

June 15, 2021

Kevin Rugeberg, FSA, MAAA
Vice President & Consulting Actuary
Lewis & Ellis, Inc.

**Subject: Your 06/08/2021 Questions re:
Blue Cross and Blue Shield of Vermont
2022 Vermont ACA Market - Individual and Small Group Rate Filings
(SERFF Tracking #: BCVT-132829562 and BCVT-132829271)**

Dear Mr. Rugeberg:

In response to your requests dated June 8, 2021, here are *your questions* and our answers:

- 1. L&E has used the RATEE reports from both VT carriers to calculate that the actual 2020 risk transfer will be \$21,188,025 in the non-catastrophic market. Based on this information, please provide an updated Exhibit 4 and quantify the overall rate impact.*

Using the calculated split individual and small group 2020 risk transfer along with the same projection factors to 2022 included in the filings, the individual average rate change would be 5.2 percent and the small group average rate change would be -6.4 percent. Using the updated merged market 2020 transfer of \$21,711,763 and applying the same 2022 projection factors, the average rate change would be -1.2 percent. Note that we did not update the projection factors for any information gleaned from the MVP filings. These average increases include the change in the Standard Bronze plan.

The updated Exhibits 4 in Excel format have been provided under separate cover. The redacted updated Exhibits 4 are attached to this response.

- 2. We see from the actuarial memorandum that no reduction to market morbidity was assumed in relation to the American Rescue Plan Act. While we recognize that these new members will be making anti-selective decisions, they are by definition the population who chose not to elect coverage under the pre-existing subsidies that generated the 2020 market. Therefore, it would seem they will be almost guaranteed to be healthier than the average enrollee in the 2020 experience. Provide further explanation for why no adjustment is being made.*

Blue Cross did not adjust the rates for potential changes in morbidity due to the American Rescue Plan Act (ARPA). We did consider the morbidity impact of new membership as part of the rate setting process but determined that the impact was likely to be immaterial relative to the combined market population. That dynamic changes with the market split—we expect new membership to impact only the individual market. Furthermore, we agree that the new members are likely to be healthier than the average individual market enrollee. We overlooked the newfound materiality of this assumption when the market was split very late in the filing process.

While ARPA greatly enhanced the subsidies available on the Exchange, premiums are still required for most households. In particular, premiums will still be significant for individuals and families who did not previously qualify for subsidies.

We expect that the decision to purchase insurance will be based on current health status, affordability of the premium, and expected claims for the projection period. All of these purchasing decisions will result in the worst morbidity among the uninsured population to select insurance. Risk adjustment data demonstrates that of those choosing insurance, Blue Cross is likely to enroll the portion of the population with the highest morbidity. The question therefore becomes how the average claims cost for the portion of the uninsured population with highest morbidity compares to the current average claims cost for the enrolled Blue Cross individual population.

Our original filing assumption that the new members would be similar to the average combined market member splits into zero impact for small group (because we assume that new members would only enroll in the individual market) and a -0.7 percent premium impact for the individual market. As shown in the table below, the weighted average PMPM, assuming that the 1,500 newly insured members would have morbidity similar to that of the combined market, is \$720.11.

Allowed charges PMPM	Exhibit 5- Line A	Projected Membership
Newly Insured (Combined PMPM)	\$663.53	1,500
Currently Insured (Individual PMPM)	\$725.46	15,878
Weighted Average	\$720.11	17,378

The impact of these newly insured members is $\$720.11 / \$725.46 = 0.9926$.

Blue Cross tested this assumption in two different ways. One point of view is that the new enrollment will make their selections predominantly based on health status. The opposing perspective is that selections will primarily be based on affordability, with health status driven only by the average demographics of the uninsured. We developed a selection model to test the former decision driver, and we compared the demographic characteristics of the Vermont uninsured market to the enrolled Blue Cross population to test the latter. Both sets of calculations yielded results that were very similar to the original assumption of a -0.7 percent impact to average claims. It can be reasonably assumed that results would be similar for any combination of these two primary motivating factors.

Including this factor yields an average premium increase of 4.3 percent for the individual market, as compared to the 5.2 percent documented in our response to Question 1.

