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March 31, 2015

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

Re: 3Q15 – 4Q15 MVPHIC Grandfathered Small Group EPO/PPO Rates
SERFF #: MVPH-129866393

The purpose of this letter is to provide a summary and recommendation regarding the proposed small group filing submitted by MVP Health Insurance Company (MVPHIC) for its grandfathered high deductible EPO/PPO products for the third and fourth quarters of 2015 and to assist the Board in assessing whether to approve, modify, or disapprove the request.

***Filing Description***

1. This filing demonstrates the premium rate development of MVPHIC's small group grandfathered EPO/PPO product portfolio comprising high deductible health plans (HDHP) and includes proposed rates for both the third and fourth quarters of 2015. Small groups who hold grandfathered products have coverage issued prior to March 23, 2010 and have not had substantial changes to their benefits.

2. This is a closed block of business. As of December 2014, 2,374 members were enrolled in the plans impacted by this rate filing. Of those 2,374 members, 163 members have a 3Q contract effective date and 311 members have a 4Q contract effective date.

3. This rate filing is requesting a quarterly rate change of:

| Quarterly Rate Change | | | |
|---|---|---|---|
| | **Small Group PPO/EPO** | **3Q15** | **4Q15** |
| **HDHP** | Medical + Rx | 3.4% | 1.7% |

The requested quarterly rate increases, seen above, would result in the following annual rate changes for 3rd quarter group renewals and 4th quarter group renewals, when combined with prior approved filings:

| Annual Rate Change | | | |
|---|---|---|---|
| | **Small Group PPO/EPO** | **3Q15** | **4Q15** |
| **HDHP** | Medical + Rx | 4.8% | 5.3% |

***Standard of Review***

Pursuant to Green Mountain Care Board (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***

MVPHIC provided the methodology used in premium rate development (Exhibit 3) and details pertinent to its actuarial assumptions/experience driving the rate change request. This includes supplemental exhibits comprising historical claim and membership summary for 36 months grouped into rolling 12 month periods, pricing trend assumptions (Exhibit 2), conversion factor and tier ratios (Exhibit 4), retention expenses (Exhibit 5), and additional supporting exhibits as requested during review of the filing.

***Company's Analysis***

1. *HDHP Rate Development:* MVPHIC utilized grandfathered small group HDHP claim data for the period from September 1, 2013 through August 31, 2014 and paid through November 31, 2014 as the base period experience.

   Exhibit 3 illustrates both the claim projection from the experience period to the rating period and also the accompanying adjustments applied in deriving the rates for 3Q15.

   From the historical experience, claims in excess of $100,000 were replaced with a pooling charge. The pooling charge reflects the average cost of claims in excess of $100,000 and is based on historical experience. The run out for the experience period is three months.

   The adjusted claims were projected forward to the midpoint of the 3Q15 rating period using a 6.8% annual effective medical trend assumption (elaborated further in item 2 below). The effective medical trend reflects MVPHIC's paid trend and is derived from its proposed allowed cost trend rates and the impact of cost share leveraging[1] . The prescription claims were projected forward to the midpoint of 3Q15 rating period using a 22.2% annual effective Rx trend (elaborated further in item 3 below).

   The trended claim cost was further increased to reflect fees and surcharges representing 1.249% of expected claims, retention expenses of 11.75% (constituting general administrative expense of 9.5%, contribution to surplus of 2.00%), premium taxes of 2.00%, ACA Insurer tax of 2.0%, VT vaccine pilot charge of 0.6%, transitional reinsurance fee of $3.67 PMPM for 2015 and $2.25 PMPM for 2016, and Patient Centered Research Fee of $0.17 PMPM.

   The proposed expected claim liability PMPM was also adjusted for the single conversion factor[2] change (derived using September 2013 – August 2014 membership distribution) to derive the gross claim cost for

[1] Leveraging is the result of the fixed nature of deductibles and copays causing the carrier to bear a greater portion of the cost of the medical inflation

[2] The conversion factor adjusts premium that is developed on a PMPM basis to be on a tiered (single, double, parent/children, family) basis. This adjustment is necessary because the premium on a PMPM basis is an average over all adults and children. However, the tiered premiums require the base premium to be for a single adult.

3Q15. The required premium revenue PMPM for 3Q15 was compared to the 2Q15 premium rates for the membership underlying the experience period to determine the required quarterly rate change of 3.4%.

MVPHIC developed the 4Q15 premium by applying one more quarter of trend to the experience period claims resulting in required quarterly rate change of 1.7%.

