

March 30, 2017

Mr. Josh Hammerquist, A.S.A., M.A.A.A.
Assistant Vice President & Consulting Actuary
Lewis & Ellis, Inc.

**Subject: Your 03/23/2017 Questions re: Blue Cross and Blue Shield of Vermont
3Q 2017 BCBSVT Large Group Rating Program Filing (SERFF Tracking #: BCVT-130935599)**

Dear Mr. Hammerquist:

In response to your request dated March 23, 2017, here are *your questions* and our answers:

1. This question involves confidential and proprietary information and has been provided under separate cover.
2. *Please provide the percentage change in administrative costs for all lines of business combined.*

The administrative costs for all lines of business combined were \$29.62 per member per month (PMPM) in the previous filing and are \$30.99 in the current filing, for an increase of 4.6 percent. For lines of business other than Large Group, the administrative costs were \$31.56 in the previous filing and are \$30.52 in the current filing, for a decrease of 3.3 percent. Note that these values are from the experience period in each filing and have not been adjusted for trend or projected changes in membership across all lines of business.

While reviewing the development of the administrative charges, we discovered an error in the calculation of the Large Group per unit per month (PUPM) charges. In Exhibit 6B of the filing, we calculated the PUPM for each cost category effective July 2017 by multiplying the updated experience period PUPM by the monthly trend raised to the (months of trend/12) power. As the trend is already monthly instead of annual, there is no need to divide the months of trend by 12. The trend factors used for trending to July 2017 were $(1.002)^{(20/12)} = 1.0034$ instead of the correct factor of $(1.002)^{20} = 1.0410$. Charges for subsequent periods were calculated by multiplying the July 2017 charges by the monthly trend. Therefore, all of the PUPMs in Exhibit 6B are understated.

The impact of this error is \$0.84 PMPM for the 59 renewing large groups with 12 months of experience. This represents an additional 2.9 percent increase over the previous filing's administrative charges, for a total increase of 27.9 percent. We are electing to not correct the filing for this error.

3. What is the impact of the billback expenses on the administrative trend in this filing?

Billback expenses were treated as any other expense in this filing. Experience billbacks of \$1.59 PMPM were trended to a projected January 2018 value of \$1.61 PMPM.

Recent developments regarding the GMCB billback suggest that this portion of our administrative charges will be underfunded. The projected portion of the proposed FY 2018 GMCB billback that will be allocated to BCBSVT Large Group Insured lines of business is \$3.13 PMPM.

4. Please reconcile the difference in the percent change in the manual claims and experience claims in the response to question #2 in the letter dated March 7, 2017.

The manual claims for each of the 59 renewing groups with 12 months of experience are the product of the Manual Rate, adjustments for industry and demographics, a contract conversion factor, and the BRV for the group's renewing benefits. The product of the Manual Rate and the BRV equals the paid claims PMPM for the renewing benefit as determined by the BRV model. The BRV model uses claims from all Cost Plus groups, ASO groups, and Insured groups with both medical and Rx coverage in the BRV experience period (July 2015 to June 2016, paid through September 2016).

The experience claims for each group begin with completed experience period claims (October 2015 to September 2016, paid through November 2016), from which actual claims above the pooling level are removed and replaced with expected claims above the pooling level. These claims are trended to the rating period and adjusted for changes in benefit.

There are several differences in the calculations of the experience and manual claims that lead to different increases in each. The experience base for each is different: the total experience claims for the 59 renewing groups are only a part of the BRV experience, which also includes ASO groups and large groups who were enrolled during the experience but are no longer enrolled. The experience periods are also different between the BRV model and the experience renewal.

5. How does the utilization of Orkambi for all lines of business compare to the utilization for large groups and the projected utilization in 2018?

The actual and projected utilization of Orkambi by line of business is below. The pharmacy trend was developed using claims from BCBSVT Cost Plus groups, BCBSVT ASO Groups, BCBSVT Insured Large Groups, and TVHP Insured Large Groups. Combining these homogeneous populations creates greater consistency and credibility within the trend factor development. To maintain consistency with the claims base used to develop trend, the projected members utilizing Orkambi is inclusive of all the aforementioned subgroups. As demonstrated below, the proportion of projected utilization of Orkambi attributable to groups impacted by the filing is significantly less than 8, due to the difference in the membership used to develop trend and the projected membership.

Line of Business	Year	Members
Large Group	2016 Actual	1
QHP	2016 Actual	7

(a)	Member Months in Trend Base	911,441	Exhibit 3F
(b)	Average Monthly Members	75,953	(a)/12
(c)	Projected Orkambi Members in Trend Base	8	
(d)	Incidence	1 in 9,495	(c)/(b)
(e)	Projected Members Impacted by the Filing	15,908	Pg. 2 Actuarial Memorandum
(f)	Projected Large Group Members utilizing Orkambi	1.68	(e)*(d)

6. *If the taxes and fees associated with the Affordable Care Act are repealed, please describe how this will impact the groups in this filing and whether these changes would be expected to be filed.*

The two Affordable Care Act taxes and fees currently charged to large groups, the Federal Insurer Fee and Patient-Centered Outcomes Research Institute Fee, are included in the rating formula. If either is repealed or modified, we will modify the rating formula to reflect the appropriate amount, if any, that should be charged. We do not expect a need to file any changes. In the memorandum, we state the current and expected charges for all state and federal mandates and note that any updates will be incorporated into the rating formula as appropriate.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,



Paul Schultz, F.S.A., M.A.A.A.