3. *How are telehealth services anticipated to impact the utilization and average cost of physician services in 2022 relative to pre-COVID levels?*

Blue Cross has been paying the same amount for a telehealth visit as for an in-person visit. With the exception of audio-only services, Blue Cross will continue this practice at least through the end of 2022.

The selected professional trend was based on pre-COVID data and therefore did not include a shift from in-person to telehealth visits. Due to payment parity for telehealth, this would not impact the average cost of services.

Since March 2020, the number of telehealth visits has grown exponentially. For the matched population used in the trend data in the filing, the number of visits went from 13 in January 2020 to 2,365 in December 2020. Almost all telehealth services in 2020 were for Evaluation and Management (E&M), and Mental Health and Substance Abuse (MHSA) services. For E&M, the telemedicine services are most likely replacing in-person visits. MHSA utilization has been increasing at a much faster pace than other professional services. This increase in utilization is expected to continue through 2022, as shown by our higher selected utilization trend.

While not explicit in the professional trend selection, the impact of telemedicine services on mix of services is reflected in our trend selection through the higher MHSA utilization trend and an adjustment to the average mix of services to recognize that more lower cost services will be utilized.

We anticipate that the increased availability and utilization of telemedicine will have an upward impact on utilization due to increased access and convenience. However, we do not yet have enough data available to assess this hypothesis. We have therefore chosen to assume for this filing that professional utilization trends will remain at pre-pandemic levels.

Finally, we note that the selected trend for MHSA services of 10.5 percent is lower than the true expected trend. As described in the July 14, 2021 COVID-19 Modeling Addendum¹ provided as part of the 2021 VISG rate filing, Blue Cross had observed a 13 percent increase in mental health services through June 2020, as compared to the historical increases of approximately 10 percent. Blue Cross updated its COVID-19 modeling with data through March 2021 (see attached Blue Cross – COVID-19 Modeling – 6.1.2021.pdf) and we now expect the mental health services to increase by 20 percent. The difference between the selected and best estimate trends are considered to be costs directly caused by the pandemic and therefore excluded from the filed rates.

4. *Explain the increases to Item 3.3 of URRT Worksheet 2, reflecting AV and Cost Sharing Design. For example, the value for the platinum appears to have increased from about 1.09 in last year's URRT to an average of about 1.12 between this year's Individual and Small Group URRT.*

Item 3.3 of URRT Worksheet 2 is the product of the benefit richness adjustment and paid to allowed ratio from Exhibit 6A.

Comparing Exhibit 6A from the approved 2021 filing to the combined market exhibits shows that the average for this item is 0.2 percent higher in 2022 but that the plans are not all impacted the same way. This is due to the calculation of the paid to allowed ratio for the URRT. As shown on Exhibits 6C, the paid to allowed ratio is calculated as follows:

$$\frac{\text{Projected Period Paid Claims for EHB} + \text{Non} - \text{System Claims} + \text{Market Wide Adjustments}}{\text{Market Adjusted Index Rate}}$$

Non-System claims were -\$17.65 and are now -\$44.09. This change is almost entirely due to the enhancement in pharmacy rebates.

The paid market wide adjustment is the risk adjustment transfer. For the combined markets, the PMPM was -\$48.11 and is now -\$52.55.

¹ <https://ratereview.vermont.gov/sites/dfr/files/PDF/BCBSVT%20-%20COVID-19%20Modeling%20Addendum%20Submitted%207.14.2020.pdf>

The increase in the fixed PMPMs included in the paid to allowed ratio has different impacts for each plan. The Standard Platinum plan paid to allowed ratio increases by 2.0 percent while the Standard Bronze paid to allowed ratio decreases by 1.0 percent.

Please see tab "Question 4" in attached *Responses to Blue Cross 2022 ACA Filings Inquiry 3.xlsx* for a comparison of the benefit richness adjustment and paid to allowed ratios.

