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July 17, 2023

Green Mountain Care Board
State of Vermont
144 State Street
Montpelier, VT 05602

Re: Blue Cross and Blue Shield of Vermont 2024 Large Group Filing (SERFF # BCVT-133676245)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Large Group Filings for Blue Cross and Blue Shield of Vermont (BCBSVT) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. BCBSVT is a non-profit hospital and medical service corporation. BCBSVT provides coverage to individuals, small and large group employers, and Medicare enrollees in Vermont.
2. A filing was previously submitted and approved (SERFF # BCVT-133551255) which established the formula, manual rate and accompanying factors that will be used for Large Group renewals. This filing modifies the trend and manual rate figures from that filing, in order to reflect updated hospital budget information.
3. This filing addresses BCBSVT Insured and Cost Plus large groups. There are approximately 3,270 subscribers and 5,785 covered lives affected by this filing.
4. The most important component of any group's premium is their past claims experience. Group-level premiums for coverage years beginning 1Q 2024, for example, will be based on the most current experience available at the time. For this reason, no group's actual premium increase pursuant to this filing is currently known.
5. The previous filing, approved with modification on May 11, 2023, resulted in an average manual rate premium change of approximately 9.8%.
6. This filing proposes a further increase of 2.8% to manual rate premiums to reflect the impact of updated hospital budget and other provider contracting information, and to correct a formula error in the calculation of the trend factor applied to groups' historical claims experience during premium development. While this increases manual rate premiums, it actually decreases the non-manual rate premium on average. Thus, premiums are, in aggregate, reduced by this change. The total premium impact of this filing was expected to be -2.4%.
7. During L&E's review, BCBSVT noted that updated New Hampshire hospital information is available since the time of filing. Reflecting this updated assumption would reduce premiums by approximately 0.4%, for a total premium change of +2.4% for manual rates and approximately -2.8% overall.

Standard of Review

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received

This filing reflects updates to two specific aspects of the Large Group rating process: the experience rating trend and the manual rate.

This filing contains updated projections of cost by facility, consistent with the prior filing. These are labeled Exhibit 2A. Exhibit 2G provides a detailed breakdown of how the trend assumptions are applied to monthly data for experience-rated groups, Exhibit 4A demonstrates the adjustments applied to the manual rate, and Exhibit 4C provides the projected Medical Loss Ratio. These are the only changes to the 3Q2022 filed rates proposed in this filing.

Filing Analysis

All rating components other than the prospective unit cost trend assumptions and manual rate were recently reviewed by L&E and considered by the Green Mountain Care Board. We do not wish to repeat that review here. More detail on those unchanging aspects of the proposed rating process can be found on the Green Mountain Care Board website under SERFF filing BCVT-133551255.

The total manual rate impact estimated as 2.8% is the combination of the following components:

- Updates to assumed provider contracting changes for non-GMCB facilities, which results in a rate change of 0.8% compared to the previously approved filing.
- Correction of a formula error in the way that the trend assumptions are applied to historical data during rate development. The correction increases the manual rate premiums by 2.0%. This change impacts groups differently depending on how much historical experience they have, but BCBSVT estimates that the overall impact on groups will be a 2.6% rate decrease.
- Changes to the GMCB-regulated provider contracting rates, which is zero in the filing as submitted.

Non-GMCB Facilities

The table below summarizes the unit cost trends as approved by the Board in the previous filing for non-GMCB facilities. They are reflective of averages assumed at the hospital/provider level.

Previously Approved Medical Unit Cost Trends – Non-GMCB

Year	Blue Cross Managed Care	Blue Cross Non-Managed Care
2023	4.9%	5.0%
2024	4.4%	4.6%

The table below reflects the modifications proposed by BCBSVT in this filing.

