

June 9, 2020

Mr. Michael Barber
General Counsel
Green Mountain Care Board

Subject: Your 06/03/2020 Questions re: Blue Cross Blue Shield of Vermont 2021 Large Group Filing (SERFF Tracking #: BCVT-131835151; GMCB Docket No. GMCB-002-20rr); The Vermont Health Plan 2021 Large Group Filing (SERFF Tracking #: BCVT-131835292; GMCB Docket No. GMCB-003-20rr); Blue Cross Blue Shield of Vermont 2021 Association Health Plan Filing (SERFF Tracking #: BCVT-132360219; GMCB Docket No. GMCB-004-20rr)

Dear Mr. Barber:

Below, we respond to the Board's questions dated June 3, 2020, about the impact of the COVID-19 pandemic over the past three months and going forward. Before doing so, we provide some context and perspective for the Board's questions and our responses.

Nationwide, economists, actuaries, epidemiologists and public health officials are grappling with these questions, but no clear answers have emerged. As we explained in our response to Question 4 of the May 6 objections, BCBSVT cannot predict how the pandemic will play out. The overall financial impact of the pandemic on BCBSVT will include numerous factors that remain unknown, such as: additional expenses related to the pandemic and emergency state mandates; forgiven premiums through extended grace periods and employer outreach; deferred and foregone health care; the performance of financial markets, which among other effects directly impacts our reserves; and the unknown future curve of COVID-19 infections. There is no way to predict now what the overall financial impact of the pandemic will be over the course of 2020 and 2021.

The above-referenced rate requests for 2021 are based on actuarial analysis that was nearly complete before the pandemic. It represents our current best actuarial judgment for the cost of providing health care to our members in 2021 without regard to the impacts of the pandemic. If the pandemic increases our costs (because of deferral of care from 2020 into 2021, lost premiums, COVID-19 expenses, and so forth), the additional costs will be paid out of reserves. If the pandemic decreases costs below what would normally be expected for 2020 and/or 2021, the money saved will be added to policyholders' reserves and will mitigate future rate increases. As we explained in this and other filings, we view this as the proper function of reserves.

This outcome is also consistent with BCBSVT's Large Group and QHP experience over the years— each year, BCBSVT has sustained losses in these lines of business, has funded those losses out of policyholder reserves, and has not sought to apply a notional loss in Year N to its proposed rates for Year N+1. Similarly, it cuts against sound actuarial, regulatory, and competitive practice to apply a notional 2020 gain to 2021 rates.

Finally, the existing medical loss ratio (MLR) rebate process functions to return any and all excess gains to policyholders. Under Vermont and federal law, every dollar of gain beyond a certain threshold—in the case of insured large groups, the threshold is 85 percent—must be returned to policyholders in the form of a rebate. BCBSVT has always adhered and will always adhere to that process.

We note that a number of insurers nationwide have received favorable publicity by accelerating rebate payments for the 2019 and/or 2020 plan years. BCBSVT does not expect to owe rebates for either 2019 or 2020, *even in the implausible event that none of the care deferred this spring returns in the balance of 2020*, because our cost of insurance (that is, administrative costs plus contribution to policyholder reserves) is priced far below the maximum allowed by MLR thresholds. Unlike insurers who have issued rebates for 2019 or 2020, we have no rebate payments we could accelerate at this time. Our MLR remains and is expected to remain well above the Vermont and federal threshold. Said differently, we never charge these excess amounts to policyholders in the first place. We cannot return what we do not collect.

With these principles in mind, we will endeavor to answer the Board's questions as transparently and completely as possible. But we caution that focusing this rate review process on the current or predicted impacts of the pandemic will not be productive, because critical questions simply cannot be answered at this time.

In response to your requests dated June 3, 2020, here are [your questions](#) and our answers:

1. [Provide data on utilization and costs by service category for the 15-month period ending April 2020 and quantify the impact of utilization dampening associated with COVID-19, the value thereof, and the impact on reserves.](#)

Allowed costs by major service category for the 15-month period ending April 2020 can be found in the table on the next page. We note that these data would be entirely misleading without completing the claims—that is, because the reporting and payment of medical claims is not instantaneous, many services performed during the month of April, for instance, will not yet have appeared in the data by April 30 or even May 31. We have therefore applied the completion factors from our financial reporting models (best estimates before margin, as reviewed by independent auditors) to the allowed costs. For simplicity, we have applied the same completion factors to all medical service categories.

BCBSVT/TVHP Large Group Completed Medical Allowed Claims					
Month	Members	IP Facility	OP Facility	Professional	Other
201901	15309	\$1,849,441	\$3,496,340	\$1,412,072	\$938,285
201902	15090	\$2,020,065	\$3,069,427	\$1,230,337	\$858,711
201903	15083	\$1,183,899	\$3,401,108	\$1,285,684	\$959,154
201904	14853	\$1,873,518	\$3,258,624	\$1,285,636	\$976,235
201905	14812	\$1,738,589	\$3,456,858	\$1,299,273	\$1,039,115
201906	14618	\$1,562,645	\$3,257,237	\$1,230,136	\$908,251
201907	13903	\$2,053,804	\$3,147,011	\$1,251,434	\$940,050
201908	13870	\$1,656,634	\$3,069,436	\$1,137,469	\$979,976
201909	13814	\$1,264,855	\$2,897,672	\$1,109,112	\$939,389
201910	13398	\$2,058,331	\$3,525,321	\$1,464,455	\$1,019,120
201911	13397	\$1,208,122	\$3,029,143	\$1,147,676	\$849,405
201912	13354	\$1,469,083	\$3,312,294	\$1,260,701	\$945,565
202001	9148	\$1,470,072	\$2,232,160	\$857,009	\$591,416
202002	9104	\$826,841	\$2,262,859	\$774,029	\$519,273
202003	9095	\$658,530	\$1,808,459	\$639,645	\$566,849
202004	8994	\$439,804	\$1,748,721	\$677,001	\$757,096

The April 30 financials included approximately \$2 million, or about 9 percentage points of risk-based capital, of underwriting gains associated with the utilization dampening impact of the response to the COVID-19 pandemic.

