

June 18, 2020

Mr. Kevin Ruggeberg, A.S.A., M.A.A.A.
Consulting Actuary
Lewis & Ellis, Inc.

Subject: Your 06/16/2020 Questions re: Blue Cross and Blue Shield of Vermont 3Q 2020 Large Group Rating Program Filing (SERFF Tracking #: BCVT-131835151), The Vermont Health Plan 3Q 2020 Large Group Rating Program Filing (SERFF Tracking #: BCVT-131835292), and Blue Cross and Blue Shield of Vermont 2021 Association Health Plan Filing (SERFF Tracking #: BCVT-132360219)

Dear Mr. Ruggeberg:

In response to your requests dated June 16, 2020, here are *your questions* and our answers:

1. *Provide further support for the assumptions regarding hospital budget increases in October 2020.*

The *Fiscal Year 2019 Vermont Hospital Budget Year-End Actuals Reporting*¹ noted a budget-to-actual net patient revenue variance of -0.8%² and a budget-to-actual operating expense variance of 2.9%³. For hospitals under the jurisdiction of GMCB review, we increased the unit cost change at each facility by 2.1 percentage points, which is the increase in operating expenses rebased for the overall change in net patient revenue for the total of all facilities subject to GMCB review.

In recent hospital budget processes, the GMCB has adopted the concept of “rebasings,” that is, assessing the increase for the following fiscal year as compared to actual revenue rather than budget revenue. We anticipate that this process will be followed for FY 2021 as well, which will reduce the approved increases by 0.8 percent.

However, hospitals must consider not only revenue but also expenses when making their budget requests. It is therefore reasonable to anticipate that budget-to-actual operating expenses will influence the budget requests. Unlike Exchange filings, where hospital budget requests are known in advance of the Board’s rate decision, the timing is such that we will not have an opportunity to incorporate actual hospital budget submissions into the Large Group factors in advance of the Board’s decision. It is therefore reasonable and appropriate to take a “best estimate” view of hospital budget expectations. Based on published expense data and our own market intelligence, we believe that hospital budget requests for FY 2021 will exceed those of previous years, even before any COVID-19 impacts are considered.

¹ <https://gmcboard.vermont.gov/sites/gmcb/files/Board-Meetings/FY19%20Actuals%20Report-%20updated%202.26.20%2012pm.pdf>

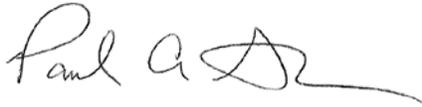
² Ibid, p. 7.

³ Ibid, p. 8.

The sum of the budget-to-actual variances, 2.1 percent, reflects the total assumed rebasing amount. We took the simplifying step of applying the same factor of 2.1 percent to all hospitals regulated by the GMCB.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul Schultz", with a long horizontal flourish extending to the right.

Paul Schultz, F.S.A., M.A.A.A.