L&E Actuaries & Consultants

September 23, 2014

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

Re: Agriservices Association Premium Rate Filing
Effective Date: 12/1/2014 to 11/30/15
SERFF #: MVPH-129640114

The purpose of this letter is to provide a summary and recommendation regarding the Agriservices filing submitted by MVP Health Insurance Company (MVPHIC) for groups enrolling or renewing in December 1, 2014 and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. Agriservices Association is a grandfathered association of farmers (comprising of two divisions: Dairymen and ASA) offering 5 health plan options to its members. This filing demonstrates the premium rate development adopted by MVPHIC for its business with Agriservices. The proposed premium rates in this filing are for one full year, with an effective date of December 1, 2014.

2. Agriservices uses a Minimum Premium Plan (MPP) funding arrangement, wherein Agriservices pays claims up to the maximum expected claim liability (set at 115% of expected claim liability), while MVPHIC provides administrative services and stop loss insurance for individual claims in excess of $200,000. The composite gross required premium is split into two components for MPP funding arrangements: Expected Claim Liability component and the Retention and Stop Loss Fee component.

3. MVPHIC establishes the expected claim liability and maximum expected claim liability for each plan offering, retention and the stop loss fees used in rate development. The expected claim liability includes expected claim costs, Vermont premium tax, Vermont paid claims assessments, and federal ACA fees. The retention fees cover the cost of general administration, bad debt service fee, and contribution to surplus. The fixed retention and stop loss fees (minimum premium) are billed to Agriservices monthly while actual claims are billed

to Agriservices up to the aggregate maximum expected claim liability.

4. The proposed rates in this filing will affect approximately 1,400 covered lives.

5. The aggregate proposed rate increase is 16.0% as compared to December 2013 rates. The proposed rate increase varies by plan, division, and contract tier, ranging from a minimum of 0.1% to a maximum of 31.8%.

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 methodologies used in Medical/Rx premium rate development. Exhibit A illustrates the large group experience rating formula employed by MVPHIC. Exhibit A1 illustrates the expected claim liability[1], retention, and stop loss fees by product offering. Exhibit B illustrates the derivation of proposed plan-specific premium rates based on the expected claim liability developed in Exhibit A1. Exhibit B1 illustrates the proposed premium rate increase by benefit plan option. MVP provided other details pertinent to its actuarial assumptions/experience driving the rate change request. This includes supplemental exhibits comprising monthly trend factors, benefit relativity changes, contract conversion factor derivation, and reconciliation of claim experience by contract year from January 2009 through June 2014.

Company's Analysis
1. *Rate Development:* Exhibit A illustrates the experience rating formula. MVPHIC utilized incurred claims for the period from April 1, 2013 through March 31, 2014 and paid through May 31, 2014 as the base period experience. Historical claims constituted 18,074 member months and were assigned 100% credibility.

   The base experience period claims minus any claims in excess of $200,000 were projected forward to the midpoint of the rating period using an 8.5% annual effective medical trend and 4.8% annual Rx trend (elaborated further in item 2 below) assumption. 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[2].

[1] MVP is updating the benefit relativities of plan offerings to calculate the expected claims PMPM for each plan option. The re-sloped expected claims in Exhibit A1 are illustrated to be revenue neutral to the expected claim liability PMPM in Exhibit A.

[2] 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. Leveraging assumed in this filing is 1.3% for high-deductible plans and 1.0% for non high-deductible plans.

Adjustments to the projected claims were made to account for stop loss fee equal to 2.7% (same as the assumption utilized in the prior rate filing for this group) of projected medical claims. The projected cost was further increased to reflect fees and surcharges, representing less than a 0.5% of expected claims, retention expenses of 11.75%, premium taxes of 2.00%, ACA Insurer tax of 2.0%, transitional reinsurance fee of $3.80 PMPM and Patient Centered Research Fee of $0.17 PMPM.

The calculated gross required PMPM in Exhibit A is split into two components:

- Expected claim liability and
- Retention and stop loss fees.

