March 14, 2014

Green Mountain Care Board
State of Vermont
89 Main Street, Third Floor, City Center
Montpelier, VT 05620

Re: The Vermont Health Plan, 2014 TVHP Risk & Admin Charges Filing (SERFF # BCVT-129373905)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Risk & Administrative Charges Filing for The Vermont Health Plan (TVHP) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. TVHP is a licensed health maintenance organization (HMO) and for-profit subsidiary of Blue Cross Shield of Vermont (BCBSVT). TVHP provides large group coverage to employers in Vermont.

2. This filing reprices the large group risk charge factors for Experience Refund Eligible plans beginning 10 business days after the date of approval. Administration charges specific to Experience Refund Eligible plans are also documented in this filing. The requested factor changes represent a subset of the overall rate charged for Merit groups. The other subsets are addressed in other filings.

3. This filing addresses the Merit product for large groups. The risk and administration charge factors apply to the subset of the Merit groups that have Experience Refund Eligible plans. There are approximately 200 Vermonters affected.

4. The overall impact of this filing:
   - Experience Refund Eligible Groups
     - Risk Charges: -0.015% (-$0.06 PMPM).
     - Admin Charges: 1.6% ($25.00 per group per year)

Standard of Review

Pursuant to Green Mountain Care Board Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received
TVHP provided the methodology used to calculate the risk charge factors. The Company used 2013 Milliman Health Cost Guidelines to model the distribution of individual claims that were then used to model the aggregate claims for groups of varying sizes. The Company also provided theoretical support for this process. TVHP also provided the methodology for determining the administration charge.

Company's Analysis

1. Charge factors for risk charges are developed through the calibration of 2013 Milliman Health Cost Guidelines to expected Vermont claims levels and trended by 4.1% to a midpoint of July 1, 2015. The Company assumed that a group's total claims would represent a normal distribution.

   Up to this point in the calculation, the Company assumed that the expected claims for a particular group are a known quantity. However, the expected claims are estimated based on prior experience, and this additional uncertainty must be accounted for in the factors. Therefore, they calculated the risk charge factors by assuming that the estimated expected claims would be approximately normal using the same assumptions described above.

   The resulting best estimate values are used for risk charges for Experience Refund Eligible plans because pricing margins are already included in their expected claim development.

2. The administrative charge was increased by 1.6% or $25 to $1,625 per group per year for Experience Refund Eligible plans to offset the costs of administering the retrospective arrangement. The increase reflects the assumed increase for the direct staff cost.

   The proposed investment income offsets are unchanged at 0.4% of expected claims below the Individual Stop Loss (ISL) limit for groups with a 10% margin factor and 0.2% for groups with a 5% margin factor.

L&E Analysis

1. The risk charge factors provide catastrophic coverage which results in very few claims given the size of the Company. As a result, claim experience can fluctuate widely from year to year. Therefore, we do not find it appropriate to use historical experience to demonstrate the reasonableness of the rates. Rather, it is important to demonstrate an actuarially sound process to develop the factors.

   Pricing margins for risk charge factors automatically increase with inflation because they are calculated as a percent of expected claims. Therefore, the factor for a given pricing margin, i.e. 110% of claims, is not expected to increase in tandem with the rate of trend. This is evident by the marginal impact of the new factors included in this filing.

   The method to calculate risk charge factors was originally proposed and approved by the Department of Financial Regulation in 2009. Please note the updated factors result in a very small average change in factors. In our opinion, it is reasonable and appropriate to continue to use this methodology.

2. The administrative charge is based on the estimated staff time, an assumed hourly rate for direct staff cost, and a loading factor of 2 to account for overhead costs. The proposed investment income offsets are unchanged from the prior filing. These assumptions appear reasonable and appropriate.

Recommendation
L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory. Therefore, L&E recommends that the Board approve the filing as requested.

Sincerely,

Josh Hammerquist

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Jacqueline B. Lee

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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations1, 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 Conduct2, 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, ASA, MAAA, Assistant Vice President at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President at Lewis & Ellis, Inc. (L&E).
- David M. Dillon, FSA, MAAA, MS, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

These actuaries are available to provide supplementary information and explanation. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents

The date of this document is March 14, 2014. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is February 25, 2014.

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.

[1] 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.

[2] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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.

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.

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