LEWIS & ELLIS
Actuaries and Consultants
700 Central Expressway South
Suite 550
Allen, TX 75013
972-850-0850
lewisellis.com

April 2, 2018

Jude Daye, Executive Assistant
Blue Cross and Blue Shield of Vermont
445 Industrial Lane
Montpelier, VT 05601

Re: Blue Cross and Blue Shield of Vermont
3Q 2018 LG Rating Program Filing
SERFF Tracking #: BCVT-131424513

Dear Jude Daye:

We have been retained by the Green Mountain Care Board ("GMCB") to review the above referenced group products filing submitted on 3/15/2018. The following additional information is required for this filing.

Notice regarding proper responses:

- A minimum-acceptable response to quantitative questions from us must include a spreadsheet calculation with retained formulas such that we can replicate the calculations therein.
- Explanatory responses are merely a supplement to the spreadsheet material and in of themselves will constitute a lack of response.

Questions:

1. Please expand or revise the exhibits on page 4 of the Actuarial Memorandum to show the impact of worse than expected experience.
2. Please quantify the largest drivers of the 0.8% increase that is attributed to Additional Items on page 4 of the Actuarial Memorandum and provide quantitative and qualitative support for their impact.
3. We note that the table on page 26 of the Actuarial Memorandum demonstrates that there has been a disconnect in prior filings between the manual rate and the experience claims. Please expand on the qualitative explanation of the change in manual rate methodology.
4. How is the Health Care Reform Act for New York accounted for in the premiums?
5. Provide quantitative support for the unit cost trends on page 9 of the Actuarial Memorandum including the Fall 2017 Blue Trend Survey.

6. Please clarify if renewals being produced under the currently approved filings (BCVT-130935599 and BCVT-130935776) are being impacted by the Insurer Fee moratorium for 2019.
7. Please describe the changes to the prior approval criteria for hepatitis C drugs.
8. Please provide the hepatitis C claims by month for the time period 10/1/2015 to 9/1/2017.
9. Please compare the projected utilization of PCSK9 inhibitors in 2019 to the utilization in the experience period or calendar year 2017, including a narrative description of the differences.
10. What level of CTR is required to maintain RBC levels at the midpoint of the current target range due to the impact of trend?
11. Please provide quantitative and qualitative support for the following impacts on administrative charges:
    a. updated experience; and
    b. expected allocation change.
12. Please reconcile the 0.5% increase in administrative charges due to the updated membership adjustment with the 0.3% increase due to projected decreases in membership or explain why these are different.
13. Has BCBSVT made attempts to control utilization to the extent it is considered waste under the fraud, waste and abuse (FWA) program? Has there been a noticeable spike in these claims?
14. How do the utilization trends in Vermont compare to the Blue Trend Survey or other nationwide utilization trends?

Please be aware that we expect to have further questions regarding the filing as the review continues.

To ensure that the review of your filing has been completed before statutory deadlines, we expect you to respond as expeditiously as possible to every objection in our letter, but no later than April 9, 2017. Note that the responses can be submitted separately and do not have to be submitted all at the same time.

We trust that you understand these forms may not be used in Vermont until they are formally approved by the GMCB.

Sincerely,

Josh Hammerquist F.S.A., M.A.A.A.
Vice President & Consulting Actuary
Lewis & Ellis, Inc.
jhammerquist@lewisellis.com
(972)850-0850

BlueCross BlueShield of Vermont

April 10, 2018

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

Subject: Your 04/02/2018 Questions re: Blue Cross and Blue Shield of Vermont 3Q 2018 Large Group Rating Program Filing (SERFF Tracking #: BCVT-131424513) and Your 04/03/2018 Questions re: The Vermont Health Plan 3Q 2018 Large Group Rating Program Filing (SERFF Tracking #: BCVT- 131424558)

Dear Mr. Hammerquist:

In response to your requests dated April 2, 2018 and April 3, 2018, here are *your questions* and our answers:

1. *Please expand or revise the exhibits on page 4 of the Actuarial Memorandum to show the impact of worse than expected experience.*

   A demonstration of the impact of worse than expected experience can be calculated using the table in section 6 of the Actuarial Memorandum. With a 2.0 percent contribution to reserve, BCBSVT and TVHP targeted a 98% Loss & Expense Ratio in 2017.

2017 Insured Large Group Experience		
Actual Premium		$92,106,277
Target Loss & Expense Ratio	/	98%
Administrative Charges	-	$10,424,245
Target Claims	=	$79,839,906
Actual Claims		$86,520,109
Actual/Target	=	1.084

   Applying the difference from actual to target to 2018 projected paid claims results in the following development of 2019 paid claims.