The proposed expected claim liability PMPM was converted to a per contract rate using single conversion factor (derived using May 2014 membership) and compared to the current composite claim liability to determine the projected increase in claim liability. Exhibit A demonstrates the expected claim liability will increase by 12.9% from the current claim liability.

Exhibit A1 utilizes the expected claim liability derived in Exhibit A and incorporates revised benefit relativity in developing the expected claim liability by plan option. The re-sloped expected claims PMPM in Exhibit A1 are shown to be revenue neutral to the expected claims PMPM in Exhibit A.

Exhibit B illustrates the expected claim liability in Exhibit A1 to develop proposed premium rates for Agriservices by adding other components such as retention, stop loss fees, and additional expenses for services (such as accident coverage) provided by Agriservices. Exhibit B1 demonstrates the proposed rate increase by plan, contract, and division[3]. Since May 2014 enrollment shifted towards high deductible plans with a larger benefit relativity correction (discussed in item 3 below), the aggregate premium increase of 16.0% in Exhibit B1 is higher than the expected claim liability increase of 12.9% in Exhibit A.

If the benefit relativity correction was fully implemented without mitigating anti-selection[4], the average rate change would range from -2.3% (Plan Option 1) to 39.7% (Plan Option 4), constituting an aggregate rate increase of 16.0%. To mitigate anti-selection and based on the number of enrollees in each plan, Agriservices has reduced the rate increase of Option 4 and

[3] In the prior filings for this group, the premium rates were derived separately for the two divisions (Dairymen and ASA) with each group using a different claim liability basis. However, in this filing, the spread between the two divisions is being removed as the same expected claim liability is used for both the groups. Consequently, there will be a variation in the rate increase by division.

[4] Anti-selection occurs when low-risk individuals may be more likely to enroll in plans with less generous coverage due to lower premiums, while high-risk individuals who anticipate higher healthcare expenses may be more likely to enroll in plans with more generous coverage even though the premiums would be higher.

increased the premium rate for Options 1-3, resulting in an aggregate rate increase of 16.0%. The range of the average rate change is 0.1% (Plan Option 1) to 31.7% (Plan Option 4).

2. *Medical/Rx Trends:* The unit cost medical/Rx trends and the deductible leveraging factors used in this filing are consistent with the filed and approved 3Q/4Q 2014 experience rated large group premium rate filing (SERFF ID: MVPH-129389053).

	Allowed Trend	
Year	**Medical**	**Rx**
2013	4.8%	3.0%
2014	9.1%	3.5%
2015	4.4%	4.1%
2016	4.4%	4.1%

Plan Type	Annual Leveraging Factor
HDHP	1.3%
Non-HDHP	1.0%

3. *Benefit Relativity Correction:* Since 2010, Agriservices had chosen not to update the relativities between plans. This resulted in a disconnect between the expected claim liability by product and fully insured premium rate by product. Consequently, the premium rates for HDHP were lower than what was reflected in expected claim liabilities and vice versa for non HDHP products. The current filing aims to reduce the premium disconnect between product offerings by incorporating revised benefit relativities proposed by MVPHIC.

   MVPHIC proposed the following benefit relativities that reflect its best estimate of the actuarial value between plans. As illustrated below, the expected aggregate claim liability of $308.09 using proposed benefit relativity factors is equal to the aggregate claim liability using prior benefit relativity factors.

Plan	December 2013 Expected Benefit Relativity	Expected Gross Claim Liability based on 2010 Benefit Relativity	Proposed Benefit Relativity	Proposed Expected Claim Liability
Option 1	100.0%	$472.61	100.0%	$406.74
Option 2	76.0%	$359.25	84.7%	$344.34
Option 3	92.4%	$436.87	94.1%	$382.84
Option 4	43.6%	$206.29	60.2%	$244.72
Option 5	58.8%	$277.95	71.9%	$292.37
Total	65.2%	$308.09	75.7%	$308.09

As a result of the benefit relativity correction, there is a substantial increase to the expected

claim liability for Plan Options 4 and 5 and lower increases being proposed for Plan Options 1 - 3. As indicated in the Rate Development section above, Agriservices has mitigated the rate increase required for Plan Option 4 by increasing the rate increase for Plan Options 1 – 3.

