

March 26, 2021

Mr. Kevin Ruggeberg, FSA, MAAA
Vice President & Consulting Actuary
Consulting Actuary

**Subject: Your 3/16/2021 Questions re: Blue Cross and Blue Shield of Vermont
3Q 2021 Large Group Rating Program Filing (SERFF Tracking #: BCVT-132713612) and
re: The Vermont Health Plan 3Q 2021 Large Group Rating Program Filing (SERFF Tracking #: BCVT-
132713919)**

Dear Mr. Kevin Ruggeberg:

In response to your request dated March 16, 2021, here are *your questions* and our answers

1) *Provide more detail regarding the confidential unit cost support provided.*

This question involves confidential and proprietary information and has been provided under separate cover.

2) *As noted in the 2019Q3 filing, the administrative charge for January 2019 renewals was \$40.85 PMPM. The proposed administrative charge for 2022 renewals is \$61.50 PMPM. This represents a 50% increase in administrative cost PMPM in the span of three years. What specific items have contributed to these increases? Please provide more detail that itemizes these increases and explanations or justifications for these increases.*

While preparing our response to this question, we discovered an error in the allocations used to determine the experience for the large group administrative charges. One cost center misstated an allocation applied to the account unit. Correcting it results in a reduction in the per-account charge and a slight increase in the charges for other units (as overhead dollars are now allocated less heavily to the account unit). Please see the attached file *Q3 2021 LG Filing - Revised Exhibit 5A.xlsx* for the revised schedule of administrative expenses.

The table below shows the table from section 2.3 of the actuarial memorandum updated with the new administrative factors. As filed, the admin component increase was 14.3 percent and the total premium change was -0.6 percent.

Impact of Formula and Factor Changes				
Renewal Year	2021	2022	Component Increase	Premium Impact
Filing Year	Q3 2020	Q3 2021		
Manual Claims	\$40,366,749	\$40,620,528	0.6%	0.6%
Projected Rebates	-\$1,702,517	-\$2,786,403	63.7%	-2.4%
Admin	\$3,693,435	\$3,754,444	1.7%	0.1%
Reserve	\$651,909	\$665,001	2.0%	0.0%
Mandates and Assessments	\$919,067	\$941,436	2.4%	0.0%
Additional Items	\$1,255,319	\$1,239,942	-1.2%	0.0%
Total				-1.7%

With the revised administrative factors, the admin PMPM is \$54.71 for the 2022 renewals. This represents a cumulative three-year increase of 33.9 percent over the \$40.85 PMPM from the 2019 renewals in the Q3 2019 large group filing. The breakdown of the increase is below:

Components of LG Admin Increase PMPM	
Increased Enterprise Expenses	15.3%
Decreased Enterprise Membership	12.6%
Change in Large Group Account Size	6.1%
Change in Large Group Allocations	-2.8%
Total Increase PMPM	33.9%

The administrative charges for the BCBSVT enterprise as a whole have increased by 29.9 percent on a PMPM basis in the three years between the experience period used to develop the charges used in the 2019 renewals in the Q3 2019 filing (October 2016 – September 2017) and the experience period used to develop the charges for the 2022 renewals in the Q3 2021 filing (January 2020 – November 2020). Note that these PMPMs exclude items such as federal fees and broker commissions that are priced separately in the large group rating formula as well as items from the experience period that are not expected to recur in the projection period. Actual administrative costs increased by 15.3 percent over the three-year period, while decreases in enterprise membership had a 12.6 percent impact on the PMPM.

According to information provided by our finance department, the 15.3 percent increase in administrative spending is predominantly caused by an increase in technology costs over the last three years. Among the factors driving the increase are incremental costs related to the Plan's new operating system for enrollment, billing and claims processing, which went live in 2019; new customer relationship management software, which allows BCBSVT to deliver on our vision for our digital transformation by engaging our members in new ways, providing personalized tech-enabled journeys to support optimum health, and improving our internal users' experience while streamlining our business processes; enhancements to our information security program to better

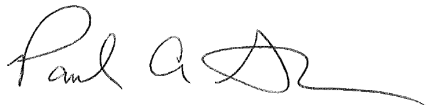
protect our members data; and inflationary increases in vendor costs, which we push our vendors to keep at a minimal level on behalf of our customers.

The large group line of business has lost over 50 percent of its membership between the experience periods used for the Q3 2019 and Q3 2021 filings. The groups used to project 2022 costs in the Q3 2021 filing tend to be smaller than the groups used to project 2019 expenses in the Q3 2019 filing. The average group in the Q3 2019 filing had 224 members per account, while the average group in the Q3 2021 filing had only 167 members per account. A smaller account size will necessarily yield a higher per-member administrative charge. The change in average account size from the 2019 groups to the 2022 groups is responsible for 6.1 percentage points of the 33.9 percent three-year increase.

