

August 4, 2014

Mr. Alfred Gobeille, Chair
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

Re: Supplement to 7/28/14 letter “Solvency Impact of 2015 Vermont Exchange Products Rate Filing (SERFF # BCVT-129572217) of Blue Cross and Blue Shield of Vermont”

Dear Mr. Gobeille:

This letter supplements the Department of Financial Regulation (“DFR”) letter to you dated July 28, 2014 regarding Blue Cross and Blue Shield of Vermont’s (“BCBSVT”) 2015 Vermont Exchange Products Rate Filing. DFR had not had the benefit of reviewing the actuarial recommendation by Lewis and Ellis, Inc. (“L&E”) to the Green Mountain Care Board (“GMCB”) before submitting its solvency opinion on that date. We would like to highlight a key issue raised in L&E’s recommendation.

Section 6 of L&E’s analysis discusses the federal transitional reinsurance program. Despite the attachment point for reinsurance recovery being \$70,000 in 2015, L&E finds it reasonable to assume that the 2015 attachment point will be lowered to \$45,000, and as a result recommends that BCBSVT’s 2015 rates should be reduced accordingly.

L&E’s determination that using the lower attachment point is reasonable is based on two factors. First, similar action has been taken previously by the federal Department of Health and Human Services (“HHS”) with respect to the 2014 attachment point. Second, L&E is assuming that HHS’ stated intent to lower the attachment point in 2015 will become an official rule. Although DFR generally agrees that L&E’s assumption is reasonable, there are future risks associated with adopting L&E’s recommendation.

L&E explicitly states in Section 8 of its analysis that if GMCB adopts L&E’s recommendation and then the intended reduction does not occur, the contribution to surplus (which directly affects solvency) “would be negatively impacted.” DFR feels this language is too mild. If all other assumptions and trends work out as expected, rates lowered in anticipation of a higher transitional reinsurance program recovery that does not materialize will cause a significant adverse effect to BCBSVT’s solvency. Consequently, the contribution to surplus in BCBSVT’s 2016 exchange products rate filing will likely need to increase to make up for the resulting shortfall and weakened solvency position.



If GMCB accepts L&E's recommendation regarding the transitional reinsurance program, GMCB should also be prepared for the possibility that HHS does not adopt the intended lower attachment point. If the lower attachment point is not ultimately adopted, there will be a need to substantially increase the contribution to surplus for 2016.

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Please do not hesitate to contact me if you have any questions.

Sincerely,

/s/ Susan L. Donegan

Susan L. Donegan
Commissioner, Department of Financial Regulation