STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re:	Blue Cross and Blue Shield of Vermont 2021 Association Health Plan Rating Program Filing	))))	GMCB-004-20rr SERFF No.: BCVT- 132360219

DECISION AND ORDER

Introduction

Health insurers must submit major medical rate filings to the Green Mountain Care Board (GMCB or "the Board"), which must approve, modify, or disapprove each filing within 90 calendar days. 8 V.S.A. §§ 4062(a), 4515a, 4587, 5104. On review, the Board must determine whether a proposed rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to Vermont law. 8 V.S.A. § 4062(a)(3).

This decision pertains to the association health plan rate filings of Blue Cross and Blue Shield of Vermont (BCBSVT or company), a non-profit hospital and medical service corporation. The approved rates will be used by BCBSVT to determine the premiums of association health plan groups beginning January 1, 2021.

Procedural History

On April 30, 2020, BCBSVT submitted its 2021 Association Health Plan (AHP) rating program filing to the Board via the System for Electronic Rate and Form Filing (SERFF).[1]

On May 1, 2020, the Office of the Health Care Advocate (HCA), a special project within Vermont Legal Aid representing the interests of Vermont health insurance consumers, entered an appearance as a party to these filings. On June 22, 2020, the Board's contract actuary, Lewis & Ellis (L&E), submitted an actuarial memorandum evaluating the filing ("L&E Memo"). On June 29, 2020, the Department of Financial Regulation (DFR) filed its analysis and opinion regarding the filing's impact on the company's solvency. Each of these documents was subsequently posted on the Board's rate review website.

The Board solicited written public comments on the filings through July 15, 2020; no member of the public provided comment. The parties waived a hearing and BCBSVT filed a memorandum in lieu thereof. *See* GMCB Rule 2.000, § 2.309(a)(1). On July 27, 2020, the Board exercised its authority under 8 V.S.A. § 4062(a)(2)(A) to extend the review timeline for this filing

[1] The SERFF filing, as well as all documents referenced in this Decision and Order, can be found in the rate review section of the Board's website at https://ratereview.vermont.gov/BCVT-132360219.

by an additional 30 days as BCBSVT was unable to provide confirmation that its AHP forms had been approved by DFR at the conclusion of the 90-day review period. On August 7, 2020, DFR approved the forms for BCBSVT's AHP filing. *See* Email from Rebecca Heintz, General Counsel, BCBSVT to Michael Barber, General Counsel, GMCB (Aug. 11, 2020).

Findings of Fact

1. BCBSVT is a non-profit hospital and medical service corporation. BCBSVT provides individual coverage, small and large group coverage to employers, and Medicare Supplement coverage in Vermont. L&E Memo at 1.

2. This filing establishes the formula, manual rate and accompanying factors that will be used for pricing of AHP products. This filing includes support for key assumptions, such as trend, benefit relativities, administrative costs, and large claim factors. This filing is applicable to Pathway 1 AHP's with coverage years beginning in 2021. *Id.*

3. BCBSVT currently has no Pathway 1 AHP's. Therefore, there are no current groups affected by this filing. The overall proposed rate level is highly similar to the applicable rate level for a large employer group with similar benefits and membership characteristics. *Id*. BCBSVT provided the proposed methodology used to calculate the AHP premiums for policy years beginning after approval of this filing. *Id.* The Company provided exhibits and support for each component of the premium development, including trend, administrative costs, contribution to reserves, and risk charge factors, network changes and large claim factors. *Id.*

4. To develop medical trend, BCBSVT used claims incurred from Nov. 2015 to Oct. 2019 and applied completion factors to project the ultimate incurred claims based on best estimates (i.e., no margin for conservatism was included).[2] The claims used were from BCBSVT Cost Plus groups, BCBSVT administrative services only (ASO) groups with less than 5,000 members, BCBSVT Insured Small and Large Groups (including small groups enrolled in qualified health plans), BCBSVT insured AHPs (in 2019) and The Vermont Health Plans (TVHP) Small and Large Groups. BCBSVT and TVHP cover substantially similar populations under similar benefit packages. L&E Memo at 1-2.