Component	PMPM	Cumulative Total	Premium Impact
2018 Projected Paid Claims	$419.61	$419.61	
Actual/Target	$35.11	$454.72	7.1%
12 Months of Trend	$28.06	$482.78	5.6%
Update Trend	$2.09	$484.87	0.4%
Other Adjustments	-$5.00	$479.87	-1.0%
Change in Rebates	-$0.12	$479.75	-0.0%
2019 Projected Paid Claims	**$479.75**		**12.1%**

The 'Other Adjustments' line balances the development of projected claims using the actual to target variance with the development following the rate formula. While applying the difference between actual to target to the paid claims is illustrative of the impact of worse than expected experience, differences due to pooled claims, varying experience periods, and membership make a direct enumeration of the difference impossible.

2. *Please quantify the largest drivers of the 0.8% increase that is attributed to Additional Items on page 4 of the Actuarial Memorandum and provide quantitative and qualitative support for their impact.*

The largest drivers of the 'Additional Items' impact are the GMCB billback, broker commissions, and the Health Care Claims Tax. In prior filings, the GMCB billback did not have an explicit rate component. The development of the GMCB billback is discussed in section 4.11 of the Actuarial Memorandum. Multiple groups set broker commissions as a percentage of premium, which drives an increase to this component when premiums increase. The Health Care Claims Tax is set as a fixed percentage of claims, so the component increases as projected claims increase.

Component	2018 PMPM	2019 PMPM	Rate Change Impact
GMCB Billback	$0.00	$2.71	0.5%
Broker Commissions	$8.51	$9.40	0.2%
Health Care Claims Tax	$3.17	$3.63	0.1%

3. *We note that the table on page 26 of the Actuarial Memorandum demonstrates that there has been a disconnect in prior filings between the manual rate and the experience claims. Please expand on the qualitative explanation of the change in manual rate methodology.*

The manual rate methodology was changed to improve the accuracy of large group rates. By basing the manual rate on the collective experience underlying this block, we can better ensure rates are adequate and not excessive to cover the projected claims and expenses of this line of business.

The table on page 26 of the Actuarial Memorandum is indicative of the rationale for the change in the manual rate methodology. BCBSVT and TVHP aim to have each line of business be self-sustaining. While a formulaic credibility approach helps ensure rates are adequate and appropriate on a group by group basis, its reasonableness is dependent on the underlying manual and experience rates being appropriate in aggregate. On previous filings, a development of total projected claims using exclusively manual claims resulted in a materially lower amount than if projected claims were developed using exclusively experience claims. Notwithstanding any unforeseen circumstances, we believe that the projected claims in aggregate for large groups should be reasonably consistent, irrespective of their development from manual or experience claims. Therefore, we believe the change in the manual rate methodology will produce more accurate and sustainable rates for large groups.

The manual claims in the previous filing included claims from insured large groups and self-funded groups (Cost Plus and ASO), including two large ASO groups with rich benefits. The claims were adjusted for induced utilization normalized to the AV of the experience benefits, which was around 90 percent due to the two large groups mentioned. 82 percent of large group benefits have AVs below this average, which causes a reduction in their projected manual claims. The induced utilization curve from that filing is steeper than the one in the current filing, which increases the magnitude of the reduction.

The manual claims in the current filing are based on insured large group claims only, and the induced utilization formula is normalized to the average AV for those groups, which is around 80 percent. Roughly 45 percent of large group benefits have an AV above this average and receive an increase to their manual claims, while the remaining 55 percent of benefits see a decrease to manual claims. As noted above, the induced utilization curve is less steep than in the previous filing, so the decrease due to induced utilization is of less magnitude than under the previous filing. The combination of fewer groups receiving a decrease in manual claims due to induced utilization and a less steep induced utilization curve results in an increase in overall projected manual claims that brings them much closer to the experience claims.

4. *How is the Health Care Reform Act for New York accounted for in the premiums?*

   As part of the New York State Health Care Reform Act, BCBSVT and TVHP include the GME Regional Covered Lives Assessment in premiums as applicable. For each group, the respective individual or family covered lives assessment rate by region is applied for all members identified as residing in that region. The approved 2018 rates will be used until new rates are approved.

5. This question involves confidential and proprietary information and has been provided under separate cover.

6. *Please clarify if renewals being produced under the currently approved filings (BCVT-130935599 and BCVT-130935776) are being impacted by the Insurer Fee moratorium for 2019.*

   We confirm that renewals being produced under the currently approved filings (BCVT-130935599 and BCVT-130935776) are impacted by the Insurer Fee moratorium. As noted in question six in our response to your 03/23/2017 Questions and in section 4.10 for the

currently approved filings, BCBSVT and TVHP updated the fee used to produce renewals once information was received regarding the moratorium for 2019.

7. *Please describe the changes to the prior approval criteria for hepatitis C drugs.*

Hepatitis C drugs no longer use the METAVIR score as a part of the prior approval criteria.

