ACTUARIAL MEMORANDUM

2019 Large Group MVPHP Manual Rate and Addendum Filing

Purpose of Filing

The purpose of this filing is to demonstrate the development of manual rates in support of MVP Health Plan's (MVPHP) Large Group HMO product portfolio and seek approval of the manual rates and factors used to develop group specific premium rates. The premium rates included in this filing are for group effective dates between 1/1/2019 and 12/31/2019. The rates are effective for 12 months. This rate filing has been prepared to satisfy the requirements of 8 V.S.A § 5104 and is not intended to be used for other purposes.

Note that MVP has migrated its entire product portfolio sold on the MVP Health Insurance Company (MVPHIC) license to MVPHP effective 7/1/2018. Where applicable, both the old MVPHIC product name and the new MVPHP product name have been displayed in the rate filing, and increases are comparing the new MVPHP product to the previous MVPHIC product.

Scope of Filing

As of May 2018, there are 2,171 members enrolled in Large Group plans on MVPHIC. Of these members, 1,853 have a 1st quarter renewal, 167 have a 2nd quarter renewal, and 151 have a 3rd quarter renewal.

The overall projected annual revenue change for 1Q 2019 is +13.7% and is driven by three factors which are described below.

- Manual Rate Change: MVP is proposing a quarterly manual rate increase of 10.6% which translates to an annual increase of 22.9%.

- Age/Gender Table Normalization: The average age/gender factor of the population in this experience period compared to the prior filing is 1.006. When combined with the normalization from the prior filing, the annual change to the age/gender factor results in a revenue decrease of -1.6%. MVP is dividing all of the current age/gender factors by this amount (1.006) which is actuarially equivalent to normalizing the claim projection by the same factor. The normalized age/gender table is included in Appendix B of the file, "Appendices A-C – 1Q 2019.xlsx".

- Change in Target Loss Ratio: MVP is increasing its target loss ratio from 81.2% in the 1Q 2018 filing to 86.4% for this rate filing which is decreasing the overall revenue change by 6.0%. The drivers of this reduction are renewing the groups onto MVPHP from MVPHIC, which removes the VT premium tax assessment and reduces the ACA tax liability, as well as the postponement of the ACA tax for 2019 coverage dates.

Please see the following table for a derivation of the overall revenue change for 1Q to 4Q 2019.

Derivation of Annual Revenue Change Based on Quarterly Rate Changes

	1Q '19 Annual Increase	2Q '19 Annual Increase	3Q '19 Annual Increase	4Q '19 Annual Increase
Manual Rate Changes	22.9%	23.0%	15.3%	15.8%
Age Gender Table Normalization	-1.6%	-1.6%	-1.6%	-1.6%
Impact of Changes in Target Loss Ratio	-6.0%	-5.6%	0.1%	1.0%
Proposed Annual Revenue Change	**13.7%**	**14.4%**	**13.7%**	**15.0%**

Experience Period Claims

Large group MVPHIC claims incurred between May 2017 and April 2018, paid through May 2018 (with incurred estimates updated through June 2018) were the basis of MVP's rate analysis. Fee-for-service (FFS) medical and pharmacy claims were projected to the 1Q 2019 rating period by applying 20 months of trend to the experience period data. The capitation and non-FFS costs included in the rate development represent MVP's best estimate of these costs during the rating period.

Pooling Charge

To account for volatility in high cost claims, claims in excess of $100,000 are being removed from the claim projection and replaced by a pooling charge. Because MVP has limited large group data in Vermont, the pooling charges in this filing have been updated to align with MVP's large group business in New York. The pooling charge of 9.92% is equal to the $100,000 pooling charge included in MVP's LG Addendum which is included with this SERFF submission. For a summary of the high cost claim ratio in recent time periods, please refer to the attached file, "Rolling 12 Medical and Rx Data – LG".

IBNR Factor

As previously stated, MVP is reflecting an incurred estimate with two months of claim run-out. We have completed the claims using an IBNR factor of 4.8% which is our best estimate of ultimate liabilities as of 6/30/18. MVP uses a combined trended PMPM and completion factor method to value its ultimate claim liabilities. Please see the following table comparing incurred and paid claim amounts by month for the experience period. Note that this IBNR model is not exclusive to this block of business, so the paid and incurred claim amounts will not tie out to the experience in the filing.