2. *Medical Trend:* The assumed unit cost trends reflect a combination of known and assumed price increases from MVPHIC's provider network. Consistent with recently submitted filings, MVPHIC is utilizing a 0% utilization trend to its data. MVPHIC opines that based on regression analysis of its utilization data in the past, the predictive ability of the historical utilization trends was weak and not reliable.

The table below illustrates the trend factors for various benefit categories:

| Annual Allowed Cost Trend | | |
|---|---|---|
| **Market Segment** | **2014 Annual Trend** | **2015 Annual Trend** |
| **Inpatient** | 5.8% | 6.7% |
| **Outpatient & Other Medical** | 5.4% | 5.9% |
| **Physician** | 15.3% | 3.5% |
| **Total Medical Trend** | **8.5%** | **5.3%** |

The allowed cost trends illustrated above are based on allowed charges (reflecting total amount of claims paid by the carrier and the policyholder), and do not reflect effective paid trends which reflect the actual claim payment by carrier only. MVPHIC adjusted the allowed cost trends illustrated above to account for the impact of cost share leveraging and derived the total effective paid medical trend factor of 6.8% as indicated in item 1 above. This effective paid trend factor is used to trend the claim experience from the experience period to the rating period in calculating the projected claim cost for the rating period.

*Rx Trend:* MVPHIC is requesting the annual allowed trends illustrated in the chart below:

| Annual Rx Allowed Cost Trend[3] | | |
|---|---|---|
| **2014** | **2015** | **2016** |
| 14.1% | 16.5% | 16.0% |

The annualized effective paid trend derived from the requested allowed trends in the chart above is 22.2% which blends the allowed trends to get to the projection period and accounts for cost sharing by the insured (through the use of deductible, copay and coinsurance).

MVPHIC analyzes its pharmacy data by drug category (Generic, Brand, Specialty). Annual trend factors by drug category were supplied by MVPHIC's pharmacy vendor and did not account for MVPHIC's Vermont specific book of business, given the partnership with this vendor is new.

[3] MVPHIC has proposed same utilization and unit cost trends by drug tier in all three MVP filings (SERFF #: MVPH-129866393, MVPH-129877690, and MVPH-12877747). Due to varying utilization by drug tier in these filings, the total allowed trends as illustrated in this chart will not exactly match in all three filings.

MVPHIC's rationale for using unadjusted trends includes the following:

- The new PBM (contracted on January 1, 2015) does not have enough MVPHIC data to provide a credible Rx trend forecast based on MVPHIC's experience.
- The historic trends do not reflect the constantly changing Rx market and does not account for drugs coming off patent, changes in average wholesale price, new drugs being released to the market and price competitiveness amongst generic and brand drug manufacturers.
- MVPHIC has experienced Rx trends that outpace the PBM's trend forecast. MVPHIC experienced a 24.8% allowed Rx trend in 2014 compared to a 14.1% allowed Rx trend assumed in this filing.

***L&E Analysis***

1. *Rate Development:* During our analysis of MVPHIC's rate development methodology, we reviewed the assumptions and adjustments made to the experience data set for large claims and expense loads. We also reviewed the projected loss ratios and how these amounts compared to the company's historical experience.

   We note that MVPHIC's loss ratio for the small group market in the experience period (September 2013 – August 2014) exceeded the minimum loss ratio requirement of 80%. The unadjusted medical loss ratio for the grandfathered group is illustrated below:

| Historic Period | Unadjusted MLR |
|---|---|
| **September 2013-August 2014** | 90.8% |
| **January 2014 – October 2014** | 94.6% |

   MVPHIC's 2015 anticipated traditional loss ratio and federal loss ratio (which adjusts the loss ratio for quality improvement expenses and taxes) for this grandfathered block, as illustrated below, exceed the minimum loss ratio requirement.

| Projection Period ( 3Q 2015) | | |
|---|---|---|
| **Projection Period** | Traditional Loss Ratio | Federal Loss Ratio |
| **3Q 2015** | 82.2% | 88.8% |

   The assumed administrative load of 9.5% of premium is same as what was assumed in the prior 1Q/2Q 2015 filing. We assessed that MVPHIC's assumed general administrative load to be lower than the actual expense ratio for the small group products, as illustrated in the Supplemental Health Care Exhibits:

| Administrative Expense Summary for Small Group Products | | | | |
|---|---|---|---|---|
| | Member Months | Premium PMPM | Admin PMPM | Expense Ratio |
| **2010** | 186,297 | $344.28 | $39.71 | 11.5% |
| **2011** | 209,126 | $348.79 | $34.17 | 9.8% |
| **2012** | 190,795 | $365.29 | $37.24 | 10.2% |
| **2013** | 178,794 | $394.67 | $46.56 | 11.8% |

   If MVPHIC's envisioned strategy to reduce its administrate expenses does not materialize, future rate increases could be higher than anticipated.

