

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
3Q 2019 Large Group Rating Program Filing (SERFF Tracking #: BCVT-131835151) and
re: The Vermont Health Plan 3Q 2019 Large Group Rating Program Filing (SERFF Tracking
#: BCVT-131835292)**

Dear Mr. Ruggeberg:

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

- 1. 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 for any network.

- 2. Please provide revised versions of the rate increase summary tables from the actuarial memorandum (detailing the components of the 5.3% increase for formula and factor changes and the 9.0% increase for 2019/2020 changes) reflecting the previously mentioned update to the generic drug unit cost trend.*

The 9.0 percent increase remains unchanged, as it was produced using the approved Q3 2018 changes. The revised impact of formula and factor changes is as follows:

Impact of Formula and Factor Change - 2020 Renewals				
Component	Q3 2018 Filing PMPM	Q3 2019 Filing PMPM	PMPM Change	Impact on Premium Increase
Projected Paid Claims	\$510.14	\$530.25	\$20.11	3.4%
Administrative Charges	\$42.53	\$48.10	\$5.57	0.9%
Contribution to Reserve	\$5.82	\$9.13	\$3.31	0.6%
Federal Programs	\$12.61	\$13.26	\$0.65	0.1%
Additional Items	\$24.78	\$25.36	\$0.58	0.1%
Total	\$595.89	\$626.11	\$30.22	5.1%

3. *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 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 Schultz", with a long horizontal flourish extending to the right.

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