5. Medical trend varies by company and plan type due to contracting differences. For all products combined, BCBSVT projects a total allowed[3] medical trend of 7.0% per year. This total allowed medical trend is broken down into 2.0% for utilization and intensity and 4.4% for unit cost for most medical services. The 7.0% includes the impact of outpatient drugs which are trended at a higher rate (an 11.3% total allowed trend) compared to other medical costs. L&E Memo at 4.

[2] Settling claims with providers often takes enough time that not all claims from the experience period are known with certainty. Completion factors are used to estimate the ultimate incurred claims based on the historical pattern of paid claims.

[3] Allowed cost trends are based on charges that reflect the total amount of claims paid by both the company and the policyholder. Paid trends reflect the actual claim payment made by the company only.

6. To develop its medical utilization trend, the company performed year-over-year rolling PMPMs, exponential regressions, and times series analysis. These methods produced varied results, which indicates uncertainty in the projected utilization trends. The company noted that emerging 2020 professional experience may be trending higher than these historical trends would suggest. The company analyzed the claims data using exponential regression over the 24-month, 36-month, and 48-month time periods, which resulted in utilization trend estimates of 0.5% (24 rolling), 2.1% (36 rolling), and 1.9% (48 rolling). In consideration of these numbers and the year-over-year trends in recent years, BCBSVT assumed a 2.0% per year utilization trend (2.5% for facility claims and 1.0% for professional claims). L&E Memo at 2-3; BCBSVT Actuarial Memorandum (BCBSVT Memo) at 8.

7. L&E reviewed the regression analysis and considered the possibility of random fluctuation in the results. The data suggest that the underlying trend over the last 4 years has variability such that a 90% confidence interval would be from 0.6% to 3.2% per year. L&E opined that BCBSVT's utilization trend assumption is reasonable. L&E Memo at 3.

8. BCBSVT projects a 4.4% medical unit cost trend, comprised of a 5.4% increase for Vermont facilities and providers impacted by the Board's hospital budget review and a 3.3% increase for other facilities and providers. L&E Memo at 4. Unit cost increases for providers outside the BCBSVT service area were derived from the Blue Trend Survey. The 5.4% medical unit cost trend for facilities and providers impacted by the Board's hospital budget review assumes that GMCB-regulated hospitals will have to file higher increases for October 2020 than the increases approved in 2019 due to a variance in hospitals' budgeted and actual operating expenses. Response to Objection Letter #2 (Jun. 18, 2020) ; L&E Memo at 3. BCBSVT supported this assumption by noting that, on a system-wide basis, hospitals' actual FY19 operating expenses were 2.9% higher than budgeted and hospitals' actual FY19 net patient revenue (NPR) was 0.8% lower than budgeted. Based on these variances, the company increased the unit cost change at each GMCB-regulated hospital by 2.1 percentage points, which is the increase in operating expenses "rebased" for the overall change in NPR. Response to Objection Letter #2. L&E finds the calculations of this assumption to be reasonable and while L&E recommends that the Board consider these items and the potential impact of COVID-19 on the coming hospital budget decisions, it did not express an opinion on whether these adjustments are appropriate at this time. L&E Memo at 3, 8.

9. A methodological change from last year's filing is that BCBSVT isolated claims related to pharmaceuticals covered by the medical benefit (as opposed to pharmaceuticals dispensed in a retail setting). These prescriptions are differentiated from others due to the fact that medical deductibles and cost sharing apply, rather than the prescription drug benefits. This is often because they are dispensed in an outpatient medical facility. Claims for these "outpatient drugs" were treated by BCBSVT as a special carve-out in the determination of medical trend. The trend for this category was not split into utilization and unit cost components. Historical cost for outpatient drugs was provided by incurral month for the last several years and shown to be increasing at a steady rate. The company assumed an 11.3% increase in cost per year for outpatient drugs. The assumed 11.3% increase is consistent with historical trends since late 2015. This higher trend rate was applied instead of the medical unit cost and utilization trends described above for the roughly 10-15% of medical cost associated with outpatient drugs. L&E Memo at 4; BCBSVT Memo at 9.