Incurred Month	Paid Claims	Incurred Claims	IBNR Factor
201804	$952,428	$1,318,157	1.384
201803	$1,484,586	$1,749,705	1.179
201802	$1,161,602	$1,247,091	1.074
201801	$1,184,180	$1,211,633	1.023
201712	$1,351,218	$1,365,081	1.010
201711	$1,650,401	$1,651,195	1.000
201710	$1,614,175	$1,622,180	1.005
201709	$1,517,801	$1,525,677	1.005
201708	$1,493,124	$1,499,506	1.004
201707	$1,072,480	$1,075,125	1.002
201706	$1,317,386	$1,318,240	1.001
201705	$1,437,776	$1,438,296	1.000
Total	$16,237,156	$17,021,886	1.048

Development of Manual Rate Increase

Exhibit 3a demonstrates the development of the proposed 1st quarter rate action. FFS medical claims completed with IBNR and adjusted for the pooling charge are projected to the rating period. An adjustment to the claim projection is made to account for New York's HCRA Surcharge. The New York HCRA Surcharge included in the claim projection is based only on claims paid for services performed by New York hospitals. The load for this surcharge equals 0.25% and is based on historical HCRA fees incurred by Vermont members.

Experience period Rx claims are adjusted for pooling and projected to the rating period. MVP has received 2019 forecasted Rx rebate information from its PBM which is reflected in the projected Rx rebate calculation. Separate rebate per script information has been provided for brand and specialty drugs. These amounts were applied to MVP's projection period brand and specialty script utilization to obtain a PMPM estimate of the rebates in the projection period and equals $22.15 PMPM for 1Q 2019 renewals and increasing with pharmacy utilization trend for 2Q-4Q 2019.

Consistent with the prior filing, MVP is reflecting the new regulation regarding the use of statins for the prevention of cardiovascular disease (CVD) in adults which will go into effect in November 2017. The United States Preventive Service Task Force has given low- and moderate-dose statins a grade of "B" when prescribed to adults aged 40 to 75 with no prior history of CVD but evidence of risk factors. This means that it will become mandatory that carriers cover these drugs in full with no member cost sharing. Because these drugs were previously covered by MVP but with the applicable member cost sharing applied, an adjustment needs to be made to the experience period data to reflect the removal of cost sharing. MVP has estimated the cost sharing during the experience period based on member's age and a lack of a CVD diagnosis, and the result was a $0.20 PMPM increase to the experience period pharmacy incurred claims. This has been reflected in line 8c of Exhibit 3a in the rate filing.

Non-FFS claim expenses and capitation expenses are added to the claim projection. Please see the following table for a summary of non-FFS and capitation expenses reflected in MVP's rate development for this filing.

Summary of Capitations and Non-FRDM Claim Expenses	
Other Medical Expense not in warehouse	$2.51
Chiropractic and Acupuncture Cap	$0.71
Net Reinsurance Expense	$0.24
Medical Home and PCP Incentive	$2.36
Total	**$5.82**

The expected non-FFS medical expenses added to the claim projection reflect costs associated with net reinsurance expense, PCP incentive payments and Medical Home, and other miscellaneous MVP claim expenses not included in the historical experience period data such as manual checks and Massachusetts surcharges. The Other Medical Expense data is comprised of a 3-year average of data for all Vermont group sizes and companies (MVPHP and MVPHIC) in order to minimize random variation in this block of business.

Please note that the line item for the 18 V.S.A § 9374(h) Billback included in claim expense in previous filings has been moved to a non-claim expense, per the Green Mountain Care Board's direction.

Finally, adjustments are made to the projected net claims cost to account for average industry factor and the impact of membership changes over the experience period.

The industry normalization factor shown on Exhibit 3a was computed using MVP's census over the experience period along with the industry factors included in Appendix A of the file, "Appendices A-C – 1Q 2019.xlsx" which is included with this SERFF submission. MVP is not proposing changes to these factors for 2019. Because MVP is deriving its proposed rate increase from the 2Q 2018 manual rates which reflects an industry factor equal to 1.00, claim costs must be adjusted to be on a 1.00 basis as well. Over the experience period, the average industry factor was 1.025. To neutralize the impact of this factor on the required rate change, MVP is multiplying the 1Q 2019 claim projection times the reciprocal of this factor.

MVP is also making an adjustment to the claim projection for the impact of membership not representing a full 12-month contract over the experience period. Because deductibles are present in most these products, paid claims are suppressed in the early months of a member's contract and are higher than average in later contract months. Therefore, if the experience period membership is not evenly distributed by contract month, an adjustment to the claim costs should be made to reflect the expected claim costs for a 12-month contract period.

To determine the adjustment factor for the experience period claims cost, MVP used deductible suppression factors which were developed by analyzing commercial claims for members with 12 months of medical and Rx benefit coverage. MVP assumed that allowed claims were uniformly distributed by month and determined the expected paid claim cost for a given month relative to the average paid amount for 12 months. Factors were developed for a number of different deductible levels, and MVP split its experience period membership by these deductible levels to compute the appropriate adjustment factors. This adjustment factor equals 1.006 and can be found in Exhibit 3a. A quantitative derivation of this factor can be found in the file, "Impact of Membership Growth_Decline on Experience Pd Claims".
To arrive at the data suggested quarterly rate change for 1Q 2019, the normalized net claim projection is compared to the 4Q 2018 manual rate that would be collected for the experience period enrollment to indicate the suggested quarterly manual rate change.