8. *Please provide the hepatitis C claims by month for the time period 10/1/2015 to 9/1/2017.*

The number of hepatitis C pharmacy claims, normalized to a 30 day prescription, are below.

Month	2015 Scripts	2016 Scripts	2017 Scripts
January		0	8
February		5	6
March		7	6
April		10	7
May		9	10
June		7	11
July		3	11
August		10	5
September		9	6
October	5	4	
November	2	8	
December	3	10	

9. *Please compare the projected utilization of PCSK9 inhibitors in 2019 to the utilization in the experience period or calendar year 2017, including a narrative description of the differences.*

The utilization in the experience period used to develop pharmacy trend, 12 months preceding the experience period, and estimated utilization in the projection period are below.

Month	Scripts
October 2015 - September 2016	37
October 2016 - September 2017	112
January 2019 - December 2019	216

Given that PCSK9 inhibitors are relatively new drugs, we believe it is more appropriate to use clinical estimates rather than extrapolating emerging experience, which would produce a higher utilization estimate.

10. *What level of CTR is required to maintain RBC levels at the midpoint of the current target range due to the impact of trend?*

As you know, Authorized Control Level (ACL) and therefore Risk-Based Capital (RBC) are very closely proportional to claims costs. Trend is merely one component of projected claims costs, and it would therefore be misleading to calculate an RBC impact of trend alone. We have interpreted your question to mean the level of CTR required to maintain RBC due to projected claims increases.

A CTR of 1.8 percent would be required to maintain RBC at 600 percent, the midpoint of our target range, due to the impact of large group claims increases. Please see the attached file *Response to 3Q 2018 LG Rating Program Review Inquiry 1.xlsx* for the detailed calculation.

We note that maintaining RBC levels within a target range is only one reason for filing a CTR. Any claims estimate is necessarily subject to a certain amount of variability. It is therefore appropriate to include some margin in estimates to account for this inherent variability. For instance, Vermont hospital margins are generally well in excess of our modest CTR requirement.

Furthermore, unforeseen events, such as breakthroughs in genetic testing and therapies or the abrupt defunding of certain federal programs, may arise. It would be excessively conservative to price for these unusual events, but it is very common to include a small margin or CTR to cover these and other eventualities.

Considering all of the above, we feel that it would have been reasonable and appropriate for BCBSVT to file a CTR substantially higher than the 1.5% requested. However, because of our pledge to maintain CTR at a constant level while within our target RBC range and our promise to mitigate future rate increases due to tax reform gains, we have requested a modest CTR of 1.5% for this filing.

11. *Please provide quantitative and qualitative support for the following impacts on administrative charges:*
a. updated experience; and
b. expected allocation change.

Below is a table showing the experience period admin charges from the past two filings:

Filing	Experience Period	Administrative Charges	Member Months	PMPM
Q3 2017	Nov 15 – Oct 16	$8,565,672	240,608	$35.60
Q3 2018	Oct 16 – Sep 17	$7,897,940	202,437	$39.01
		-7.8%	-15.9%	9.6%

Note that the above figures are a strict PMPM calculation for all large groups in the experience period, whereas the 6.7 percent impact from updated experience is based on

the allocation of these charges to specific cost categories and applied to only the large groups expected to renew in 2019.

The large group line of business experienced a 15.9 percent decrease in member months between the two experience periods. This decrease caused a decrease in administrative charges of 7.8 percent as the variable costs for the lost members were eliminated. However, the fixed costs are then distributed among a smaller population, which results in an increase to the administrative charges PMPM of 9.6 percent.

The increase due to expected allocation change reflects the impact of increased claims on the distribution of overhead costs. Increases in projected claims are the driver of the 5.1 percent increase in the Actuarial Memorandum. This change in overhead allocation is perhaps better viewed in tandem with the changes to the experience period for the administrative charges. Both adjustments reflect a change in the allocation of administrative charges among BCBSVT's lines of business and should have been combined in the table. The allocation of projected costs into cost categories has no impact on the total administrative charges.

To estimate the impact of the experience and allocation changes on the 64 large groups expected to renew in 2019, consider the large group line of business experience presented above. Trending the $7,897,940 in administrative charges 27 months at 2.5 percent results in $8,356,334 in administrative charges for 2019, or $41.37 PMPM. For the 64 large groups with 14,052 members, this results in projected annual administrative expenses of $6,975.187. The amount generated by the filed factors for these groups is $7,053,748. The additional expenses are a result of the division of administrative charges into cost units instead of using a straight PMPM. In other words, administrative charges for the 64 groups in the analysis are slightly higher than the average across all large groups.

