates and Form Filing (SERFF Filing); Actuarial Opinion at page 3. BCBSVT estimates that its third quarter 2017 large group rate increase, including the Vermont Health Plan large groups, affects 8,200 subscribers and 15,900 lives. Id at 2. BCBSVT filed this rate request on February 23, 2017. GMCB 04-17-rr, SERFF Filing. On April 26, 2017, the Department of Financial Regulation (DFR) submitted its review of BCBSVT's financial solvency; on April 25, 2017, Lewis and Ellis (L&E), the contracted actuaries for the Board, presented an Actuarial Opinion on this filing; and on May 9, 2017 L&E submitted an Amended Report. GMCB 04-17-rr, DFR Solvency Analysis, L&E Actuarial Opinion and L&E Amended Report.

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

## 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 found that BCBSVT erroneously included members in its projected specialty drug costs that were not in the experience period.

GMCB 04-17rr, L&E amended report, page 8. L&E recommended that the specialty drug trend be reduced to 18.4% to more accurately predict future costs. GMCB 04-17-rr L&E amended report at page 10. L&E explains, “This change does not materially impact the overall rate increase of 10.7%.” L&E amended report, page 10.

DFR’s Solvency Opinion discusses the impact of the filing as proposed on the solvency and reserves of BCBSVT. GMCB 04-16rr Solvency Opinion p. 1. The Opinion 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.” Id.

#### IV. Analysis

The HCA asks the Board to reduce the administrative cost increase from 1.5% to 1% of the total rate increase and the contribution to reserves from 2% to no more than 1.4%. These modifications would result in a more affordable product for Vermont policyholders and thereby promote access to care and maintain an adequate level of reserves for the carrier.

#### Administrative Costs

BCBSVT is asking to increase administrative costs for policyholders under this filing by 25% which accounts for 1.5% of the rate increase for this filing. GMCB 04-17rr, SERFF Filing, Actuarial Memorandum, p. 3. BCBSVT claims that this increase is necessary largely because it updated its cost allocation methodology and it is experiencing a shift in membership: “A Cost Plus group with over 98 percent of the membership of that line of business is moving to an ASO arrangement as of January 1, 2018. We therefore only used Insured Group information for the base administrative charges.” Id at 23. However, BCBSVT fails to explain why an account switching to ASO (administrative services only) would result in such a significant increase in administrative costs to large groups. The Cost Plus account was not lost, it simply changed

categories. It should still cover its own administrative costs. If the increase to large groups is justified because this group is especially expensive to administer, BCBSVT should analyze why it is significantly more expensive than other categories of business and whether these differences add value for policyholders compared to the administrative costs. For example, offering employers flexible benefit designs may not be the best way to serve policyholders if it increases administrative costs significantly. In addition, BCBSVT does not justify why it cannot ease rates for policyholders by implementing the change in cost allocation over time. If the current proposed change was spread over two years, it could be reduced by 0.5%.

BCBSVT, a non-profit, could also ease administrative costs for policyholders by more conservatively managing its spending, especially on executive and board compensation. Between 2015 and 2016, BCBSVT's administrative costs rose by \$735,745. Annual Statement for the Year Ending December 31, 2016, Blue Cross Blue Shield of Vermont, Five Year Historical Data, p.29, line 8. During that same year, BCBSVT added an additional Vice-President and two additional Board members to its payroll. See Vermont Department of Financial Regulation, Health Insurer Annual Reports, 2016 BCBSVT-Act 152, Tables 10.1 through 10.2: Corporate Office and Direct Compensation.<sup>1</sup> The average Vice-President salary increased by 9% between 2015 and 2016 to \$288,397. See Id. The total increase in Executive and Board compensation between 2015 and 2016 was \$453,561 which accounts for 62% of BCBSVT's \$735,745 total increase in administrative costs during that time period. See Id.

We ask the Board to order BCBSVT to reduce its administrative cost increase for this filing from 1.5% to 1% and encourage BCBSVT to find ways to further decrease administrative costs in the future.

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<sup>1</sup> Available at <http://www.dfr.vermont.gov/sites/default/files/BCBSVT%20-%20Act%20152%202016.pdf>

### Contribution to Reserves

BCBSVT has not justified its proposed 2% contribution to reserves (CTR) for this filing. In reference to the requested CTR, BCBSVT's filing does not argue that this amount is currently needed for BCBSVT to maintain a healthy level of reserves, but is being requested to "maintain consistency." GMCB 04-17rr SERFF Filing, Actuarial Memorandum, p. 26. This does not meet BCBSVT's burden of proof.

BCBSVT has set a target range to help it reach an appropriate level of reserves as a nonprofit so that it is protected against insolvency but not hoarding policyholders' money. BCBSVT only needs a CTR of 1.4% to maintain Risk Based Capital (RBC) levels at the midpoint of the Company's target range. L&E amended report, page 9. In fact, a 2% CTR would likely result in BCBSVT exceeding its target RBC range. In its March 13, 2017 answer to L&E's first set of questions, BCBSVT admitted that it only needs a CTR of 1.8 to maintain its risk based capital (RBC) level at the *top end* of its target range. GMCB 04-17rr, Response 1, p. 5. Because affordability is a factor in rate review and BCBSVT is requesting a two-digit increase in rates for this filing, a CTR that would allow the company to maintain the midpoint of the its target range would be appropriate.

Further, a reduction in CTR is in line with previous Board decisions. 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 p. 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 and TVHP to maintain the current level of reserves. GMCB 04-15rr Decision p. 5.

Affordability and access to care for ratepayers

The proposed 10.7% rate increase for this filing will be difficult for BCBSVT policyholders to afford and therefore the increase should be kept to the lowest possible level. A significant portion of employed Vermonters struggle to afford their health insurance. According to the Vermont DFR 2014 Vermont Household Health Insurance 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 Vermont Household Health Insurance Survey at 46. Almost 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 at.13, 24.

Most Vermonters who find their employer sponsored health insurance to be unaffordable do not have access to premium subsidies to reduce the cost of 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 (regardless of 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.

Increases in premium costs for employer sponsored health insurance plans 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. According to the latest consumer price index survey, average consumer goods prices have increased 2.2% in the past year.

V. Conclusion

The HCA asks the Board to reduce the requested administrative cost change from 1.5% of this rate increase to 1% and reduce the requested CTR to no more than 1.4%. While not sufficient to make the proposed 10.7% rate increase affordable, these modification will help to balance affordability for rate payers with BCBSVT's need for sufficient rates.

Dated at Montpelier, Vermont this 12th day of May, 2017.

s/ Kaili Kuiper  
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CERTIFICATE OF SERVICE

I, Kaili Kuiper, 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 and Rebecca Heintz, representatives of the Vermont Health Plan and Blue Cross Blue Shield of Vermont, by electronic mail, return receipt requested, this 12th day of May, 2017.

s/ Kaili Kuiper  
Kaili Kuiper  
Staff Attorney  
Office of the Health Care Advocate