

April 15, 2019

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

**Subject: Your 04/08/2019 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 April 8, 2019, here are *your questions* and our answers:

- 1. You state that underwriting and/or management discretion can be used to modify a rate. BCBSVT AHP Actuarial Mem., 5. Are there written guidelines for when and how underwriting and/or management discretion is applied to modify a rate for this book of business?*
- 2. If there are written guidelines for when and how underwriting and/or management discretion is applied to modify a rate for this book of business, please provide any written guidelines related to the exercise of underwriting and/or management discretion to modify a rate for this book of business.*

Written guidelines for underwriting judgment and management discretion are as follows:

Underwriting Judgement

Any time the characteristics of the group are different from what the rating methodology assumes, an adjustment to the calculation may be necessary. Here are some of the common reasons for applying judgement:

- The group's claims consistently perform worse or better than the manual rate
- The group has significantly greater high cost claims and/or more claimants than pooling charges predict
- The group has consistently fewer/less high cost claimants/claims than pooling charges predict
- Multiple members involved in one high cost event

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

- 3. Please provide the percentage of administrative costs that are fixed and variable for this book of business.*

For both BCBSVT and TVHP, past studies have shown that approximately 50 percent of our administrative costs are fixed in nature and the other 50 percent are generally more variable. All management, operating, and administrative functions related to TVHP

business are performed by the same people, processes and systems as BCBSVT business. All segments within BCBSVT's book of business (including association health plans) benefit from the scale of the enterprise in that fixed costs are shared by all segments and variable costs are allocated based on relevant volumes of transactions processed.

4. *In your discussion on utilization rates for BCBSVT's book of business as detailed on page 8 of the Actuarial Memorandum, you state that "Certain measures suggest a much higher utilization trend..." Please expand on your decision to use a 3.5% utilization trend for this book of business when certain measures suggest a much higher utilization trend.*

We consider a variety of factors when selecting the medical utilization trend, such as the results of time series analyses, regressions, and year-over-year trends. In addition, we examine the components of trend to see if certain categories of services are driving the uptick in trend. We also consider the implicit impact of external forces, such as an improving economy, that may be partially responsible for the escalation in trend.

Recent BCBSVT and TVHP filings, as well as filings from other carriers, have shown historically high utilization trends. We are cognizant that these trends represent historic highs, and therefore select a lower trend than many measures suggest. However, 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.

The trends filed are identical to the Q3 2019 BCBSVT and TVHP Large Group filings currently under review. The large group and association health plan lines of business are substantially similar from a utilization, benefit, and population perspective. Additionally, BCBSVT care management programs do not vary between the lines of business, so it would be contradictory to vary trends between the filings.

5. *Are there quantitative data that support the proposition that BCBSVT "believes [that] certain BCBSVT programs will be effective at mitigating high professional trends"? BCBSVT AHP Actuarial Mem., 8.*
 - a. *If yes, please provide such data sources and values.*

BCBSVT provides targeted care management to support our members. We seek to continuously evolve and improve our approach, and believe current and future programs will continue to achieve success. For example, BCBSVT is implementing a lab management program later this year. Laboratory services are an important component of professional services trend, and we anticipate the implementation of this program will be effective in mitigating high trends in this area. We did not make any explicit adjustment to professional trend for these programs, but considered potential impacts in selecting the 5.5 percent professional utilization trend.

6. *You state, "The components of increasing utilization trend have been corroborated by our Chief Medical Officer." 2019 BCBSVT AHP Actuarial Mem., 8. Please provide:*
 - a. *A detailed description of how your Chief Medical Officer corroborated the increasing utilization;*
 - b. *A listing of all data sources and values, if any, your Chief Medical Officer used to corroborate the increasing utilization.*

Professional trend is increasing, and is paralleling the shift of services once performed in an inpatient setting to those provided in an outpatient facility or in outpatient clinics. National data (American Hospital Association) suggest this transition, which is accelerating recently but present in the past ten years from hospital to community and even home. As these services become more accessible they drive an increase in utilization, particularly in conjunction with an aging population.

There is a welcome increase in primary care services, while mental health and substance abuse services have increased. We also see increases in labs and radiology services. Future projects include expanding our appropriate use criteria work in additional areas of radiology management and instituting a lab management program, which will seek to reduce low value laboratory care throughout our network.

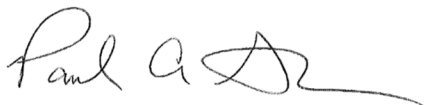
We have compared our utilization trends to national data sources such as the American Hospital Association, AHRQ and the Blue Cross & Blue Shield Association. We have also eliminated any cases which are thought to not contribute to trend such as isolated complex and high cost cases or a limited change in pharmacy utilization due to a new indication for high cost specialty pharmaceutical which is not to likely to be a continued upward trend.

- 7. For this book of business, you propose a single manual rate based on small group experience. 2019 BCBSVT AHP Actuarial Mem., 21. For your large group book of business, you propose two manual rates, one of which is for Medicare Primary members. 2019 BCBSVT and TVHP Actuarial Mem., 29-30. Please provide a qualitative explanation of the reason for using a single manual rate for this book of business unlike for your pending filing for your large group book of business.*

Medicare Primary rate tiers are not available on the BCBSVT Managed contract, which is the current contract for all association health plans. Unlike association health plans, the large group book of business includes groups that offer retiree coverage and Medicare Primary rate tiers on the BCBSVT Non-Managed contract, which necessitates a separate manual rate to appropriately rate each distinct population.

Please let us know if you have further questions.

Sincerely,



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