BlueCross BlueShield of Vermont

An Independent Licensee of the Blue Cross and Blue Shield Association

April 1, 2019

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

Subject: Your 03/26/2019 Questions re: Blue Cross and Blue Shield of Vermont 2020 Association Health Plan Filing (SERFF Tracking #: BCVT-131835459)

Dear Mr. Ruggeberg:

In response to your request dated March 26, 2019, here are *your questions* and our answers:

1. *How much enrollment is anticipated for 2020 on the AHP product? Is this new enrollment expected to counteract the increasing non-benefit expense PMPM driven by decreases in large group enrollment? The experience data used in the development of the manual rate is from small group experience, excluding platinum-only groups. Does BCBSVT have existing AHP business, and if so is the morbidity of this group similar to the experience on those existing AHP's?*

   BCBSVT has existing AHPs that became effective January 1, 2019. Given the AHPs have been effective for fewer than three months, we do not currently have adequate data to produce a morbidity comparison between the existing AHPs and the manual rate base. Much of the initial enrollment has shifted from other BCBSVT lines of business. Overall book of business membership is not expected to be materially different in 2020; therefore, we have not adjusted the non-benefit expense PMPM for potential 2020 membership changes.

2. *If BCBSVT has any existing AHP business, will it be impacted by this filing and what is the anticipated renewal rate impact of this filing on those AHP's?*

   Yes, AHP business will be rated using this filing. One AHP will be purely experience rated. The second will be partially manually-rated. The manual rate impact on the latter AHP will be 12.0 percent, adjusted for credibility. Due to the extremely limited amount of 2019 experience available, it is premature to provide an estimate of the anticipated renewal rate impact.

3. *Provide further explanation for any case where the projected 2019/2020 unit cost increases for facilities affected by the GMCB hospital budget review process differ from the 2018 increase.*

   In 2018, increases at certain facilities varied to adjust the relativities among the three provider contracts. This was a one-time adjustment, and subsequent increases reflect the aggregate 2018 increase.

   In the unit cost development, we erroneously reflected a previous estimate of one hospital's October 2018 contracted increase instead of the actual increase. The 2019 and 2020 increases were updated to reflect the actual higher increase. Using the correct increase in October 2018 does not change the rounded unit cost trend.

4. *Your prior response indicates that no negative pharmacy utilization trend is being assumed because utilization is "near a historic low and leveled off over the last several months." With the assumed 3.5% annual trend applied for 27 months, the projected utilization for 2020 is about 8% higher than the historic high. Provide further explanation of why the most recent year of medical trend should be expected to repeat for the next two years while pharmacy utilization is expected to remain near a historical average.*

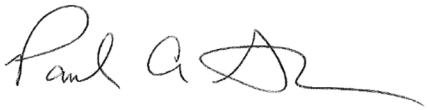
   The medical utilization trend selection takes into consideration a variety of factors. In selecting the trend, we considered time series analyses, regressions, and year-over-year trends. Our selection of 3.5 percent is lower than many measures of trend, including the year-over-year trend of 3.9 percent.

   The medical utilization component comprises both pure utilization (e.g. inpatient admissions and professional visits) and changes in the mix of services. In recent years, both the mix-of-services and pure utilization trends have increased. The non-specialty pharmacy trend is purely a utilization trend. The experience in the pharmacy trend base shows the days supply oscillating, as well as a leveling-off in recent months, which informed our selection of a 0.0 percent pharmacy trend. Given that medical utilization also includes intensity and has not exhibited the same historical patterns, we do not think a 0.0 percent selection is warranted or appropriate.

   The medical utilization trend filed in the Q3 2018 Large Group filing also represented maximums in recent history. As we have also done in this filing, last year's filing selected trends below the results produced by many of our analyses. In spite of the historic highs on last year's filing, the additional year of experience in the trend base used in this filing produced even higher trends. This is indicative of an escalating trend environment, which may follow from an improving economy. We are cognizant that these trends represent historic highs, and therefore select a lower trend than many measures suggest. However, given that our analyses have suggested historically high trends on multiple filings, as well as filed trends from other carriers representing historic highs, we believe the filed trends are already at the low end of the reasonable range of assumptions. It is unreasonable to assume that sharply escalating utilization trends that have shown no sign of mitigating will rapidly revert to historical lows over a two-year projection period.

Please let us know if you have further questions.

Sincerely,



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