



LEWIS & ELLIS

Actuaries and Consultants

700 Central Expressway South

Suite 550

Allen, TX 75013

972-850-0850

lewisellis.com

June 15, 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  
2019 Vermont Individual and Small Group Rate Filing  
SERFF Tracking #: BCVT-131497882

Dear Jude Daye:

We have been retained by the Green Mountain Care Board (“GMCB”) to review the above referenced group products filing submitted on 5/11/2018. 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 provide support for each of the proposed unit cost trends that differ from historical trends on the inpatient, outpatient and professional tabs of the unit cost support.
2. Please provide the calculation for the 0.3% impact for all other adjustments that is referenced in response #2 in the letter dated June 4, 2018.
3. Please provide revised rate increases from section 1.4 of the Actuarial Memorandum due to the impact referenced in response #4 in the letter dated June 4, 2018.
4. Please provide an estimate of the administrative costs associated with the cost containment strategies referenced in response #6 in the letter dated June 4, 2018. When were costs first incurred to set up this capability?
5. Please reconcile the 2018 membership on the Rate/Rule Schedule tab and the Rate Review Details in SERFF with the membership provided in the Actuarial Memorandum.

6. Please discuss the impact that the individual mandate for 2020 enacted by H.696 impacts the company's original estimate of an increase in 2019 claims of 2%. This discussion should at least include the following:
  - a. The act requires the Department of Vermont Health Access and others to engage in outreach and education efforts before and during the open enrollment periods for health insurance coverage for the 2019 and 2020 plan years regarding the importance of health insurance coverage and Vermonters' responsibilities under the individual mandate.
  - b. The impact that the individual mandate in 2020 will have on carriers deciding whether or not to file for approval and market Association Health Plans in Vermont due to the limited time that these plans would be a viable alternative to the ACA market.

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 June 19, 2018. 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

June 21, 2018

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

**Subject: Your 06/15/2018 Questions re: Blue Cross and Blue Shield of Vermont  
2019 Vermont Individual and Small Group Rate Filing (SERFF Tracking #: BCVT-131497882)**

Dear Mr. Hammerquist:

In response to your requests dated June 15, 2018, here are *your questions* and our answers:

- Please provide support for each of the proposed unit cost trends that differ from historical trends on the inpatient, outpatient and professional tabs of the unit cost support.*

This response involves confidential and proprietary information and will be provided under separate cover.

- Please provide the calculation for the 0.3% impact for all other adjustments that is referenced in response #2 in the letter dated June 4, 2018.*

All of the reasons for rate increase are calculated by starting with the approved 2018 rates and changing one item at a time in the pricing model. Many similar and related changes are combined into reasons for rate increase for simplicity. The 0.3 percent impact for “all other adjustments” in our previous response includes the impact of aging , the impact of the change in benefit mix, the impact of membership mix on the induced utilization factor, and the impact of change in contract mix on the contract conversion factor . Finally, a small covariance factor arises because of the disparity between modeling each change individually and the actual rate development, which of course is an analysis independent of the previous year’s rates.

Reason for Rate Increase	Rate Impact
Impact of aging of the population	0.5%
Impact of the change in benefit mix	0.4%
Impact of membership mix on induced utilization factor	-0.8%
Impact of change in contract mix on the contract conversion factor	0.1%
Covariance Factor	0.1%
Total All Other Population Adjustments	0.3%

- Please provide revised rate increases from section 1.4 of the Actuarial Memorandum due to the impact referenced in response #4 in the letter dated June 4, 2018.*

In our previous response, we agree that a more appropriated methodology to calculate the morbidity adjustment would have resulted in a 1+b<sub>9</sub> factor on Exhibit 5 of 1.0101 rather than the filed 1.0231.

Reflecting this change, the average increase for plans other than Silver Level Exchange plans - that is, the average increase that would actually be experienced by Vermont individuals and

small businesses - would be 4.0 percent. Increases for specific plans would range from 2.3 percent to 5.5 percent, except for the Catastrophic plan, which would increase by 0.1 percent. Silver Level Exchange plans would increase an average of 14.6 percent, with increases for specific plans ranging from 13.2 percent to 17.4 percent. Across all plans, the average increase would be 6.2 percent.

