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November 3, 2014

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

Re: 1Q15 – 2Q15 MVPHIC Small Group EPO/PPO Rates – New Policy Form
SERFF #: MVPH-129710583

The purpose of this letter is to provide a summary and recommendation regarding the small group filing submitted by MVP Health Insurance Company (MVPHIC) for its new policy form effective 1/1/2015 and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. This filing demonstrates the manual rate development for a new policy form (for plan VEHD-49) in MVPHIC's small group benefit portfolio for the first and second quarters of 2015. Effective 2015, the existing grandfathered plan VEHD-18 will not comply with IRS regulations applicable to qualified high deductible health plans (HDHP) and will be replaced by the proposed VEHD-49 plan. Members transitioning from VEHD-18 to VEHD-49 will maintain their grandfathered status.

2. The proposed 1Q15 rates in this filing were derived using a benefit factor relative to the pending 1Q15 manual rate for plan VEHD-18 filed in SERFF # MVPH-12966230. The 2Q15 rates were derived by applying one quarter of paid HDHP trend to the proposed 1Q15 premium rates.

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 and details pertinent to its actuarial assumptions/experience driving the manual rate for the new policy form and its associated rider. This includes summary of benefit plan (Exhibit 1), premium rate development (Exhibit 3), medical manual rates (Exhibit 6a), and proposed medical rider rates (Exhibit 6b).

Company's Analysis
Rate Development: Exhibit 1 provides a summary of benefits for plans VEHD-18 and VEHD-49. To make it compliant with IRS regulations for HDHP, the family deductible was increased from $2,500 in VEHD-18 to $2,600 in VEHD-49. Correspondingly, the out-of-pocket maximum was increased from $3,500 to $3,600.

To develop the premium rate for VEHD-49, the proposed 1Q15 single rate for VEHD-18 was used as a starting point. The net claim cost for VEHD-18 was derived by removing the effect of single conversion factor[1] and expense load from the single rate. This 1Q15 net claim cost for VEHD-18 was multiplied by the benefit relativity factor[2] for VEHD-49 in deriving the net claim cost for VEHD-49. MVPHIC adopted its recently updated benefit pricing tool (as used in the Existing Large Group filing, SERFF # MVPH-129676042) comprising updated claim utilization data, claim distribution tables, and factor tables in deriving benefit relativity factor of the proposed plan.
The benefit relativity model includes adjustments for deductibles, out-of-pocket maximums, and impact of embedded single deductible versus aggregate family deductible.

The proposed 1Q15 single rate for VEHD-49 was derived by adding back the expense load to the net claim cost and applying the single conversion factor.

MVPHIC is proposing rates for a safe harbor[3] rider that will be sold with the new plan. The rider uses the same policy form and drug list as the existing portfolio. The rates for the safe harbor rider were developed by applying benefit relativity to cover the safe harbor benefit.

The 2Q15 rates were derived by multiplying the proposed 1Q15 rates by one quarter of the 2013 paid trend (1.5%) assumption.

L&E Analysis
Rate Development: We reviewed the methodology adopted by MVPHIC in developing the premium rate for VEHD-49. We note that MVPHIC's updated benefit pricing model reflects calendar year 2012 allowed medical and Rx claims from its entire New York and Vermont commercial membership and includes adjustments for induced utilization adjustments based on plan richness. Since MVPHIC has used credible experience from its own block of business in

[1] 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.

[2] Benefit relativity factors are ratios that measure the richness of a plan's benefits relative to a base plan. Plans that have a richer set of benefits and cost sharing features (lower deductible, lower co-pays, etc.) will have a higher benefit relativity factor. For example, a plan with a benefit relativity factor of 0.95 would be 5% less rich and less costly to the insurer than the base plan.

[3] The safe harbor pharmacy rider amends the benefit plan to waive the plan deductible for a specific list of preventive drugs. The rider does not vary by plan, but the insurer cost varies depending on the HDHP plan it is attached to. Since the rider waives the deductible, the rider costs increases with plan deductible.

creating its updated pricing model, we consider the pricing methodology to be reasonable and appropriate.

We note that MVPHIC utilized 2013 enrollment (combined grandfathered and non-grandfathered blocks) to calculate the single conversion factor of 1.208. As stated in our rate review summary for the small group filing (SERFF # MVPH-12966230), we believe it is more appropriate to use the most recently available contract distribution in developing the single conversion factor. If June 2014 enrollment was used instead of the experience period enrollment distribution, the single conversion factor will decrease from 1.208 to 1.186.

Since the proposed 1Q15 rates for VEHD-49 are derived by multiplying the proposed benefit relativity factor for the plan by the proposed 1Q15 rate for the reference plan (VEHD-18 filed in SERFF # MVPH-12966230), it is important to note that the accuracy of the pricing of the reference plan will impact the accuracy of the proposed rate for the new plan. The Board's decision, issued on October 29, 2014, for the small group filing (SERFF # MVPH-12966230; GMCB-020-14rr) reduced the pharmacy trend to the trend approved in 2015 Vermont Health Connect Rate filing with the Sovaldi adjustment per our recommendation and reduced the contribution surplus from 2.0% to 1.0%. The Board's changes to the manual rate for VEHD-18 and our recommendation of the single conversion factor change will reduce the proposed 1Q15 premium rate for VEHD-49 from $522.91 to $506.72.

We reviewed the pricing methodology for safe harbor rider and consider it to be reasonable and appropriate.

With the recommended changes in the rate development for VEHD-49, MVPHIC's rate development methodology appears to be 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 single conversion factor calculation.
- Reflect the Board's decision regarding plan VEHD-18 (SERFF # MVPH-12966230; GMCB-020-14rr) for pharmacy trend and contribution to reserves.

With both modifications, the 1Q15 premium rate for plan VEHD-49 will reduce by 3.1%.

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 November 3, 2014. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is October 9, 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.
- 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.

[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 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.