A revised table of impacts on administrative charges is presented below:

		Admin Charges PMPM	Change PMPM	Percent Change
1	Approved 201801 Admin from 2017 Filing	$35.88		
2	Correct Trend Application	$36.73	$0.85	2.4%
3	Update Experience Base and Allocation	$40.29	$3.56	9.9%
4	Update Trend	$40.33	$0.04	0.1%
5	Trend to January 2019	$41.36	$1.02	2.9%
6	Update Membership Adjustment	$41.64	$0.28	0.8%
7	Other Adjustments	$41.82	$0.19	0.5%

Note that some of the adjustments that follow the updated experience and allocation may differ slightly from the values in the similar table in the memo. Adjustments such as the additional year of trend to January 2019 and the change in the membership adjustment are being applied to higher base charges, which increases their impact. The final line item balances the charges developed here with the charges developed in the memo and is indicative of the fact that the administrative charges for the 64 groups are slightly higher than the average across all large groups.

12. *Please reconcile the 0.5% increase in administrative charges due to the updated membership adjustment with the 0.3% increase due to projected decreases in membership or explain why these are different.*

    The 0.3 percent increase in the 2019 administrative charges represents an increase over the base experience charges. The 2018 administrative charges included a 0.2 percent decrease over the base experience charges used in their development. The 0.5 percent increase due to updating the membership adjustment reflects the change from the 0.2 percent decrease to the 0.3 percent increase.

13. *Has BCBSVT made attempts to control utilization to the extent it is considered waste under the fraud, waste and abuse (FWA) program? Has there been a noticeable spike in these claims?*

    BCBSVT and TVHP have had robust programs in place for a number of years to control for waste under its fraud, waste, and abuse programs. BCBSVT and TVHP believe its dynamic programs will continue to achieve success in appropriately identifying and reducing waste, which helps mitigate premium increases for large groups. While we continue to refine and enhance our programs, we did not see a material increase in FWA recoveries from 2016 to 2017.

14. *How do the utilization trends in Vermont compare to the Blue Trend Survey or other nationwide utilization trends?*

    Data for nationwide utilization trends is limited. There are several surveys and publications that speak generally to utilization trend without quantifying it. One proprietary source notes that over the past several years, utilization in several medical categories has been negative, due in part to economic recession. Beginning in 2016, economic recovery has led to the reversal of the negative utilization trends, and this movement is expected to continue to increase utilization trend through 2019. Another reason for an increase in national utilization trends is a plateau in the shift towards high-deductible health plans[1]. According to one survey, adoption of HDHPs has resulted in a decrease in utilization in past years. Now that the migration towards HDHPs has slowed, the damping effect of benefit changes on utilization trend is disappearing.

    Particular to Vermont, we note that in their large group filing, CIGNA developed both national and Vermont-specific medical utilization trends[2]. As we do in our filing, they combined utilization and mix (what we call intensity) in one trend and calculated a 2.8 percent trend nationally and a 3.2 percent trend for Vermont. Finally, unit cost increases for Vermont hospitals have reached historical lows in part due to budget overages caused by excess utilization.

    Given the information available, it would appear that the uptick in utilization trend in Vermont is not an outlier compared to national trends.

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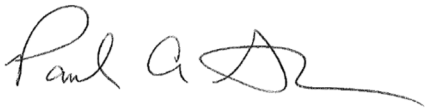
[1] Medical Cost Trend: Behind the Numbers 2018, page 12
https://www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers/reports/hri-behind-the-numbers-2018.pdf

[2] http://ratereview.vermont.gov/sites/dfr/files/2018/Objection%20Letter%201%20%26%20Response.pdf
Response to Objection 3, page 5

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.

Minimum Required CTR Calculation

		2018 Forecast			Restated to Reflect LG Claims Increases to 2019	
		Claims	Share of Capital Requirement	Projected Claims Increase	Claims	Share of Capital Requirement
BCBSVT Enterprise Totals						
QHP	A		53.10%			52.07%
BCBSVT and TVHP Large Group Insured	B	$63,619,273	13.72%	1.143	$72,716,829	15.38%
All Other	C		33.18%			32.54%
Investment Income	D	$4,552,701			$4,552,701	
Tax Rate	E	0%			0%	
Investment Income Net of Taxes	F = D x (1-E)	$4,552,701			$4,552,701	
Large Group Insured Share of Investment Income	G = F x B%	$624,753			$700,349	

Estimated YE 2018 Authorized Control Level (ACL)	H	$24,592,654
Estimated ACL Reflecting LG Claims Increases to 2019	J	$24,951,677
Increase in Capital Required to Maintain Target RBC	K = 600% x (J-H)	$2,154,141
Additional Required Grossed Up for FIT	L = K/(1-E)	$2,154,141
CTR Required from LG in 2019	M = L-G	$1,453,792
Forecast 2018 Large Group Premium	N	$71,438,940
Large Group Premium Increases for 2019	O	1.112
Forecast 2019 Large Group Premium	P = N x O	$79,440,101
Required LG Insured CTR Factor to Maintain Target RBC	CTR = M/P	**1.8%**