While researching the reasons between the differences in Silver Loading filed by both carriers, we found an issue with the way we calculated the selection factor (1+b6). We should have recognized the actual experience difference between members on reflective plans and members on loaded plans. Exhibit 2D shows that all silver plans (reflective and loaded) have 0.8646 benefit richness adjustment when using BCBSVT actual utilization factors. Using the same methodology but more appropriately separating the members expected to move to a reflective plan from the members expected to enroll in a loaded plan, we would have used 0.7216 for reflective plans and 1.0416 for the loaded plans. This would change the 1+c6 factor on Exhibit 5 from the filed 1.0132 to 1.0178.

After making both of these adjustments, the average increase for plans other than Silver Level Exchange plans - that is, the average increase that will actually be experienced by Vermont individuals and small businesses - would be 4.4 percent. Increases for specific plans would range from 2.7 percent to 6.0 percent, except for the Catastrophic plan, which would increase by 0.5 percent. Silver Level Exchange plans would increase an average of 15.1 percent, with increases for specific plans ranging from 13.6 percent to 17.9 percent. Across all plans, the average increase would be 6.6 percent.

4. *Please provide an estimate of the administrative costs associated with the cost containment strategies referenced in response #6 in the letter dated June 4, 2018. When were costs first incurred to set up this capability?*

The VISG share of estimated administrative costs associated with these new tools are approximately \$150,000. Costs incurred in 2018 as part of set-up will be absorbed in existing BCBSVT operating unit budgets. These 2018 costs were not explicitly added to the 2019 VISG rates. The \$150,000 in annual expense for the tools will first be incurred in 2019. Similarly, these 2019 costs were not explicitly added to VISG rates because they are expected to be absorbed into our 2019 budget, which as part of normal operations routinely absorbs the costs of new programs offset by the elimination of less effective programs. BCBSVT has a rigorous budget development process that examines the return on investment for any proposed new initiatives.

5. *Please reconcile the 2018 membership on the Rate/Rule Schedule tab and the Rate Review Details in SERFF with the membership provided in the Actuarial Memorandum.*

In the Plain Language Summary, we wrote: "There are 32,570 contracts (53,664 members) currently enrolled in a BCBSVT Individual or Small Group plan impacted by this filing." This reflects actual enrollment as of March 31, 2018.

For the Rate/Rule Schedule and Rate Review sections of SERFF, we included the projected 2019 enrollment of 52,591 members and 31,869 contracts.

6. *Please discuss the impact that the individual mandate for 2020 enacted by H.696 impacts the company's original estimate of an increase in 2019 claims of 2%. This discussion should at least include the following:*
- a. *The act requires the Department of Vermont Health Access and others to engage in outreach and education efforts before and during the open enrollment periods for health insurance coverage for the 2019 and 2020 plan years regarding the importance of health insurance coverage and Vermonters' responsibilities under the individual mandate.*
  - b. *The impact that the individual mandate in 2020 will have on carriers deciding whether or not to file for approval and market Association Health Plans in Vermont due to the limited time that these plans would be a viable alternative to the ACA market.*

We do not believe that the enactment of a 2020 Vermont individual mandate will have any effect on our original estimate of the impact on 2019 rates of the dissolution of the penalty associated with the federal individual mandate.

Outreach and education efforts have been a staple for both DVHA and BCBSVT since the advent of the QHP market. Previously, that outreach included statements about the penalty as an incentive, but that information will no longer be a part of the message. Furthermore, the outreach required of DVHA is unfunded in both the Act and the budget. It is difficult to imagine that these outreach efforts, in the absence of a meaningful penalty or incentive, will have any impact on the financial decision of very healthy individuals to "self-insure" for a year.

Our interpretation of the second part of your question is that you are implying that AHPs will not offer minimum essential coverage, and therefore would become obsolete once the Vermont mandate is in effect. There has been no indication through our early conversations with Vermont associations that they intend to file plans that do not meet the standards of minimum essential coverage. The associations have, however, given every indication that they intend to re-enter the Vermont small group market as soon as practicable.

We remind L&E that BCBSVT chose **not** to reflect the likely detrimental impact of AHPs on the single risk pool as part of this filing. There is a significant risk to the adequacy of rates from the date that AHPs are able to enter the market. We continue to believe that a 2020 market entry is more likely in Vermont; however, the recent promulgation of final federal AHP rules makes a 2019 entry a more distinct possibility.

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.  
Chief Actuary