



July 31, 2018

Green Mountain Care Board
State of Vermont
144 State Street
Montpelier, VT 05620

Re: Blue Cross and Blue Shield of Vermont 2019 Individual and Small Group Rate Filing (SERFF # BCVT-131497882) Filing Addendum

The purpose of this letter is to provide an official opinion and recommendations regarding amendments submitted by Blue Cross and Blue Shield of Vermont (BCBSVT) after the release of L&E's report regarding the filing.

History of this Filing

BCBSVT initially filed rates reflecting an overall change of 7.5% over 2018 premiums¹. L&E issued a report to the Green Mountain Care Board (GMCB) on July 10, 2018 recommending that the rate increase be reduced to 7.2%. This recommended reduction was based on changes to the pool morbidity factor, impact of selection factor, risk adjustment, and the mapping of non-CSR members to bronze and gold plans. L&E also recommended that the Board consider any updated information regarding hospital budget increases in the final rate determination, as provider reimbursement is a major determining factor in health insurance premiums.

On July 18th, BCBSVT submitted a proposed amendment to the filing. In the amendment, BCBSVT proposed seven (7) changes impacting the originally submitted rate increase and the Company made one (1) recommendation to the GMCB.

The seven (7) changes impacting the rates include:

- Implementation of L&E's four (4) recommendations;
- Adjustments resulting from two (2) Vermont laws enacted after the initial filing; and
- Adjustments resulting from new guidance released by the U.S. Department of Labor (DOL) and new communication released by the Vermont Department of Financial Regulation (DFR) regarding the final rule on association health plans (AHPs).

The implementation of L&E's four (4) recommendations reduce the rate increase by 0.3% from 7.5% to 7.2%.

¹ A portion of the rate increase is funded entirely by the federal government. The proposed effective rate increase, i.e. the increase actually felt by Vermonters, is 5.3%. See the L&E Report dated 7/10/2018 for more information.

The impact of the new laws reduces cost sharing for specified chiropractic services and breast imaging services. BCBSVT proposed a rate increase of approximately 0.1% to account for the increased level of benefits covered by the laws.

The new AHP guidance provides small groups additional options to purchase health insurance coverage outside of Vermont Health Connect (VHC). BCBSVT proposed a rate increase of 2.3% to account for these additional coverage options.

Therefore, based on all of the proposed rate changes, the BCBSVT amended rates reflect an overall proposed increase of 9.6% over 2018 premiums, which is 2.1% higher than the originally filed rates.

The effective rate increase actually felt by Vermonters is 6.9%.

BCBSVT also included a recommendation to the GMCB regarding a perceived structural market defect concerning actuarial values. BCBSVT urged the GMCB to investigate and correct this market structural defect.

L&E Analysis

Impact of Vermont Laws

Act No. 141 (2018), which was signed on May 21, 2018, eliminates cost-sharing for certain breast imaging services. The Company increased the projected 2019 paid claims by the cost sharing in the experience period, which varied by metal tier due to the different levels of cost sharing that are being eliminated by metal tier.

Act No. 7 (2018 Special Session), which was signed June 25, 2018, limits the co-payments for chiropractic care services to the amount of the co-payment for primary care services for 2019 for silver and bronze plans. The Company modeled the required reductions to the chiropractic co-payments using their internal pricing model and the projected increase in 2019 paid claims.

After reviewing the provided documentation and calculations for the two Vermont laws, L&E believes the adjustment is reasonable and appropriate.

The combined impact of the changes in cost sharing for the new Vermont laws is 0.1%.

Impact of Association Health Plans

Prior to the Affordable Care Act (ACA), most of BCBSVT's insured small groups in Vermont were enrolled through an AHP. According to BCBSVT's data, as of December 2013, approximately 75% of BCBSVT's small groups were enrolled through an AHP. Since 2014, small groups were only able to purchase major medical coverage through the VHC.

The final AHP rule released by the DOL on June 29, 2018 allows for fully-insured AHPs to begin offering major medical coverage to small groups on September 1, 2018. That is, the final rule impacted the choices available to small groups for 2019 calendar year coverage.

On July 2, 2018, DFR announced that it would implement emergency rules in response to the DOL's final guidance greatly expanding AHPs.

The Company disclosed that small group members currently enrolled in VHC had an average of 7.5% fewer allowed claims than all members in 2017. That is, as a result of VHC's merged market, the small group market subsidized a portion of the higher claims from the individual market. With the option to purchase coverage through an AHP, the Company expects many small groups to move to AHPs because of lower premiums due to more affordable options and due to not having to subsidize the individual market.

The Company is projecting that 8,000 of their current small groups members will move to an AHP in 2019. According to BCBSVT provided data, this reflects approximately 25% of BCBSVT's December 2013 AHP enrollment. The Company is projecting that these 8,000 members will come from small groups that have enrollment in at least one non-platinum level plan. That is, the enrollment shifts will come from the "healthier" members.

In addition to morbidity impacts, the Company also calculated the impact on administrative costs since small groups have approximately 20% lower administrative costs on a PMPM basis versus individuals covered in VHC. The revised claims and administrative costs increase the proposed premiums by 2.3%.

After reviewing the provided documentation and calculations, L&E believes this adjustment is reasonable and appropriate.

BCBSVT's Recommendation to the GMCB

BCBSVT has concerns that the premium relativities across plans in different metal tiers are not consistent.

L&E performed an independent analysis to estimate the expected difference in Bronze versus Platinum rates in Vermont. Based on information provided to L&E by both BCBSVT and MVP, the analysis demonstrated that the difference between the Bronze and Platinum rates primarily result from MVP having a significantly healthier population. Therefore, it appears that the premium differences by metal tier appear appropriate based on the populations covered by the two companies.

L&E understands BCBSVT's concerns that the premium relativity differences by metal tier could ultimately be problematic since MVP will likely continue to gain the healthiest members from BCBSVT. Therefore, L&E recommends that the GMCB continue to monitor the situation; however, L&E is not recommending the GMCB to make any changes at this time.

L&E Recommendation

L&E believes that the amended filing does not produce rates that are excessive, inadequate, or unfairly discriminatory.

The amended filing results in a rate increase of approximately 9.6%.

As discussed in the prior report, a significant portion of the Company’s proposed increase results from the increase in premium for Silver CSR (“Loaded”) members. Since the federal government provides subsidies to CSR eligible members, this portion of the increase is funded entirely by the federal government. Therefore, in addition to summarizing the overall rate increase proposed by the Company, the table below includes the effective rate increase, which is the impact of the rate increase that will actually be felt by Vermonters.

These modifications result in an effective rate increase felt by Vermonters of 6.9%.

Sincerely,



Josh Hammerquist, FSA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, Inc.



David M. Dillon, FSA, MAAA
Vice President & Principal
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, Inc.

ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations², promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct³, to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary

The responsible actuaries are:

- Joshua A. Hammerquist, FSA, MAAA, Vice President at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Senior Vice President & Principal at L&E.
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at L&E.

These actuaries are available to provide supplementary information and explanation.

Identification of Actuarial Documents

The date of this document is July 31, 2018. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 31, 2018.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but we have not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- We are not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

Actuarial Findings

The actuarial findings of the report can be found in the body of this report.

² The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

³ These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

Methods, Procedures, Assumptions, and Data

The methods, procedures, assumptions, and data used by the actuary can be found in body of this report.

Assumptions or Methods Prescribed by Law

This report was prepared as prescribed by applicable law, statues, regulations, and other legally binding authority.

Responsibility for Assumptions and Methods

The actuaries do not disclaim responsibility for material assumptions or methods.

Deviation from the Guidance of an ASOP

The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.