We note that MVPHIC utilized experience period enrollment to calculate the 2015 single conversion factor of 1.207. Considering the shift in membership of this closed block, we believe that it is more appropriate to use the most recently available contract distribution in developing the rate change and the single conversion factor. MVPHIC made no adjustment to account for demographic shifts (age and gender) from experience period membership to the rating period. The demographic factor over the experience period was 1.543 versus 1.551 in December 2014.

If December 2014 enrollment was used instead of the experience period enrollment distribution, the change in the distribution of age/gender would increase the age factor from 1.543 to 1.551. This 1.005 increase should be incorporated in the rate change development. Additionally, the single conversion factor for HDHP product increases from 1.202 to 1.217. The demographic adjustment and revised contract conversion factor will increase the recommended quarterly rate change from 3.4% to 5.2%.

We find all other adjustments to the projected claim costs to include benefit mandates, taxes, and ACA related costs to be reasonable and appropriate.

With the recommended changes to the demographic assumption in the rate change calculation and single conversion factor calculation, MVPHIC's rate development methodology appears to be reasonable and appropriate.

2. *Medical Trend:* We consider the development of 2015 medical trend using negotiated unit cost change with providers and GMCB approved rate changes to be appropriate. We consider the 6.8% annual medical paid trend assumption to be reasonable and appropriate.

   Given that MVPHIC is assuming a 0% utilization trend, we note that if higher utilization is actually materialized in the rating period, then future rate increases could be higher than anticipated.

3. *Rx Trend:* We consider MVPHIC's approach of using Rx trends from its vendor without accounting for its Vermont specific block of business to be a limitation on the reasonableness of their proposed Rx trend assumption.

   In a response to an inquiry, MVPHIC provided a comparison of calendar year 2014 Rx allowed claims by category compared to calendar year 2013 Rx allowed claims by category. This illustrated a higher allowed Rx trend of 24.8% compared to the 14.1% reflected in the filing.

| Drug Category | Calendar Year 2013 | Calendar Year 2014 | Allowed Trend |
|---|---|---|---|
| **Generic** | $12.51 | $12.61 | 0.8% |
| **Brand** | $14.22 | $14.87 | 4.6% |
| **Specialty** | $11.98 | $20.82 | 73.8% |
| **Aggregate** | $38.71 | $48.30 | 24.8% |

As illustrated in the chart above, specialty drugs are having a significant impact on the total Rx trend. This is consistent with industry experience where the cost of hepatitis C drugs is driving high specialty drug trends in recent years.

While we do not agree with the Company only utilizing the unadjusted trends from the PBM, we believe the historical experience shows higher trends than those recommended by the PBM. We note that MVPHIC has proposed usage of lower Rx trends than what is supported by their historical experience. This consequently results in lower rates. We considered MVPHIC's historic experience, the PBM's recommendation, and the impact of new high cost specialty drugs. To maintain consistency across all MVP filings and account for factors outside of historic experience, we opine that the requested Rx paid trend of 22.2% is reasonable and appropriate.

***Recommendation***

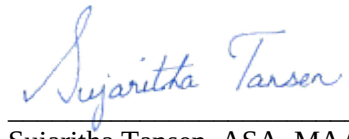
After modifications, L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory. Therefore, L&E recommends that the Board make the following modification:

- Reflect updated enrollment in the rate change development and the single conversion factor calculation (1.8% to 3Q15 rate change).

The above changes will increase the 3Q15 quarterly rate change from 3.4% to 5.2%.

| **Modified Quarterly Rate Change** | | | |
|---|---|---|---|
| | **Small Group PPO/EPO** | **3Q15** | **4Q15** |
| **HDHP** | Medical + Rx | 5.2% | 1.7% |
| **Modified Annual Rate Change** | | | |
| | **Small Group PPO/EPO** | **3Q15** | **4Q15** |
| **HDHP** | Medical + Rx | 6.7% | 7.2% |

Sincerely,



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**ASOP 41 Disclosures**
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[4], 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 Conduct[5], 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:

- Sujaritha Tansen, ASA, MAAA, MS, Associate Actuary 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 31, 2015. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is March 13, 2015.

**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.
- 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**

[4] 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.

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

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.