10. The utilization and intensity trend of 2.0% combined with the unit cost trend of 4.4% results in most medical claims being trended at a 6.4% annual rate. With the inclusion of outpatient drugs trended at 11.3% per year, the total medical allowed trend projected by the company in the filings is 7.0%. Actual results will vary from the projected amount due to random fluctuations and unpredictable changes in the market. L&E's estimated range for the total allowed medical trend is 5.5% to 8.5%. Each of the numbers within the estimated range are not equally likely, that is the trends on the low and high end are not as likely to occur as the trends in the middle of the range. L&E found BCBSVT's assumed total allowed medical trend of 7.0% to be reasonable in light of the known and likely hospital budget increases, as well as the consistent pattern of increasing utilization in recent years. L&E Memo at 4-5.

11. BCBSVT is requesting a total allowed pharmacy trend of 10.5%, which includes the impact of contracting changes with BCBSVT's Pharmacy Benefit Manager. The pharmacy utilization trend is developed for brand and generic drugs combined, with separate unit cost trends for each drug category. The company calculated unit cost trends of 0.0% for generic drugs and 8.6% for brand drugs. Both of these are consistent with recent trends in the observed changes in cost for these categories, as demonstrated in BCBSVT's filing exhibits. L&E Memo at 5. BCBSVT isolated drugs which were brand drugs during the base period, but which will have generic alternatives in 2021. For these drugs, the unit cost does not increase by the 8.6% assumed for other brand drugs. Instead, they are being reduced by 51% to reflect the price impact of cheaper competitors and/or members purchasing the generics instead of the brand drug. L&E Memo at 5-6. Due to their high cost and low frequency, specialty drugs were projected based on their allowed cost, without splitting into unit cost and utilization. BCBSVT selected a 19.0% trend for specialty drugs based on regression analysis of historical claims. L&E Memo 6; BCBSVT Memo at 11. L&E found the total pharmacy allowed trend of 10.5% to be reasonable in aggregate as well as when analyzed by the components described above. L&E Memo at 6.

12. To account for the leveraging effect of deductibles and copays, BCBSVT used its benefit relativity models to convert the allowed trends into paid trends. The company calculated a 7.8% paid medical trend and an 11.4% paid pharmacy trend for a total paid trend of 8.6%. L&E Memo at 6.

13. Administrative costs were projected based on past administrative costs for large group business. The administrative experience period for this filing is January 2019 through November 2019. Last year's filed administrative charge was $48.51 PMPM. The proposed admin charge averages $49.67 PMPM. The Company experienced an increase in the administrative costs in 2019, and this increase is attributable to three factors: administrative trend, updated experience, and a decrease in total membership. The assumed trend reflects the Company's assumption that wages and benefits will increase at 3.0%, while other operating costs and membership are expected to remain at current levels, resulting in a change to premium of roughly 0.3%. Updated experience resulted in an increase to admin costs of about $2.70 PMPM, which flows through to the projected 2021 administrative costs. BCBSVT is projecting a decrease in overall membership for 2021 across all lines of business. Since fixed expenses will be distributed among a smaller pool of members, an increase in the total PMPM administrative charges results. While BCBSVT did not reduce staff in response to its decreasing membership, BCBSVT did remove the variable costs

associated with this reduction in membership. BCBSVT states that variable costs represent approximately half of total administrative expenses, so, rather than increasing the charge by 6% (the PMPM increase that results from using the lower enrollment), BCBSVT instead increased it by 3%. L&E Memo at 7; BCBSVT Memo at 23 ("BCBSVT is committed to providing insurance at the most affordable rates possible; as a result, even though it is impractical to react to enrollment shifts by immediately right-sizing staff, we nonetheless remove from our projection the entirety of variable costs associated with the reduced enrollment"). L&E found that the assumptions used in the each of the components appear to be reasonable and appropriate. L&E Memo at 7.

14. During L&E's review of the filing, BCBSVT discovered an error in the calculation of the administrative costs. The HCA billback paid by TVHP was inadvertently included in the administrative cost development, despite also being included as a separate line item. BCBSVT asked to remove this amount from the administrative fee and L&E agrees with this change. L&E Memo at 7-8.

15. H.R.1865 - Further Consolidated Appropriations Act repealed the ACA's Section 9010 health insurer fee (HIF) for 2021. As this filing is applicable for coverage dates starting in 2021, the fee is 0.0%. L&E Memo at 7.

