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**STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD**

In re: Blue Cross and Blue Shield Vermont) GMCB-005-21rr
2022 Vermont ACA Market – Individual) SERFF No. BCVT-132829271
Market Rate Filing)
)

In re: Blue Cross and Blue Shield Vermont) GMCB-006-21rr
2022 Vermont ACA Market – Small Group) SERFF No. BCVT-132829562
Market Rate Filing)
)

SUPPLEMENTAL PREFILED TESTIMONY OF PAUL A. SCHULTZ

Dated: July 12, 2021

Mr. Paul A. Schultz, being duly sworn, does hereby depose and say as follows:

Have you reviewed the July 6, 2021 letter from Lewis & Ellis (L&E) to the Green Mountain Care Board providing a summary and recommendations regarding Blue Cross’s 2022 Vermont ACA Market Individual and Small Group rate filings (the Filings)?

Yes.

Did L&E recommend that the Board modify the Filings?

Yes. On pages 23 of the July 6 Letter, L&E recommended four modifications and designated them as follows: consider updated hospital budget information; reflect updated risk adjustment transfers; update to Bronze CDHP cost sharing; and reflect impact of American Rescue Plan Act on claims.

What is Blue Cross’s position regarding L&E’s recommendation to “consider updated hospital budget information”?

We agree with L&E’s recommendation that to the extent updated information regarding unit cost trends is available via the hospital budget submissions, that information should be used to update the assumed unit cost trends in the Filings. The impact of such a change cannot be estimated at this time because the budget submissions are not yet available for all hospitals.

1 In the absence of complete hospital budget submissions, it is possible to perform
2 sensitivity testing to develop a view on how the overall commercial “ask” in the hospital budget
3 submissions, and the eventual outcome of the hospital budget review process, might affect
4 premiums. We assumed in the Filings that the Board would approve hospital budget increases for
5 the 2021 cycle similar to those approved in the 2019 cycle. If we assume that the Board approves
6 commercial rate changes that are one percent different from our filing assumption, premiums
7 would need to change by an average of 0.4 percent to reflect the higher costs. The change in
8 premiums is proportional to the change in approved hospital budgets; that is, an approved
9 commercial rate change two percent different from our filing assumption corresponds to a 0.8
10 percent (two times 0.4 percent) premium change, and so forth.
11

12 **What is Blue Cross’s position regarding L&E’s recommendation to “reflect updated risk**
13 **adjustment transfers”?**

14 We agree that L&E’s recommended modification should be made. L&E calculated a final
15 2020 risk adjustment estimate for each market using data that is not available to Blue Cross and
16 was not available to any party at the time of the Filings.
17

18 **What is Blue Cross’s position regarding L&E’s recommendation to “update to Bronze**
19 **CDHP cost sharing”?**

20 We agree that L&E’s recommended modification should be made to reflect the changes
21 implemented by DVHA based on final federal guidance that was released after the filing date.
22

23 **What is Blue Cross’s position regarding L&E’s recommendation to “reflect [the] impact of**
24 **[the] American Rescue Plan Act on claims?”**

25 We agree that L&E’s recommended modification should be made.
26

27 **Have you also reviewed the July 6, 2021 letter from L&E to the Green Mountain Care**
Board providing a summary and recommendations regarding MVP’s 2022 Vermont ACA
Market Individual and Small Group rate filings?

Yes.

1 **Is there an impact on the premiums Blue Cross members will pay if the Board adopts**
2 **L&E's recommendations in both dockets?**

3 Yes. While it is not possible to precisely recreate MVP's rates using publicly available
4 information, we were able to apply the impacts L&E quoted in their MVP letter to conclude that
5 the second-lowest Silver plan would be the Blue Cross Vermont Preferred Silver plan if the
6 Board adopts L&E's recommendations in both dockets. The second-lowest silver plan is the
7 benchmark plan used for calculating federal premium assistance. We estimate that the MVP VT
8 Silver 4 HDHP would have a premium less than one dollar higher than that of the benchmark
9 plan. Therefore, the amount of federal subsidy received by Vermonters in the individual market
10 will depend on the approved premiums of Blue Cross and MVP individual market plans.
11 Reductions to L&E's recommended individual rates in either docket would very likely result in
12 lower federal subsidy amounts and therefore equal or higher net premiums (i.e., billed premiums
13 net of federal and Vermont subsidies) for the vast majority of individual market policyholders.
14

15 If the Board were to approve all rates as recommended, approximately 90 percent¹ of
16 families currently enrolled with Blue Cross through Vermont Health Connect (VHC) would
17 experience a net premium decrease for the 2022 plan year. We do not have income information
18 for members currently enrolled directly with Blue Cross, but any such members who are part of
19 households earning less than 755 percent of Federal Poverty Level (FPL) would also see net
20 reductions in premium if they keep their current plan selection.
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25 ¹ All estimates of the APTC are based on data provided by DVHA on June 10, 2021. The data consisted of a de-
26 identified list of all 7,760 Blue Cross subscribers enrolled with VHC. It included plan selection, tier level and
27 income as a percentage of FPL. We made simplifying assumptions about the number of people in each household,
and observed that changes in these assumptions were immaterial to the resulting change in net premium.