2. *You state that “[s]ome portion of deferred care will be foregone altogether, while other services will have only been delayed” and that “the timing of the return of delayed care will depend on the timing and severity of additional waves of infection and periods of social distancing.” Provide any analyses you have developed regarding the amount and value of care that has been or will be deferred as a result of COVID-19 and the efforts being taken to prevent its spread, the portion of this deferred care that will be foregone, the portion that will be delayed, and the time period over which the deferred care that has been delayed will return.*

At this time, we cannot develop sufficiently reliable or useful estimates to support analyses of the type referenced in this question. This follows because of the ongoing uncertainty around the impact of COVID-19. We continue to review relevant literature on this topic which provide helpful assessments of potential considerations but do not offer conclusions or predictions; a list of some of those sources is provided here:

- Society of Actuary COVID-19 Resources
<https://www.soa.org/programs/covid-19/research-podcast/>
- American Academy of Actuaries COVID-19 Resources
<https://www.actuary.org/coronavirus>
- Milliman COVID-19 Hub
<https://us.milliman.com/en/Health/Coronavirus-COVID-19>
- Oliver Wyman COVID-19 Hub
<https://www.oliverwyman.com/our-expertise/hubs/coronavirus.html>

We are working to analyze and estimate the kinds of impacts referenced in this question, because those estimates are critical to understanding the impact of COVID-19 on future rate requests and on policyholder reserves in the future. In other words, it is very much in BCBSVT's interests, including and extending beyond the current rate filings, to understand these impacts as soon as possible. However, we are still too early in the process, and still facing too many COVID-related uncertainties, to perform those analyses with sufficient certainty to present to the Board.

3. *You identified several potential costs associated with COVID-19, including direct costs of treatment, costs of a vaccine, and costs associated with a decline in the health status of the population and noted that "any increased cost due to the COVID-19 pandemic will be funded through policyholder reserves." Quantify the additional costs you expect to incur in connection with COVID-19 for the plans covered by the above filings, including the number of COVID-19 cases and projected costs per case, and the expected impact on reserves.*

As we described in our response to Question 4 of the May 6 objections, we have identified numerous potential costs associated with COVID-19, including the direct cost of care, follow-up care, vaccine costs, the impact of the deferral of non-emergent care, and the impact of economic factors. We cannot quantify those anticipated costs at this time because of the ongoing uncertainty around the impact of COVID-19. Among other things, we have no reliable basis to predict the future number of COVID-19 cases in Vermont or the cost of treating those patients. As noted above, we are working to analyze and estimate the kinds of impacts referenced in this question, because those estimates are critical to understanding the impact of COVID-19 on future rate requests and on policyholder reserves in the future. In other words, it is very much in BCBSVT's interests, including and extending beyond the current rate filings, to understand these impacts as soon as possible. However, we are still too early in the process, and still facing too many COVID-related uncertainties, to perform those analyses with sufficient certainty to present to the Board.

4. *Provide the number and percentage of cases of COVID-19 you have had in Vermont to date and the costs of these cases.*

As of June 1, 2020, 34 BCBSVT members had received inpatient treatment with a diagnosis of COVID-19, with allowed charges totaling \$1,175,016. Additionally, 80 BCBSVT members had received outpatient treatment with a diagnosis of COVID-19, with allowed charges totaling \$70,479. Further, 3,353 BCBSVT members had claims incurred in an outpatient setting related to a screening for COVID-19, with allowed charges totaling \$867,968. Lastly, 4,590 BCBSVT members had claims for COVID-19 testing, with allowed charges totaling \$567,015. Note that due to provider lag in reporting claims, the reported number of cases and treatment costs will likely increase as time passes.

The portion of the above figures attributable to the BCBSVT/TVHP insured large group line of business totals about \$250,000 in allowed charges.

5. *Provide the increase or decrease in the membership (number and percentage) in the BCBSVT and TVHP Large Group plans covered by the above filings during the current rating period.*

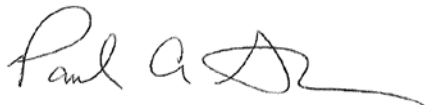
Vermont large groups have a variety of renewal dates throughout the calendar year. The concept of the “rating period” is therefore rather fluid for this market. We are interpreting the intention of your question to be to better understand how the economic crisis has impacted large group enrollment during the pandemic. We therefore provide in the table below the change in membership between January 31, 2020 and May 31, 2020, exclusive of groups with February, March, April or May anniversaries that did not renew with BCBSVT or TVHP.

Company	Enrollment Change	Percentage Change
BCBSVT	-137	-1.8%
TVHP	-3	-0.2%

It is important to note that BCBSVT has provided very flexible payment options for large groups throughout the pandemic and economic slowdown. None of the reductions in membership are due to cancelation for non-payment.

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.