5. *The selected non-specialty Rx utilization trend of 3.0% per year is higher than the year-over-year increase from any of the last three years. The regression results therefore appear to be heavily influenced by the outlier costs in late 2020 and in 1Q 2018 and 2019. Address the concern that the chosen trend factor appears to capture seasonality in addition to long-term trends.*

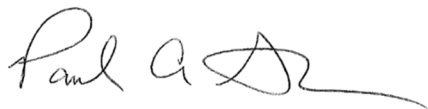
In responding to this question, we became aware of a typographical error within the actuarial memorandum. The selected non-specialty utilization trend of 3.0 percent was not calculated as the average of all 36-month statistics and the most recent year-over-year. Rather, it is the simple average of the most recent year-over-year (2.4 percent) and the 36-months Holt-winter's Additive method (3.6 percent).

We observed in the course of our analysis that the regressions were likely skewed by the seasonal patterns you note. We therefore did not consider the regression results in forming our assumption. Similarly, we did not include the 24-month statistics because the outlier quarters make these results less reliable, as can be seen by the resulting Thiel's-U statistics.

While the selected trend is higher than the most recent year-over-year results, the Holt-Winters' time series analyses, which have a strong Theil's U statistic, indicate a somewhat higher trend. In my professional judgment, an average of the observed and statistically generated trend results represents the best estimate of future non-specialty utilization trend. We note that this trend assumption of 3.0 percent is slightly lower than the 3.5 percent trend approved in the most recent large group filings and is equal to the 3.0 percent trend approved in the prior ACA market filing.

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

Sincerely,



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

RESPONSE TO ACTUARIAL INQUIRY DATED JUNE 8, 2021

Scenario	Average Premium			
	Merged		Catastrophic	
	BCBSVT	MVP	BCBSVT	MVP
Premium PMPM 2021	\$657.96	\$577.58	\$256.93	\$339.18
Adjust to billable member months	0.937	0.944	1.000	1.000
Premium adjustment factor	0.86	0.86	0.86	0.86
Projected 2022 Rate Increase	0.988	1.065	0.906	1.065
Projected Statewide Average Premium 2022	\$577.91		\$202.51	

Scenario	Plan Liability Risk Score					
	Merged			Catastrophic		
	BCBSVT	MVP	Ratio	BCBSVT	MVP	Ratio
Interim 2020	1.312	1.059	1.2391	0.215	0.176	1.2236
Impact of Claims Runout & Supplemental Diagnosis	1.030	1.033		1.477	1.033	
Estimated L&E 2020	1.351	1.094	1.2352	0.317	0.182	1.7490
Impact of 2022 Model Coefficients						
Impact of Member Movement						
Impact of New Members						
Impact of 2022 Plan mix						
Projected Final 2022	1.444	1.172	1.2316	0.396	0.226	1.7490

Factor -->	Other Risk Adjustment Factors*					
	AV		IDF		ARF	
	Merged		Merged		Merged	
Scenario	BCBSVT	MVP	BCBSVT	MVP	BCBSVT	MVP
Estimated L&E 2020	0.749	0.731	1.062	1.052	0.981	0.983
Projected Final 2022	0.744	0.734	1.059	1.054	0.981	0.983

*Catastrophic AV, IDF and ARF equals 0.57, 1.00 and 1.00 for both carriers in all scenarios

Scenario	Risk Adjustment Transfer		
	Merged	Catastrophic	Total
Interim 2020	-\$22,151,265	-\$4,098	-\$22,155,363
Estimated L&E 2020	-\$21,711,763	-\$7,559	-\$21,719,322
Projected Final 2022	-\$22,909,946	-\$7,214	-\$22,917,160

Summary	
Projected Risk Adjustment Transfer - Before HCRP	-\$22,917,160
High Cost Risk Pool Recoveries	-\$662,308
Total Risk Adjustment Transfer	-\$23,579,468
Member Months	415,596
Net Projected Risk Adjustment PMPM	-\$56.74
Estimated Cost of High Risk Pool program	\$2.12
Paid to Allowed Ratio (from Exh 6C)	74.90%

Market Wide Adjustment for the Risk Adjustment Program	-\$72.92
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BLUE CROSS AND BLUE SHIELD OF VERMONT
2022 VERMONT ACA MARKET - INDIVIDUAL RATE FILING