L&E Analysis

1. *Rate Development:* During our analysis of the MVPHIC's rate development methodology, we reviewed the assumptions and adjustments made to the experience data set and expense loads.

   The assumptions that were changed since the prior filing for the Agriservices group include the following:

   - The contribution to surplus was reduced from 3.0%, approved by the Board in the prior filing, to 2.0%. All other retention components (general administrative expense of 9.5% and bad debt of 0.25%) are unchanged from the prior filing. We reviewed actual administrative expense ratio for MVP's large group market, as provided in the Supplemental Health Care Exhibit for the 2010-2013 time period, and note that the historical expense ratio is greater than the assumed administrative expense of 9.5%:

     2010: 11.3%
     2011: 11.0%
     2012: 10.0%
     2013: 10.8%

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

   - The maximum expected claim liability was increased from 110% of expected claim liability in the prior filing to 115% of the expected claim liability. Considering the declining membership and associated volatility in future claim costs, we consider increase in the maximum claim liability to be reasonable and appropriate.

   We find that the adjustments to the projected claim costs to include taxes, and ACA related costs to be reasonable and appropriate.

   MVPHIC's rate development methodology appears to be reasonable and appropriate.

2. *Medical/Rx Trend:* We consider the utilization of recently approved medical/Rx trends (filed in 3Q14/4Q14 experience rated large group rate filing) to be reasonable and appropriate.

3. *Benefit Relativity Correction:* We reviewed MVPHIC's methodology to develop the benefit relativity factors and the proposed benefit relativity factors for revenue neutrality. MVPHIC's updated benefit pricing model reflects calendar year 2012 allowed medical and Rx claims from the entire New York and Vermont commercial membership. This block of business reflects $1.35 billion in allowed claims and 3.34 million member months. Since MVPHIC has used credible experience from its own block of business in deriving the benefit relativities, we consider this methodology to be reasonable and appropriate.

We validated that the proposed relativity factors would produce an actuarially equivalent expected gross claim liability of $308.09 PMPM when weighted with experience period membership as the previously used 2010 benefit relativity factors.

In prior filings, MVP and Agriservices agreed to target lower overall rate increases for its members and mitigate anti-selection. Generally, the requested rate changes have been level across all plan options, despite a need for differing rate changes by plan option. The following factors are driving materially high rate increase for high deductible plans in the current filing:

- The 2010 relativities were retained in prior years. This resulted in HDHP plans (Options 4 and 5) priced lower relative to the expected claim liability of these plan options.

- In general, lower premiums attract more policyholders, assuming all other health status factors are equivalent. Material shifts in enrollment to HDHP plans (relative to Options 1-3) can be partly explained by lower premiums for HDHP plans, which attract more policyholders towards Options 4-5. A comparison of enrollment distribution between the experience period and May 2014 is show below:

Base Plan Offered	January-December 2013 Enrollment	May 2014 Enrollment
Option 1	15%	7%
Option 2	8%	6%
Option 3	12%	10%
Option 4	36%	38%
Option 5	28%	39%

As a result of this plan migration, the aggregate premium collected from all plan options will be smaller than the scenario when such a migration did not occur and if plan options were priced to reflect actual claim liability. In essence, when benefit relativity factors are revised to match expected claim liability, then the aggregate premium collected will better reflect actual claim liability.

In the current filing, the range of rate increases was modified by plan option due to material shifts in actual enrollment by plan option, benefit relativity correction, and the desire to mitigate anti-selection. In the absence of this approach, Option 4, representing about 38% of total enrollment, would have an aggregate increase of 39.7% instead of the requested 25.8%. We find MVPHIC's adjustment to benefit relativities to be 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,

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ASOP 41 Disclosures
The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[5], 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[6], 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 September 23, 2014. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is September 5, 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.

[5] 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.

[6] 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.