

July 26, 2019

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

**Subject: Your 07/25/2019 Questions re:
Blue Cross and Blue Shield of Vermont
2020 Vermont Individual and Small Group Rate Filing
(SERFF Tracking #: BCVT-131936226)**

Dear Mr. Rugeberg:

In response to your request dated July 25, 2019, here are *your questions* and our answers:

- 1. Please demonstrate that implementing L&E's recommendations regarding risk adjustment and the 0.2% adjustment relating to terminating groups results in a 1.3% rate decrease as stated in exhibits produced by BCBSVT at the recent hearing.*

On page 20 of your report¹ dated July 9, 2019, you recommended that BCBSVT use the final 2018 risk adjustment report from CMS and adjust for 2020 model coefficient changes resulting in a PMPM starting point of \$38.16. We found that in order to reconcile to your stated \$38.16 PMPM one must divide the transfer amount by *billable* member months rather than total member months. BCBSVT executed this by adjusting the 2018 baseline to reflect a transfer of \$15,926,267 and then increased the BCBSVT PLRS factor such that the transfer per billable member month was \$38.16 and the adjusted transfer was approximately \$22.2M. When we estimate the premium impacts of risk adjustment changes we reflect the transfer using total member months to be consistent with the filing's use of "PMPM." These two changes result in a -1.44 percent rate change.

We then incorporate an adjustment for the small group members that left the BCBSVT enterprise and are assumed to migrate to MVP's QHP products. In our response to question 3 of inquiry 2, we agreed that the impact of "members in groups that are no longer with BCBSVT" should have had a corresponding impact on risk adjustment. It is important to note that these groups are exclusive from the groups that joined an AHP in 2019. Using the data provided by DHVA to the GMCB², and including the enrollment from groups that joined a 2019 AHP product from either of the carriers' QHP products, it is clear that the overall individual and small group markets increased modestly from 2018 to 2019:

¹ <https://ratereview.vermont.gov/sites/dfrr/files/L%26E%20Actuarial%20Memo%20-%20BCBSVT%20VHC%202020.pdf>

² <https://gmcboard.vermont.gov/sites/gmcb/files/2018%202019%20Plan%20Selection%20for%20GMCB.pdf>

	January 2018	January 2019
VISG Small Group	45,510	40,641
AHP with previous VISG coverage	<u>0</u>	<u>5,023</u>
Total Small Group	45,510	45,664
Individual	<u>34,142</u>	<u>34,396</u>
Total VISG	79,652	80,060

We therefore agreed with your suggestion that a more reasonable approach would be to assume that groups that left BCBSVT but did not join an AHP moved to MVP, and the risk adjustment transfer should be adjusted accordingly. As stated in our response to the aforementioned question 3, while these members were healthier than BCBSVT's average member they have risk scores that are higher than the MVP average risk score.

The result of this change is a decrease to BCBSVT's PLRS and an increase in MVP's PLRS, thereby lowering the risk adjustment transfer from \$22.2M to \$21.7M and increasing the BCBSVT average premium by 0.16 percent.

There is a 1.3 percent total impact on rates of including your risk adjustment recommendations in addition to the risk adjustment impact of small groups moving to MVP:

L&E recommendations	-1.44%
<u>Impact of small groups moving to MVP</u>	<u>+0.16%</u>
Total	-1.28%

Please note that Exhibit 19 presented at hearing had incorrect PMPMs for L&E recommended and BCBSVT proposed rates. The stated PMPMs of \$42.55 and \$41.47 include the impact of AHPs, which is captured separately in the AHP recommendation. The PMPMs on Exhibit 19 should have been \$44.46 and \$43.39 for the L&E recommended and BCBSVT proposed rates, respectively.

- 2. Please clarify how the 0.4% rate adjustment related to newborns referenced at the recent hearing relates to the 1.0059 impact described in objection response 15 provided on June 7th.*

The 1.0059 impact described in our response 15 to Inquiry 2 is a claim adjustment factor.

As you pointed out in the actuarial memorandum dated July 9, 2019, BCBSVT will receive additional premiums for these new members. The additional premium will not completely offset the increase in claims. In the Vermont VISG market, family premiums are not calculated on a per member per month basis as is the case in other states. Instead, family rates are set at 1.93 times the single rate for policies with one adult and 2.81 times the single rate for policies with 2 adults. This means that newborns only generate additional

premium if they are the first child under the policy. Furthermore, newborns are covered under the mother’s policy for the first 60 days. To estimate the impact of the additional premium, BCBSVT specifically looked at the family composition of the newborns included in the analysis that underlines the 0.6 percent claims impact. We calculated the actual additional premium collected by taking the difference between the premiums paid before and after the addition of the new member. The additional premium offsets the claims impact by 0.2 percent.

Risk adjustment compares the relative population demographics and morbidity between carriers. The risk adjustment estimates already include the impact of newborns in the market. The only way that additional risk adjustment would be received by BCBSVT for newborns is if the relationship between birth rates for the BCBSVT and MVP populations changes substantially from 2018 to 2020. There is no evidence for such a change, and any such assumption would be contrary to our risk score projection methodology, which necessarily assumes consistent underlying population characteristics in the absence of explicit population movement.

The total impact on rates of including the cost of newborns expected to be born in 2020 is therefore 0.4 percent:

Claims impact	+0.6%
Premium impact	-0.2%
<u>Risk Adjustment impact</u>	<u>0.0%</u>
Total	+0.4%

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.
Chief Actuary