Exhibit 4 - IND
Updated

RESPONSE TO ACTUARIAL INQUIRY DATED JUNE 8, 2021

Table 1	Average Premium			
	Individual		Catastrophic	
	BCBSVT	MVP	BCBSVT	MVP
Premium PMPM 2021	\$708.29	\$627.98	\$256.93	\$339.18
Adjust to billable member months	0.958	0.979	1.000	1.000
Premium adjustment factor	0.86	0.86	0.86	0.86
Projected 2022 Rate Increase	0.988	1.065	0.906	1.065
Projected Statewide Average Premium 2022	\$607.55		\$202.51	

Table 2	Plan Liability Risk Score					
	Individual			Catastrophic		
	BCBSVT	MVP	Ratio	BCBSVT	MVP	Ratio
Estimated L&E 2020	1.408	1.063	1.3247	0.317	0.182	1.7490
Impact of 2022 Model Coefficients						
Impact of Member Movement						
Impact of New Members						
Impact of 2022 Plan mix						
Projected Final 2022	1.547	1.134	1.3640	0.396	0.226	1.7490

Table 3	Other Risk Adjustment Factors*						
	Factor -->	AV		IDF		ARF	
		Individual					
Scenario	BCBSVT	MVP	BCBSVT	MVP	BCBSVT	MVP	
Estimated L&E 2020	0.726	0.699	1.049	1.037	0.9858	0.9882	
Projected Final 2022	0.723	0.699	1.049	1.037	0.9858	0.9883	

*Catastrophic AV, IDF and ARF equals 0.57, 1.00 and 1.00 for both carriers in all scenarios

Table 4	Risk Adjustment Transfer		
	Individual	Catastrophic	Total
Estimated L&E 2020	-\$12,437,969	-\$7,559	-\$12,445,528
Projected Final 2022	-\$15,143,749	-\$7,214	-\$15,150,963

Summary	
Projected Risk Adjustment Transfer - Before HCRP	-\$15,150,963
High Cost Risk Pool Recoveries	-\$662,308
Total Risk Adjustment Transfer	-\$15,813,271
Member Months	190,536
Net Projected Risk Adjustment PMPM	-\$82.99
Estimated Cost of High Risk Pool program	\$2.31
Paid to Allowed Ratio (from Exh 6C)	72.75%

BLUE CROSS AND BLUE SHIELD OF VERMONT
2022 VERMONT ACA MARKET - SMALL GROUP RATE FILING

Exhibit 4 - SMG
Updated

RESPONSE TO ACTUARIAL INQUIRY DATED JUNE 8, 2021

Table 1		Average Premium	
		Merged	
Scenario	BCBSVT	MVP	
Premium PMPM 2021	\$616.91	\$543.47	
Adjust to billable member months	0.919	0.919	
Premium adjustment factor	0.86	0.86	
Projected 2022 Rate Increase	0.988	1.065	
Projected Statewide Average Premium 2022	\$555.19		

Table 2		Plan Liability Risk Score		
		Merged		
Scenario	BCBSVT	MVP	Ratio	
Estimated L&E 2020	1.231	1.059	1.1621	
<i>Impact of 2022 Model Coefficients</i>				
<i>Impact of Member Movement</i>				
<i>Impact of New Members</i>				
<i>Impact of 2022 Plan mix</i>				
Projected Final 2022	1.290	1.141	1.1306	

Table 3		Other Risk Adjustment Factors*					
	Factor -->	AV		IDF		ARF	
		Small Group					
Scenario		BCBSVT	MVP	BCBSVT	MVP	BCBSVT	MVP
Estimated L&E 2020		0.769	0.756	1.072	1.064	0.9769	0.9792
Projected Final 2022		0.762	0.759	1.068	1.066	0.9769	0.9793

Table 4		Risk Adjustment Transfer	
		Merged	Total
Estimated L&E 2020		-\$8,750,057	-\$8,750,057
Projected Final 2022		-\$7,521,952	-\$7,521,952