1 **Based on L&E's recommended rates, what average net premium change will Blue Cross**
2 **members experience in the individual market?**

3 If the Board were to approve all rates as recommended, the average net premium change
4 for Blue Cross members in the individual market would be a *decrease* of at least 4.3 percent².

5 **How did you calculate the average net premium change?**

6 We used the same process as described in my July 6 testimony, *see* Prefiled Test. of Paul
7 A. Schultz at 10:1-9 (July 6, 2021), but applied to the L&E recommended rates rather than the
8 filed rates.

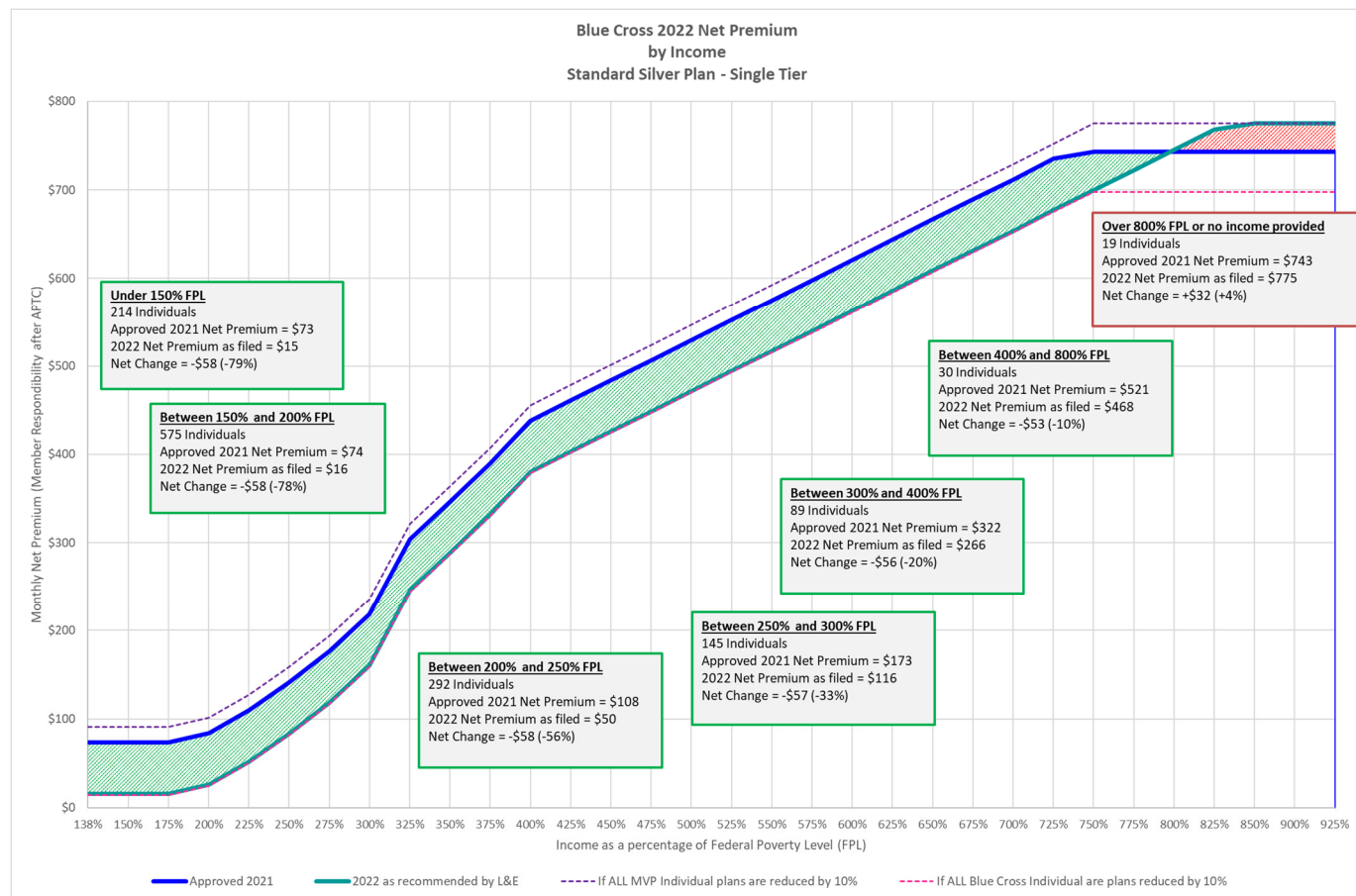
9 **Did you summarize the results of the calculations described above?**