MVP has also developed 2Q 2019 to 4Q 2019 manual rates for this rate filing. Please see Exhibits 3b to 3d which are identical to Exhibit 3a except for the fact that one additional quarter of 2020 trend has been applied to the experience period claims. Comparing the 2Q 2019 projected claims to the 1Q 2019 claim projection determines the quarterly manual rate change, and similarly for 3Q 2019 and 4Q 2019.

Medical Trend Factors

The development of annual medical paid claim trend factors for 1Q 2019 is illustrated in Exhibit 2a. MVP is reflecting 0.0% medical utilization trends in the current filing, and the assumed unit cost trends reflect known and assumed price increases from MVP's provider network as of the filing date.

As stated previously, MVP has assumed 0.0% for medical utilization trends in the current filing. MVP analyzed its combined MVPHIC and MVPHP Vermont data for 36 months between 2016 and 2018. In performing this analysis, we were concerned with the large impact that membership growth in other blocks of business (MVPHP small group and individual exchange) was having on the total utilization trend for Vermont. Because removing MVPHP data from the calculation would leave a block that was not considered credible, we elected to reflect no utilization trend.

The assumed unit cost trends reflect known and assumed price increases from MVP's provider network. The 2018 unit cost trends for VT hospitals reflect the budgets proposed by each hospital back to the Green Mountain Care Board. Please see Exhibit 2A for the unit cost trends by claim category by year. The 2019 unit cost trends for VT hospitals reflect the proposed commercial rate requests from the hospitals to the GMCB. MVP's unit cost trends for non-VT providers for both years reflect the best estimate of MVP's contract negotiations. MVP has assumed that the 2020 annual trend is equal to the 2019 trend, as we lack information on unit cost trends for 2020 at this time.

In addition to the medical cost inflation rate assumed from the historical experience period to the rating period, an adjustment is needed to reflect the impact of cost share leveraging on the carrier's share of the medical cost. Leveraging is a result of the fixed nature of deductibles and copays in health benefit plans. When there are fixed member deductibles and copays, the carrier bears a greater portion of the cost of medical inflation. Therefore, an additional factor adjustment is made to the trend assumption to capture this cost.

The trend applied to the deductible portion of the experience period was derived using the distribution of claims for MVP's VT book of business. Claims below the average deductible amount over the experience period were trended at the applicable allowed trend rate while claims greater than the deductible were held flat.

Also included in this filing are paid trend development exhibits for 2Q 2019 to 4Q 2019. Please see Exhibits 2e, 2i, and 2m which are identical to Exhibit 2a except there is one more quarter of trend reflected in each calculation.

Rx Trend Factors

Annual Rx trend factors split by generic, brand and specialty drugs are illustrated in Exhibit 2a. These trend factors were supplied by MVP's pharmacy benefit manager (PBM) and reflect their best estimate of expected changes to pharmacy costs and drug utilization, given MVP's data as a starting point. Supporting documentation illustrating how the Rx trends shown on Exhibit 2a were converted to paid trends for 1Q 2019 can be found in Exhibit 2b.

MVP has revised its trend forecasts from the previous version of this filing to reflect changes in the underlying utilization patterns as well as updated unit cost increases provided by MVP's PBM. The PBM has provided trends for 2018 and 2019. The trends for 2020 are assumed to be equal to the 2019 trends. The trend forecast provided by MVP's PBM accounts for drugs coming off patent, changes in average wholesale price, new drugs being released to the market, and price competitiveness amongst generic and brand drug manufacturers. Please see the following table which displays MVP's pharmacy trends in this filing.

Rx Trends Used in 2019 MVP VT Large Group Filing						
	2018 Trend		2019 Trend		2020 Trend	
	Unit Cost	Utilization	Unit Cost	Unit Cost	Unit Cost	Utilization
Generic	-0.7%	2.4%	4.9%	3.2%	4.9%	3.2%
Brand	14.3%	4.5%	12.1%	-0.4%	12.1%	-0.4%
Specialty	4.2%	7.6%	9.6%	7.8%	9.6%	7.8%

Please see the attached file, "Rolling 12 Medical and Rx Data - LG.xlsx" which contains a rolling 12 month summary of total Rx claim costs as well as Rx data broken out by Generic, Brand, and Specialty.

Also included in this filing are paid trend development exhibits for 2Q 2019 to 4Q 2019. Please see Exhibits 2f, 2j and 2n which are identical to Exhibit 2b except there is one more quarter of trend reflected in each calculation.