Summary	
Projected Risk Adjustment Transfer - Before HCRP	-\$7,521,952
High Cost Risk Pool Recoveries	\$0
Total Risk Adjustment Transfer	-\$7,521,952
Member Months	225,060
Net Projected Risk Adjustment PMPM	-\$33.42
Estimated Cost of High Risk Pool program	\$3.03
Paid to Allowed Ratio (from Exh 6C)	76.71%
Market Wide Adjustment for the Risk Adjustment Program	-\$39.62

BLUE CROSS AND BLUE SHIELD OF VERMONT

2022 VERMONT ACA MARKET - INDIVIDUAL AND SMALL GROUP RATE FILINGS

RESPONSE TO ACTUARIAL INQUIRY DATED JUNE 8, 2021

			Approved 2021				FILED - COMBINED 2022				Change from Prior Year		
			Exhibit 6A		URRT	Exhibit 6A		URRT Calculation*					
			Benefit Richness Adjustment	Paid to Allowed Ratio	Projected Membership	Worksheet 2, Line 3.3	Benefit Richness Adjustment	Paid to Allowed Ratio	Projected Membership	Worksheet 2, Line 3.3	Benefit Richness Adjustment	Paid to Allowed Ratio	Worksheet 2, Line 3.3
NON-STANDARD PLANS	GOLD	Vermont Preferred	0.9971	83.58%	1,208	0.833	1.0010	84.86%	1,325	0.849	1.004	1.015	1.019
	GOLD	Vermont Select CDHP	1.0134	86.97%	5,022	0.881	1.0182	88.46%	4,294	0.901	1.005	1.017	1.022
	SILVER	Vermont Preferred	0.9598	86.03%	1,299	0.826	0.9615	87.18%	1,154	0.838	1.002	1.013	1.015
	SILVER	Vermont Select CDHP	0.9661	86.15%	212	0.832	0.9668	87.25%	295	0.844	1.001	1.013	1.014
	BRONZE	Vermont Preferred	0.9379	66.51%	520	0.624	0.9374	66.51%	641	0.623	0.999	1.000	1.000
	BRONZE	Vermont Select CDHP	0.9364	65.85%	2,098	0.617	0.9357	65.80%	2,094	0.616	0.999	0.999	0.998
STANDARD PLANS	PLATINUM	Deductible	1.0907	100.08%	6,963	1.092	1.0966	102.07%	5,964	1.119	1.005	1.020	1.025
	GOLD	Deductible	1.0248	89.16%	4,797	0.914	1.0265	90.10%	4,076	0.925	1.002	1.011	1.012
	SILVER	Deductible	0.9691	87.43%	3,546	0.847	0.9695	88.70%	2,705	0.860	1.000	1.015	1.015
	SILVER	CDHP	0.9791	88.21%	824	0.864	0.9798	89.49%	623	0.877	1.001	1.014	1.015
	BRONZE	Deductible	0.9373	66.26%	1,823	0.621	0.9355	65.69%	1,634	0.615	0.998	0.991	0.990
	BRONZE	CDHP	0.9409	67.75%	1,392	0.637	0.9395	67.39%	1,475	0.633	0.999	0.995	0.993
	BRONZE	Integrated	0.9393	67.13%	563	0.631	0.9376	66.58%	559	0.624	0.998	0.992	0.990
	Catastrophic	Deductible	0.9394	67.14%	360	0.631	0.9412	68.04%	325	0.640	1.002	1.013	1.015
REFLECTIVE PLANS	SILVER	Vermont Preferred	0.9592	74.03%	637	0.710	0.9606	74.62%	787	0.717	1.001	1.008	1.009
	SILVER	Vermont Select CDHP	0.9652	75.78%	661	0.731	0.9657	76.12%	1,031	0.735	1.001	1.004	1.005
	SILVER	Deductible	0.9687	76.74%	4,586	0.743	0.9689	77.00%	4,036	0.746	1.000	1.003	1.004
	SILVER	CDHP	0.9789	79.37%	1,910	0.777	0.9794	79.78%	1,615	0.781	1.001	1.005	1.006
Total			0.9994	84.0%	38,421		0.9990	84.1%	34,633		1.000	1.002	1.002

*If the URRT had been prepared on a combined basis