10 Yes. The graph³ below summarizes the results of those calculations for single tier for the
11 Blue Cross Standard Silver plan.

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24 ² Using the 7,760 subscribers included in the DVHA data and 2,707 subscribers directly enrolled with Blue Cross.
25 Because we do not have income information for subscribers who enroll directly with Blue Cross, the calculation
26 uses an assumption that no such members are eligible for the expanded premium assistance. If any of these members
27 are eligible, the result will be an even greater average *decrease* in net premium.

³ The graph provided on the July 6, 2021 prefiled testimony did not reflect Vermont Premium Assistance. All
figures presented in the boxes, however, included the impact of Vermont Premium Assistance. We have resolved
this inconsistency in the information presented herein.



Did you oversee the preparation of this graph?

Yes. I worked with other members of our actuarial team on this graph and I am fully familiar with the information it contains and the calculations it summarizes.

Please explain what the graph represents.

The graph shows the results of the above-described net premium calculations (i.e., billed premiums net of federal and Vermont subsidies) for a single subscriber on a Blue Cross Standard Silver plan at various levels of income. The blue line shows the net premium that results from the approved 2021 rates. The green line shows the net premium that results from the 2022 filed rates. The dotted pink line, which overlaps the green line to approximately 750 percent of FPL (about \$96,600), shows the net premium that results if the 2022 Blue Cross rates as recommended by

1 L&E are reduced by ten percent while MVP rates are approved as recommended. The dotted
2 purple line shows the net premium that results for Blue Cross members if MVP's rates are
3 reduced ten percent below L&E's recommendation while Blue Cross rates are approved as
4 recommended.

5 While we acknowledge that a ten percent rate reduction is unlikely, the impact of smaller
6 changes would be proportional to the net premium impact illustrated on the graph. That is to say,
7 any material⁴ decrease to one carrier's rates will *increase* net premiums for Vermonters enrolling
8 with the other carrier while decreasing premiums only for the subset of the population earning in
9 excess of 797 percent of FPL (\$102,680) as individuals or 1089 percent of FPL (\$288,532) as
10 families of four⁵.

12 **What are the statistics in the grey boxes?**

13 They are the average net premium and net change by income range for individuals
14 currently enrolled in the Blue Cross Standard Silver plan through VHC.

16 **What can you conclude from the graph?**

17 The graph demonstrates that any reductions to the individual market rates recommended
18 by L&E benefit only the federal government and higher-income Vermonters; at the same time,
19 such reductions are neutral or, in most circumstances, *harmful* to a large number of Vermont
20 individuals and families in that such "reductions" will in most cases *increase* the net premium
21 for most Vermonters in the individual market. The graph also illustrates the complicated
22 interplay among approved MVP rates, federal subsidies, and net premiums for Blue Cross
23 members. Finally, the graph illustrates the unique opportunity—resulting from the confluence of
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26 ⁴ Specifically, any decrease greater than one tenth of one percent.

27 ⁵ Depending on the plan selected, these percentages vary from 755 percent to 817 percent (\$97,245 to \$105,231) for individuals and 1031 percent to 1116 percent (\$273,259 to \$295,700) for families of four.

1 the rates filed by both carriers and ARPA's substantial increase in available federal subsidies—to
2 provide tangible premium relief to most Vermonters in the individual market by approving the
3 individual market rates as recommended by L&E.