16. BCBSVT proposes a contribution to reserve (CTR) of 1.5% of premium. L&E Memo at 7. L&E believes the proposed CTR of 1.5% is reasonable in order to maintain RBC levels in light of medical trend and provide an adequate margin over and above the minimum to keep appropriate RBC levels in the case of an adverse event without being excessive. L&E Memo at 7.

17. Based on its review and analysis, L&E recommends that the Board approve the filing with the following modifications: (1) correct the administrative charges to remove the TVHP billback amounts included in the base period, (2) use the updated unit cost trend calculation which removes an immaterial formula error for BCBSVT Non-Managed Care groups, and (3) consider the impact of FY19 Year-End Actuals Hospital Budget reporting as well as potential disruptions from COVID when reviewing the medical unit cost assumptions. L&E opined that the filings, modified as recommended, do not produce rates that are excessive, inadequate, or unfairly discriminatory. L&E Memo at 7-8.

18. Pursuant to 8 V.S.A. § 4062(a)(2)(B), DFR provided the Board with its assessment of the impact of the proposed filings on the company's solvency. DFR noted that two important indicia of BCBSVT's solvency, its surplus and RBC ratio, have improved when compared to the prior year end. However, DFR also noted that the company's RBC Ratio was below its targeted range as of December 31, 2019. DFR opined that any downward adjustments to the filing's rate components that are not actuarially supported will likely erode BCBSVT's surplus and RBC ratio. As additional context for this year's filing, DFR notes that the combined impact of COVID-19 is not fully known and, therefore, neither is the impact on solvency. With that background, DFR does not expect the proposed rates will have a significant impact on its overall solvency assessment of BCBSVT. DFR Solvency Analysis at 1-2.

19. BCBSVT's Memo in Lieu of Hearing (BCBSVT Brief) requests that the Board approve the proposed rate filing consistent with L&E's recommendations. BCBSVT Brief at 3. In addition,

BCBSVT noted in its brief that it filed a Memorandum in Lieu of Hearing (Large Group Brief) in GMCB-002-20rr and GMCB-003-rr relating to BCBSVT and The Vermont Health Plan Large Group Q3 2020 formula and factor filings and BCBSVT incorporated by reference all the arguments made in its Large Group Brief in to its BCBSVT Brief for this filing.[4] BCBSVT Brief at 1.

20. In its Large Group Brief to the GMCB, BCBSVT pointed to hospital budget guidance allowing for a temporary upward adjustment to FY21 revenue "to reflect the unique circumstances caused by the pandemic and the associated decreased revenue and utilization experienced by the hospitals in FY20" and noted that the temporary increase is intended to "compensate [hospitals] for FY20 utilization that was not realized due to COVID-19." Should hospitals take advantage of the temporary increase, BCBSVT asserted that the FY21 unit cost assumptions in this filing will prove to be inadequate. BCBSVT echoed L&E's recommendation to consider FY19 fiscal results and the recent hospital budget guidance in issuing a decision on the medical unit cost assumptions submitted in these filings. Given what BCBSVT asserted are "strong indications that hospitals will submit budgets in excess of those assumed within the filings," BCBSVT urged the Board to avoid exacerbating the likely medical unit cost inadequacy by reducing the filed factors below actuarially adequate levels. Large Group Brief at 6.

21. BCBSVT acknowledged that the flip side of the FY20 hospital revenue shortfalls is a likely 2020 underwriting gain for BCBSVT and other insurers but it asserted that it is too early to tell with certainty what the long term consequences of COVID-19 will be on the health care spending of BCBSVT's large group fully insured clients, and particularly how the pandemic will impact 2021 health care expenditures. BCBSVT asserted that it has never increased rates to make up for previous years' losses, despite significant and persistent losses in its large group lines of business, and that it would be inappropriate to impose on 2021 rates a carry-forward of any 2020 gain realized by BCBSVT without also considering the cumulative losses over the previous several years, along with BCBSVT's current RBC position. Large Group Brief at 6-7.

22. Vermont's 14 community hospitals began submitting their FY 2021 budget proposals to the Board on July 31, 2020, after BCBSVT submitted its BCBSVT Brief in this filing. Hospitals are presenting their FY 2021 budget proposals to the Board beginning August 18, 2020, and concluding on August 28, 2020. *See* FY 2021 Abbreviated Hospital Budget Guidance and Reporting Requirements (eff. May 31, 2020). The Board will approve hospitals' FY 2021 budgets by September 15, 2020.

