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March 14, 2014

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

Re: Blue Cross and Blue Shield of Vermont, 2014 BCBSVT Charge Factors for ASL and Risk & Admin Charges Filing (SERFF # BCVT-129373971)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Charge Factors for Aggregate Stop Loss (ASL) and Risk & Administrative Charges Filing for Blue Cross and Blue Shield of Vermont (BCBSVT) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. BCBSVT is a non-profit hospital and medical service corporation. BCBSVT provides large group coverage to employers in Vermont.

2. This filing reprices the large group ASL factors for Cost Plus groups and the risk charge factors for Experience Refund Eligible plans beginning 10 business days after the date of approval. Default risk charges for Cost Plus groups and 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 and Cost Plus groups. The other subsets are addressed in other filings.

3. This filing addresses two types of BCBSVT large groups, Merit and Cost Plus. The risk and administration charge factors apply to the subset of the Merit groups that have Experience Refund Eligible plans. The ASL factors apply to the Cost Plus groups. There are approximately 13,900 Vermonters affected:
   - Experience Refund Eligible Plans: 10,500 Vermonters
   - Cost Plus Groups: 3,400 Vermonters

4. The overall impact of this filing:
   - Experience Refund Eligible Groups
     - Risk Charges: 0.007% ($0.03 PMPM).
     - Admin Charges: 1.6% ($25.00 per group per year)

- Cost Plus Groups
    - Aggregate Stop Loss Factors: -0.002% (-$0.01 PMPM).

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
BCBSVT provided the methodology used to calculate the ASL and 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. BCBSVT also provided the methodology for determining the administration charge.

Company's Analysis
1. Charge factors for ASL and 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 ASL and 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. Since Cost Plus groups are not responsible for claims above a selected percentage of expected claims, the best estimate ASL rates are modified to produce a 70% loss ratio.

2. Default risk charges for Cost Plus groups range from 0.4% to 0.5% of expected claims under the Individual Stop Loss (ISL) limit to cover the risk of a group failing to fund claims.

3. 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 ISL limit for groups with a 10% margin factor and 0.2% for groups with a 5% margin factor.

L&E Analysis
1. The aggregate stop loss factors and 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.

The attachment point for aggregate stop loss insurance and 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 attachment point, 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 aggregate stop loss factors and 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.

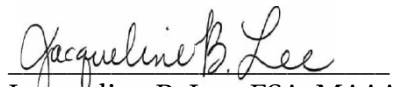
2. Default risk charges for Cost Plus groups were calculated by estimating the amount of claims outstanding and incurred but not paid if a group failed to fund claims. The Cost Plus groups are required to have a working fund of one and a half months of expected claims which was subtracted from the estimated unpaid claims. The resulting charge of 0.5% for groups with less than 20,000 members results an implied average time before default of over 20 years. This appears reasonable and appropriate.

3. The administrative charge is based on the estimated staff time, an assumed hourly rate for direct staff cost, and a loading factor 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, ASA, MAAA
Assistant Vice President & Consulting Actuary
Lewis & Ellis, Inc.



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Vice President & Principal
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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.