4 **Have you reviewed the solvency opinions from the Commissioner Michael Pieciak of the**
5 **Department of Financial Regulation, dated July 6, 2021, as relevant to Blue Cross's filings**
6 **in the individual and small group markets?**

7 Yes.

8 **Have you reviewed the letter from Oliver Wyman dated July 6, 2021 that accompanied**
9 **Commissioner Pieciak's solvency opinions?**

10 Yes.

11 **Tables 9,10, 11, and 12 in Oliver Wyman's letters calculate potential RBC impacts for Blue**
12 **Cross should the Board impose rate cuts of 1-6% in the individual and small group**
13 **markets. Do you have any response to this analysis by Oliver Wyman?**

14 Yes, there are three points that the Board should consider in reviewing these
15 tables.

16 *First*, as explained in Ruth Greene's July 6 Prefiled Testimony, although Blue Cross is
17 currently below our target RBC range, we project to fall within the range at the end of 2022.
18 Prefiled Test. of Ruth Greene at 7:1-8:8 (July 6, 2021). Further, the point in our RBC range from
19 which we are least likely to move outside the target range within the subsequent 12 months is
20 690 percent. Cutting our rates below actuarially supported levels is not warranted for any reason
21 and would undermine our solvency and thereby undermine affordability and access to care.

22 *Second*, I note that Oliver Wyman calculated projected impacts of rate cuts
23 separately for each market. The tables thus do not show the combined impact any hypothetical
24 rate cut would have on our RBC if applied in both markets.

25 *Third*, Oliver Wyman's calculations do not account for any increase in market
26 share for Blue Cross in 2022. As explained in Ruth Greene's July 6 Prefiled Testimony, based on
27

1 MVP's filed rate changes, we expect that our market share will increase in both of these markets
2 in 2022. *Id.* at 9:14-10:11. When we add new members, we take on additional risk, and that
3 reduces our RBC ratio.

4 **Please explain the basis for your expectation that Blue Cross will increase its market share**
5 **in 2022, and how an increase in market share differs from the projected membership**
6 **increases addressed in Blue Cross's rate filing.**

7 Blue Cross anticipates increasing our market share in these markets because our
8 only competitor, MVP, has filed for a substantially higher rate increase. MVP's higher rates
9 mean that, for all Vermonters, the actual cost of Blue Cross plans will be close to the cost of
10 MVP plans. In the past, when our rates have been at or close to parity with MVP's, our market
11 share has been substantially higher.

12 Our current market share for 2021 is 48.5 percent. If the Board accepts L&E's
13 recommendations with respect to the filed rates for both markets, the pricing gap in these
14 markets will narrow from 13.1 percent to 3.1 percent in the small group market and to only 1.4
15 percent for gross premiums in the individual market. The last time the rate differential was under
16 5 percent (4.6 percent), Blue Cross had an 87.6 percent market share. Moreover, when the price
17 differential moved from 4.6 percent to 10.4 percent in MVP's favor, which is the largest single-
18 year change in rate differential prior to this year, there was an 18 percent market shift toward
19 MVP. Based on that historical experience, it is reasonable to anticipate a market share increase
20 for Blue Cross in 2022.

21 This anticipated increase in market share is distinct from projected overall market
22 increases due to increased premium tax credits. Our rate filing, and L&E's analysis of the rate
23 filing, address projections for new entrants into the market due to the higher subsidies. Market
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share projections, in contrast, are directed at the division in the market between MVP and Blue Cross.

Are you able to provide similar estimates of the RBC impact of hypothetical rate cuts that take into account potential increases in market share?

Yes. Using tables 10 and 12 as a baseline, we have calculated revised estimates that show the impact of the hypothetical rate cuts in the individual, small group, and combined markets, assuming Blue Cross experiences a modest 10 percent increase in market share in these markets. We have labeled these tables 10a, 12a, and 13a.

**Table 10a: Individual Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19 Impacts and 10% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
<i>Aggregate Incremental</i>	-2%	█	█	█	█	█	█	█
<i>2021-2022 COVID-19</i>	-1%	█	█	█	█	█	█	█
<i>Claims Impact as a</i>	0%	█	█	█	█	█	█	█
<i>Percentage of Adjusted</i>	1%	█	█	█	█	█	█	█
<i>2019 Incurred Claims</i>	2%	█	█	█	█	█	█	█

**Table 12a: Small Group Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19 Impacts and 10% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
<i>Aggregate Incremental</i>	-2%	█	█	█	█	█	█	█
<i>2021-2022 COVID-19</i>	-1%	█	█	█	█	█	█	█
<i>Claims Impact as a</i>	0%	█	█	█	█	█	█	█
<i>Percentage of Adjusted</i>	1%	█	█	█	█	█	█	█
<i>2019 Incurred Claims</i>	2%	█	█	█	█	█	█	█

**Table 13a: Combined Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19 Impacts and 10% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
Aggregate Incremental	-2%	█	█	█	█	█	█	█
2021-2022 COVID-19	-1%	█	█	█	█	█	█	█
Claims Impact as a	0%	█	█	█	█	█	█	█
Percentage of Adjusted	1%	█	█	█	█	█	█	█
2019 Incurred Claims	2%	█	█	█	█	█	█	█

We have likewise calculated revised estimates that show the impact of hypothetical rate cuts in the individual, small group, and combined markets, assuming Blue Cross experiences a larger but historically reasonable 20 percent increase in market share in these markets. We have labeled these tables 10b, 12b, and 13b.