23. Health care providers' revenues were substantially affected by the pandemic and the pandemic response. For example, on a system-wide basis, the operating margin of the 14 community hospitals in Vermont was -$52,766,000 for the month of March 2020 alone. Green Mountain Care Board, May 2020 Year-to-Date Hospital Performance, 3 (July 15, 2020).[5]

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[4] The BCBSVT Large Group Brief in Docket No. GMCB-002-20rr may be viewed here: https://ratereview.vermont.gov/BCVT-132350241; *see* "BCBSVT Memo in Lieu of Hearing (7/1)"

[5] https://gmcboard.vermont.gov/sites/gmcb/files/Board-Meetings/May%202020%20YTD%20Hospital%20Performance%20-%20FINAL.pdf.

24. The federal and state governments have acted to help individuals, businesses, state and local governments, and health care organizations deal with the economic effects of the pandemic and the pandemic response. For example, the $2 trillion CARES Act that the federal government enacted on March 27, 2020 authorized one-time direct cash payments to individuals and married couples, increased unemployment insurance benefits and expanded unemployment insurance eligibility, provided grants and low-interest loans to businesses, provided payments to hospitals and other health care providers, and created a Coronavirus Relief Fund to provide $150 billion in direct assistance to state and local governments. Pub. L. 116-36 (2020). Vermont's allocation of the $150 billion Coronavirus Relief Fund is $1.25 billion. In Act 136, the Vermont Legislature appropriated $275 million of this money to the Agency of Human Services (AHS) to distribute needs-based grants to health care providers. Act. No. 136 (2020), Sec. 7. AHS will accept grant applications through August 15, 2020 from providers that experienced revenue losses or increased expenses due to COVID-19. Vermont Agency of Human Services, Health Care Provider Stabilization Grant Program Frequently Asked Questions (July 31, 2020).[6]

Standard of Review

The Board reviews rate filings to determine whether a proposed 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 laws of this State" and is not "excessive, inadequate, or unfairly discriminatory." 8 V.S.A. § 4062(a)(3); GMCB Rule (Rule) 2.000, § 2.301(b). Although the latter terms – excessive, inadequate, or unfairly discriminatory – are defined actuarial standards, other standards by which the Board reviews rate filings are "general and open-ended," the result of "the fluidity inherent in concepts of quality care, access, and affordability." *In re MVP Health Insurance Co.*, 2016 VT 111, ¶ 16. The Board additionally takes into consideration changes in health care delivery, changes in payment methods and amounts, and other issues in its discretion. 18 V.S.A. § 9375(b)(6); Rule 2.000, § 2.401.

In arriving at its decision, the Board must consider DFR's analysis and opinion regarding the impact the proposed rate will have on the insurer's solvency and reserves. 8 V.S.A. § 4062(a)(2)(B), (3). The Board must also consider any public comments received on a rate filing. 8 V.S.A. § 4062(c)(2)(B); Rule 2.000, § 2.201. The burden falls on the insurer to justify its requested rate. Rule 2.000, § 2.104(c).

Conclusions of Law

Before we analyze BCBSVT's rate filing, we wish to address the unique circumstances in which we find ourselves as we review this year's rate filings. Vermont is facing a public health emergency of a magnitude not seen in 100 years, our health care system and economy are trying to adjust to the realities of the COVID-19 pandemic response, and individuals, businesses, and governments are experiencing an unprecedented level of financial hardship and uncertainty.

[6] https://dvha.vermont.gov/sites/dvha/files/documents/News/Frequently%20Asked%20Questions.pdf.

As we have noted in prior decisions, there is a tension inherent in our standard of review. On the one hand, we are required, without specific statutory guidance or a standardized definition, to consider whether an insurance rate is affordable for Vermont consumers; on the other hand, we must consider whether the rate protects insurer solvency and is adequate to cover the costs of paying for members' claims and administering the plan. The failure of a rate to meet either criterion could imperil Vermonters' access to care, implicating another one of our review criteria. Our job is to find the most appropriate balance amongst the interrelated criteria that we must consider.

With this context in mind, we turn to the specific issues in BCBSVT's AHP filing.