Retention Expenses

Retention expenses are outlined in the attached Addendum. The following table represents MVP's Large Group administrative expenses as filed in the Supplemental Health Care Exhibit over the past four years:

Administrative Expense Summary - Data Taken from Supplemental Health Care Exhibit				
	VT Large Group – MVPHIC & MVPHP			
	Member Months	Premium PMPM	Admin PMPM	Admin Expense Ratio
2014	97,084	$404.11	$38.31	9.5%
2015	68,766	$432.06	$34.13	7.9%
2016	37,858	$450.19	$36.77	8.2%
2017	25,372	$474.10	$42.09	8.9%

Admin PMPM reflects the following lines from Part I of the SHCE: 6.6, 8.3, 10.1, and 10.4

Changes have been made to the following retention items since the 3Q 2018 filing:

- Administrative Load: MVP is proposing to reduce the administrative expense load in the current filing from 9.5% of premium to 8.9% of premium. This will match the administrative expense ratio as filed in our 2017 Supplemental Health Care Exhibit.
- Covered Lives Assessment: The 2019 covered lives assessment has yet to be finalized by New York State. MVP is assuming a 5% increase in the 2018 covered lives assessment, consistent with prior filings.

The following taxes/assessments are included in the attached Addendum:

ACA Insurer Tax

Since 2014, carriers have been taxed based on earned premium. After being delayed for 2019, MVP is assuming that the tax will be reinstated for plan years 2020 and beyond. The tax is based on MVP's share of nationwide revenue relative to the total tax liability collected by the Federal Government. Using this information, MVP estimates the tax will be 0.0% of premium for 2019 coverage months and 1.0% for 2020 coverage months. The tax will be applied based on a groups contract effective start date and the anticipated number of coverage months that will occur in 2020.

VT Paid Claim Tax

The State of Vermont charges a 0.999% tax on paid claims.

18 V.S.A § 9374 (h)(1) Billback
As stated previously in the memorandum, MVP has moved fees incurred under this billback program from claim expenses to PMPM taxes/assessments. This filing assumes a tax of $0.91 PMPM. The Green Mountain Care Board performed a study which estimated MVP's liability for 2019 at $317,000. This was then divided by MVP's membership as of May 2018.

VT Vaccine Pilot
This is a Vermont state assessment based on plan premiums which is used to fund immunizations provided by the state. Based on discussions with the administrator of the program, funding for the program will be suspended for 2019. MVP is assuming 0.0% of premium in the current filing.

Loss Ratio Information
The traditional target loss ratio (claims cost / premium) for the rates proposed in this rate filing is 86.4%. After making adjustments for taxes/assessments and expenses associated with quality improvements, the Federal target loss ratio for the rates proposed in this filing is 87.4%. Please see the following table for more detail:

Target Loss Ratio for LG VT in 1Q 2019

	Large Group VT
A) Claims Expense	$436.97
B) Taxes/Assessments	$0.91
C) Quality Improvement	$4.50
D) Premium	$505.92
E) Traditional Loss Ratio *= A) / D)*	**86.4%**
F) Federal Loss Ratio *= [A) + C)] / [D) - B)]*	**87.4%**

For calendar year 2017, the actual loss ratio for this block of business is 96.2%. MVP did not rebate customers for its Large Group AR42 VT block in 2015 or 2016, and does not anticipate having to pay an MLR rebate for the block for the 3 year average of 2015-2017.

Supplemental Exhibits
Also included with this filing is a historical claim and membership summary for the past 36 months grouped into rolling 12 month periods. Incurred claims from May 2015 – April 2018 completed through June 2018 are reflected in the data. Note the data represented in these files excludes the 51-100 eligible subscriber block that previously transitioned into the small group market.

Changes to Rating Formula
MVP is adding an additional section to its experience rating formula to rate collective arrangements in Vermont. These arrangements are comprised of large groups from similar industries that will be experience rated together. All groups entering the arrangement must have at least 100 employees and meet Vermont's large group size definitions. Please see Section VII of the Experience Rating Formula for more information on how the collective rate and each subgroup's rate will be calculated.

New Products

MVP is offering a new wellness rider effective 1/1/2019: MV3H[MB/DH]366L. This rider will be baked into the base benefit of every group purchasing coverage with MVP. Because claims for the current wellness rider (MV3H[MB/DH]336L) are already included in the experience period claim data and MVP has determined the two benefits to be actuarially equivalent, no change to the experience period claim data is necessary.

Actuarial Certification

I, Eric Bachner, am an Associate of the Society of Actuaries. I have examined the assumptions and methods used in determining MVP's requested rates. Based on my review and examination, it is my opinion that the proposed premium rates are reasonable in relation to the benefits provided and that they are not excessive, inadequate, nor unfairly discriminatory. This rate filing conforms to the applicable Standards of Practice as promulgated by the Actuarial Standards Board.

08/03/2018

Eric Bachner, ASA
Leader, Actuarial, Commercial/Government Programs
MVP Health Care

Date