**Table 10b: Individual Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19 Impacts and 20% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
Aggregate Incremental	-2%	█	█	█	█	█	█	█
2021-2022 COVID-19	-1%	█	█	█	█	█	█	█
Claims Impact as a	0%	█	█	█	█	█	█	█
Percentage of Adjusted	1%	█	█	█	█	█	█	█
2019 Incurred Claims	2%	█	█	█	█	█	█	█

**Table 12b: Small Group Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19 Impacts and 20% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
Aggregate Incremental	-2%	█	█	█	█	█	█	█
2021-2022 COVID-19	-1%	█	█	█	█	█	█	█
Claims Impact as a	0%	█	█	█	█	█	█	█
Percentage of Adjusted	1%	█	█	█	█	█	█	█
2019 Incurred Claims	2%	█	█	█	█	█	█	█

**Table 13b: Combined Market
Blue Cross Projected December 31, 2022 Surplus Including Rate Actions, Incremental COVID-19
Impacts and 20% Market Share Growth**

		<i>Adjustment to Overall Requested Premium (%)</i>						
		0%	-1%	-2%	-3%	-4%	-5%	-6%
Aggregate Incremental	-2%	■	■	■	■	■	■	■
2021-2022 COVID-19	-1%	■	■	■	■	■	■	■
Claims Impact as a	0%	■	■	■	■	■	■	■
Percentage of Adjusted	1%	■	■	■	■	■	■	■
2019 Incurred Claims	2%	■	■	■	■	■	■	■

As these tables confirm, rate cuts below actuarially supported levels are particularly dangerous due to the expected market share shift in Blue Cross’s favor. One critical use of surplus is the ability to absorb the additional risk of membership gains. At the very least, unsupported rate cuts that reduce surplus ensure that rates will be less affordable for future policyholders; in a more dire set of circumstances, such rate cuts could impede Vermonters’ access to care.

Please explain how Blue Cross prepared the estimates reflected in the tables above.

Under my direction, Blue Cross actuarial staff first recreated the Oliver Wyman tables using the full underlying calculations. We then added the impact of additional membership, calculating the resulting increase to Authorized Control Level RBC (the denominator of the RBC calculation) by performing sensitivity testing on Blue Cross RBC models, along with the increase to Total Adjusted Capital (the numerator of the RBC calculation) that arises from the additional CTR contributed by the additional membership. The quotient of these two figures yields the RBC percentages that are shown in the foregoing tables.

What materials did you review and rely on in preparing this prefiled testimony?

I reviewed and relied on the following materials, in addition to those listed in my July 6, 2021 Prefiled Testimony:

- July 6, 2021 Letter from L&E to GMCB re: Blue Cross and Blue Shield of Vermont, Vermont Health Connect 2022 Individual and Small Group Rate Filings
- July 6, 2021 Letter from L&E to GMCB re: MVP Health Plan, Vermont Health Connect 2022 Individual and Small Group Rate Filings
- July 6, 2021 Letters from DFR Comm'r Pieciak to GMCB Chair Mullin Re: Solvency Impact of Blue Cross's 2022 Vermont ACA Individual and Small Group Rate Filings

Does this conclude your Prefiled Testimony of July 12, 2021?

Yes.

Dated: July 12, 2021

Paul A. Schultz

Paul A. Schultz

State of Vermont, County of _____.

Signed and sworn to (or affirmed) before me on July 12, 2021 by Paul A. Schultz.

Signature of notary public: _____

Printed name of notary public: _____

Commission number: _____

Commission expiration date: _____

Title of office is Notary Public.

1 **CERTIFICATE OF SERVICE**

2 I certify that I have served the above Supplemental Prefiled Testimony of Paul A. Schultz
3 on Michael Barber, Amerin Aborjaily, Thomas Crompton, and Christina McLaughlin of the
4 Green Mountain Care Board; and on Kaili Kuiper, Eric Schultheis, and Jay Angoff, counsel for
5 the HCA, by electronic mail, Delivery Receipt requested via Microsoft Outlook, on July 12,
6 2021.
7

8
9 */s/ Michael Donofrio*

10 Michael Donofrio

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