Unit Cost

We first approve and adopt the recommendation of our actuary to use the updated unit cost trend calculation which removes an immaterial formula error for BCBSVT Non-Managed Care groups. BCBSVT has agreed this modification is appropriate. Findings, ¶¶ 17, 19.

Next, we turn to the unit cost projections for GMCB-regulated hospitals. In this filing, the company developed its unit cost projections for GMCB-regulated hospitals by starting with the same hospital budget increases for fiscal year 2021 (FY 2021) as were approved by the Board last year. The company then adjusted these increases upward based on information from the Board's review of hospitals' FY 2019 performance. Specifically, the company's proposed 5.4% unit cost increase assumes that GMCB-regulated hospitals will have to file higher increases for October 2020 than the increases approved by the Board in FY 2019 due to a variance in budgeted and actual operating expenses. Findings of Fact (Findings), ¶ 8.

On a system-wide basis, hospitals' actual FY 2019 NPR was 0.8% lower than budgeted and hospitals' actual FY 2019 operating expenses were 2.9% higher than budgeted. *Id*. Based on these variances, the company increased the unit cost change at each GMCB-regulated hospital by 2.1 percentage points, which is the increase in operating expenses "rebased" for the overall change in net patient revenue. *Id*. The Board's actuaries did not opine on whether these adjustments are appropriate at this time and recommended that the Board consider the impact of FY 2019 year-end actuals as well as potential disruptions from COVID-19 when reviewing the company's medical unit cost assumptions. *Id*.

We do not agree with the reasoning the company presented to support adjusting last year's approved increases upwards by 2.1 percentage points. While the Board considers projected operating expenses in establishing hospital budgets, it has not historically allowed hospitals to exceed the NPR targets set forth in the hospital budget guidance due to unfavorable operating expense variances in prior years. To suggest that the Board would allow hospitals to do this for FY 2021 is speculative.

As in prior years, the Board will not review and approve the hospital budgets until after this decision has been issued, and we therefore do not know whether hospitals will be able to provide sufficient support for their requests. Findings, ¶ 22. However, unlike prior years, there is also uncertainty as to whether additional stimulus money from the state or federal government will affect hospitals' revenue needs for the upcoming fiscal year. The Vermont Agency of Human Services has implemented the Vermont Health Care Provider Stabilization Grant Program to provide up to $275 million to Vermont health care and human service providers affected by

COVID-19. Hospitals are eligible for grants if they experienced revenue losses or increased expenses due to COVID-19. Applications for these grants will be accepted through August 15, 2020. Findings, ¶¶ 23-24. If hospitals receive these grants, it could reduce their FY 2021 commercial rate requests. *See id.*

As noted above, we do not agree with the reasoning the company presented to support adjusting last year's approved increases upwards by 2.1 percentage points. However, we acknowledge that this is an atypical year and that the outcome of hospital budget review is particularly difficult to predict this year. We believe that a more reasonable assumption is that rates for GMCB-regulated entities for FY 2021 will be at the midpoint between what the Board approved last year and what the hospitals submitted this year, which is consistent with our modification and approval of unit cost assumptions in the 2021 Individual and Small Group rate filings in Docket Nos. GMCB-005-20rr and GMCB-006-20rr.

We understand that if we end up approving hospital charge increases that are higher than what we are approving in this decision, it may further reduce the company's CTR or come out of the company's surplus. We are therefore not reducing the company's proposed CTR, as discussed further below.

Administrative Expenses

We first approve and adopt the recommendation of our actuary to correct the administrative charges to remove the TVHP billback amounts included in the base period. BCBSVT has agreed this modification is appropriate. Findings, ¶¶ 17, 19.

Next, we turn to the administrative expenses and concerns about affordability. Related to the affordability criterion in the Board's rate review process is the expectation that BCBSVT provide benefits and services at minimum cost under efficient and economical management. *See* 8 V.S.A. §§ 4513(c), 4584(c), 5104(b). The Board has repeatedly encouraged BCBSVT to find innovative ways to increase efficiencies and limit increases in its administrative expenses as the membership over which these costs may be spread has decreased. *See In re Blue Cross Blue Shield of Vermont Third Quarter 2019 Large Group Rating Program Filing,* Docket No. GMCB-002-19rr, Decision & Order (May 23, 2019), 7; *In re Blue Cross Blue Shield of Vermont Third Quarter 2018 Large Group Rating Program Filing,* Docket No. GMCB-003-18rr, Decision & Order (Jun. 13, 2018), 6; *In re Blue Cross Blue Shield of Vermont 2019 Individual and Small Group Rate Filing,* Docket No. GMCB-009-18rr, Order & Decision (Aug. 14, 2018), 18.

