

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
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 April 8, 2019, here are *your questions* and our answers:

- 1. Please identify instances, if any, of deviations of more than 10% from the approved 2018 manual rate for large groups in these books of business, separately for BCBSVT and TVHP. For each instance of +/- 10% deviation from the approved manual rate, provide the magnitude of the deviation that is attributable to discretion as opposed to group experience and/or credibility as detailed in the filing.*

Of groups that have renewed with rates produced under the Q3 2018 filing, 15 of 49 had premiums that were +/- 10% from a pure manual premium. The tables below show the amount of the deviation that is attributable to experience rating, and the amount of the deviation attributable to underwriting judgment and management discretion.

BCBSVT			
Group	Deviation	Formula	Discretion
1	1.48	52%	48%
2	1.13	85%	15%
3	0.87	51%	49%
4	0.82	60%	40%
5	1.24	68%	32%
6	1.48	11%	89%
7	1.33	80%	20%
8	1.25	66%	34%
9	0.87	41%	59%

TVHP ¹			
Group	Deviation	Formula	Discretion
1	0.82	69%	31%
2	1.23	67%	33%
3	0.86	51%	49%
4	1.27	89%	11%
5	1.40	73%	27%
6	1.57	24%	76%

¹ Includes one group with both BCBSVT and TVHP benefits, but with predominately TVHP membership

The majority of the total dollars of discretion were applied to a limited number of groups. Many of these groups' experience rates are widely disparate from their manual rates. The current filing incorporates a multiple experience period methodology, which we believe will improve the accuracy of rating for all groups and mitigate the need for discretion on groups that consistently perform above or below their manual rate.

2. *Are there written guidelines for when and how underwriting and/or management discretion is applied to a rate? If so, please provide any written guidelines, separately for BCBSVT and TVHP.*

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. *Administrative expenses have risen by 3.6% since the Q3 2018 for these books of business. 2019 BCBSVT and TVHP Actuarial Mo., 35. At the same time, membership for these books of business has declined by roughly 11.7%. BCBSVT and TVHP Actuarial Mem., 35. Please provide a narrative explanation of the negative correlation between administrative expenses and enrollment.*

A negative correlation between per unit administrative costs and enrollment is to be expected. When enrollment is decreasing, fixed costs by definition cannot be reduced by a corresponding amount, if at all. Likewise, variable costs cannot be eliminated immediately upon the loss of membership, and are also managed carefully in order to avoid serious disruptions to operations and unfavorable customer impacts. Generally, when membership is lost, we plan on gaining it back the following year. Given that assumption, it is not cost efficient or practical to constantly flex our staffing levels up and down in reaction to relatively minor fluctuations in enrollment. As a result, PMPM administrative costs will normally increase during periods of declining membership. Additionally, because of the ongoing operating platform transition in 2018, it was important to maintain the existing staffing level to mitigate the risk of customer impacts resulting from the January 1, 2019 go-live of the new platform. In the absence of staffing changes, it is expected that total administrative costs would increase with inflation.

Similarly, when enrollment increases, there is typically no increase in fixed costs, while increases in variable costs usually ramp up slowly and are managed carefully to maximize

organizational efficiency. As a result, per member per month (PMPM) administrative costs will be reduced in an environment of growing membership.

4. *Please provide, separately for BCBSVT and TVHP, the percentage of the administrative costs that are fixed and that are variable for these books 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 TVHP) 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.

5. *You state, "the components of increasing utilization trend have been corroborated by [the BCBSVT/TVHP] Chief Medical Officer." 2019 BCBSVT and TVHP Actuarial Mem., 14. Please provide:*
 - a. *A detailed description of how your Chief Medical Officer corroborated the increasing utilization;*
 - b. *A list of all data values and sources, if any, your Chief Medical Officer used to corroborate the increasing utilization.*

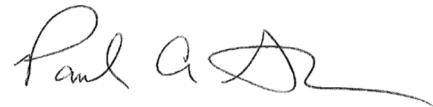
Professional trend is increasing, and is paralleling the shift of services once performed in an inpatient setting to those provided in an outpatient facility or in outpatient clinics. National data (American Hospital Association) suggest this transition, which is accelerating recently but present in 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.

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.