These increases are partially offset by a reduction in the allocation of administrative expenses to the large group segment. While large group enrollment has decreased by over 50 percent over three years, the groups remaining have better claims experience than those who left. This relative improvement in claims and premium compared to other lines of business is a primary contributor to the allocation reduction, which is responsible for a 2.8 percentage point decrease in large group administrative expenses PMPM.

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 black ink, appearing to read "Paul A. Schultz". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

BLUE CROSS AND BLUE SHIELD OF VERMONT and THE VERMONT HEALTH PLAN
 Q3 2021 LARGE GROUP RATING PROGRAM FILING
 ADMINISTRATIVE CHARGES DEVELOPMENT

EXHIBIT 5A - REVISED

Administrative Charges PUPM

Unit		Account	Member	Contract	Invoice Counts	Medical Claim	Projected Claims	Large Group Subtotal	CP Medsup
Administrative Expenses	A	\$775,879	\$1,192,717	\$334,373	\$3,848	\$423,657	\$1,540,183	\$4,270,657	
Unit Months	B	505	90,520	51,021	661	76,324	44,273,199		
Expense PUPM	C = A / B	\$1,536.39	\$13.18	\$6.55	\$5.82	\$5.55	3.48%		\$39.47
Increase for Membership	D	4.4%	4.4%	4.4%	4.4%	4.4%			4.4%
Updated Expense PUPM	E = (1+D) x C	\$1,603.61	\$13.75	\$6.84	\$6.08	\$5.79	3.48%		\$41.19
Annual Trend 2021	F	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%
Monthly Trend Factor	G = (1+F)^(1/12)	1.0000	1.0000	1.0000	1.0000	1.0000			1.0000
Months of Trend to First Effective Period in 2021	H	12	12	12	12	12			12
Annual Trend 2022	I	2.2%	2.2%	2.2%	2.2%	2.2%			2.2%
Monthly Trend Factor	J = (1+I)^(1/12)	1.0018	1.0018	1.0018	1.0018	1.0018			1.0018
Months of Trend to First Effective Period in 2022	K	7	7	7	7	7			7

Projection Periods Effective Date		Account	Member	Contract	Invoice Counts	Medical Claim	Projected Claims	CP Medsup
Jul-21	L = E x G ^ (H) x J ^ (K)	\$1,623.94	\$13.93	\$6.93	\$6.15	\$5.87	3.48%	\$41.72
Aug-21	M = L x J	\$1,626.86	\$13.95	\$6.94	\$6.16	\$5.88	3.48%	\$41.79
Sep-21	N = M x J	\$1,629.79	\$13.98	\$6.95	\$6.18	\$5.89	3.48%	\$41.87
Oct-21		\$1,632.73	\$14.00	\$6.96	\$6.19	\$5.90	3.48%	\$41.94
Nov-21		\$1,635.67	\$14.03	\$6.98	\$6.20	\$5.91	3.48%	\$42.02
Dec-21		\$1,638.61	\$14.05	\$6.99	\$6.21	\$5.92	3.48%	\$42.09
Jan-22		\$1,641.56	\$14.08	\$7.00	\$6.22	\$5.93	3.48%	\$42.17
Feb-22		\$1,644.52	\$14.10	\$7.01	\$6.23	\$5.94	3.48%	\$42.24
Mar-22		\$1,647.48	\$14.13	\$7.03	\$6.24	\$5.95	3.48%	\$42.32
Apr-22		\$1,650.45	\$14.15	\$7.04	\$6.25	\$5.96	3.48%	\$42.40
May-22		\$1,653.42	\$14.18	\$7.05	\$6.26	\$5.97	3.48%	\$42.47
Jun-22		\$1,656.40	\$14.21	\$7.07	\$6.28	\$5.98	3.48%	\$42.55
Jul-22		\$1,659.38	\$14.23	\$7.08	\$6.29	\$6.00	3.48%	\$42.63
Aug-22		\$1,662.37	\$14.26	\$7.09	\$6.30	\$6.01	3.48%	\$42.70
Sep-22		\$1,665.37	\$14.28	\$7.10	\$6.31	\$6.02	3.48%	\$42.78
Oct-22		\$1,668.37	\$14.31	\$7.12	\$6.32	\$6.03	3.48%	\$42.86
Nov-22		\$1,671.37	\$14.33	\$7.13	\$6.33	\$6.04	3.48%	\$42.93
Dec-22		\$1,674.38	\$14.36	\$7.14	\$6.34	\$6.05	3.48%	\$43.01