In this filing, BCBSVT is projecting a decrease in overall membership for 2021 across all lines of business. Since administrative expenses will be distributed across a smaller pool of members, an increase in the total PMPM administrative charges results. Findings, ¶ 13. While BCBSVT did not reduce staff in response to its decreasing membership, reasoning that it is "impractical to react to enrollment shifts by immediately right-sizing staff," it removed from its administrative cost projection the variable costs associated with the reduced enrollment. *Id*. Because variable costs represent approximately half of total administrative expenses, rather than increasing the administrative charge by 6% (the PMPM increase that results from using the lower enrollment), BCBSVT instead increased it by 3%. *Id.*

While "immediately right-sizing staff" in response to a *sudden* enrollment shift would not be feasible, we disagree with the company's position that a decrease in staff is impractical at this time given the company's ongoing, continuing loss of membership over the past several years. And while we certainly appreciate the fact that BCBSVT has limited the rate increase that results from declining membership, BCBSVT must take steps to realize equivalent cost savings or else this strategy is not sustainable and will have a negative impact on reserves over time.

The Board is charged with determining whether a proposed rate is affordable. 8 V.S.A. § 4062(a)(3); Rule 2.000, § 2.301(b). This request comes at a time when the country is facing unprecedented financial hardships, requiring the federal and state government to provide financial assistance to businesses and individuals. Findings, ¶ 24. This year more than ever, it is imperative that BCBSVT provide services under efficient and economic management so that rates are as affordable as they can be.

BCBSVT has assumed a 3% increase in wages and benefits, which increases the rates in this filing by approximately 0.3%. Findings, ¶ 13. In light of the financial challenges facing Vermonters and the cost saving measures that individuals, businesses, schools, and state and local governments are implementing, we disagree with BCBSVT's choice to pass the cost of this admin expense on to ratepayers this year. We are also aware that cost savings can be found during this public health crisis, such as reduced travel and professional development costs due to trainings and conferences being cancelled or held remotely, and reduced costs for employees' medical expenses due to stay at home orders. In light of these considerations, we reduce the trend component of the administrative charge increase to 0.0%.

Contribution to Reserve

Given DFR's solvency opinion, the substantial uncertainty of future costs and impacts from COVID-19 on the Vermont population, and the uncertainty of hospital charge increases this year, we find the company's proposed CTR of 1.5% to be reasonable and appropriate. Findings, ¶¶ 18, 20-24.

Order

For the reasons discussed above, we modify and then approve the BCBSVT AHP rating program filing. Specifically, we modify the filing by: (1) adjusting the FY 2021 unit cost assumptions for facilities and providers affected by the Board's hospital budget review process to the midpoint between last year's approved hospital budget rates and this year's submitted hospital budget rates; (2) reducing the trend component of the administrative charge increase to 0.0%; (3) correcting the administrative charges to remove the TVHP billback amounts included in the base period; and (4) using the updated unit cost trend calculation which removes the immaterial formula error for BCBSVT Non-Managed Care groups.

SO ORDERED.

Dated: August 28, 2020 at Montpelier, Vermont

s/ Kevin Mullin, Chair	)	
	)	
s/ Jessica Holmes	)	GREEN MOUNTAIN
	)	CARE BOARD
s/ Robin Lunge	)	OF VERMONT
	)	
s/ Tom Pelham	)	
	)	
s/ Maureen Usifer	)	

Filed: August 28, 2020

Attest: s/ Jean Stetter, Administrative Services Director
Green Mountain Care Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Board (by email, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made (email address:Christina.McLaughlin@vermont.gov). Appeal of this decision to the Supreme Court of Vermont must be filed with the Board within thirty days. Appeal will not stay the effect of this order, absent further order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration, if any, must be filed with the Board within ten days of the date of this decision and order.