Filed Medical Unit Cost Trends – Non-GMCB

Year	Blue Cross Managed Care	Blue Cross Non-Managed Care
2023	5.6%	5.6%
2024	6.3%	6.3%

For some of these non-GMCB facilities, updated contracting information is now available. L&E estimates that this new information would modify these assumptions as follows:

L&E-Estimated Updated Medical Unit Cost Trends – Non-GMCB

Year	Blue Cross Managed Care	Blue Cross Non-Managed Care
2023	5.3%	5.3%
2024	5.6%	5.6%

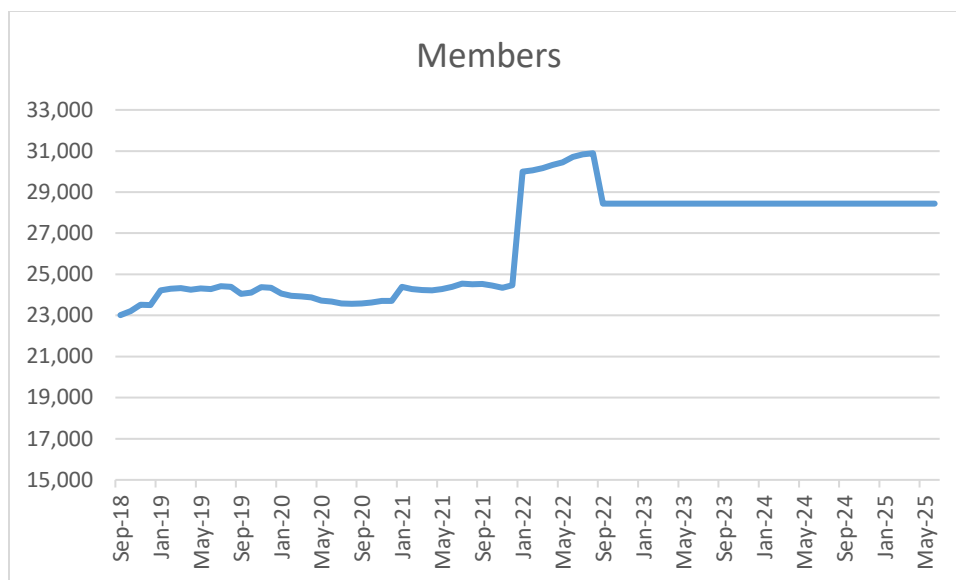
As filed, the impact of changing non-GMCB facilities' unit cost increases was +0.8% to premium. With the update based on new contracting information, this is reduced to +0.4% of premium.

For these providers, the BCBSVT actuarial and contracting departments have revised their expectations of the 2023 and 2024 fee schedules. L&E has reviewed the material provided and believes that the revised assumption better reflects the likely future cost at these facilities.

Formula Correction to Trending Group-Specific Experience

When calculating the premium for a given group, BCBSVT must adjust historical data to reflect the changes to healthcare provision during the intervening time period. This includes adjustment for trends in the volume and type of services utilized by the covered population, as well as changes to the average cost per service charged by network providers.

The previously-approved filing contained an error in the calculation of this adjustment. In particular, it failed to normalize for changes in the size of the covered population. Enrollment in the Large Group segment experienced significant growth in 2022, and BCBSVT projects it will drop off slightly from that peak. Historical and projected enrollment by month is shown below.



The formula error wrongly labeled this trend in enrollment as a trend in healthcare costs. So, because enrollment increased by about 20% in 2022 relative to 2021, BCBSVT’s formula accidentally assumed that any 2021 claims used in group-specific rating needed to be increased by about 20% per member to put them on a 2022 basis. This is clearly incorrect.

Because BCBSVT trends their manual rate in an atypical way, this historical trend error caused the trending of the manual rate to inappropriately not reflect the assumptions disclosed in the actuarial memorandum. In particular, the manual rate assumed that PMPM claims would fall by about 2% due to the roughly 2% drop in projected enrollment. The enrollment change would decrease total costs but should not have an impact on the cost *per member*.

However, BCBSVT’s experience-rating method tends to consider multiple years of a group’s historical claims, due to the relatively low average group size in the state. So, when setting premiums for 2024, BCBSVT will consider experience from as far back as late 2020.

The impact of the error therefore varies between groups based on their size and the availability of historical data from different time periods. The impact of correcting the error on rates as it varies by source and time period is shown below:

Experience Period Year 1	+2.0%
Experience Period Year 2	-9.4%
Experience Period Year 3	-10.2%
Manual Rate	+2.0%

For example, a group might have 50% credibility in each of the last three years. BCBSVT’s method applies that 50% iteratively to each prior year, resulting in premiums which are based on the following weights:

Experience Type	Weight	Rate Change
Experience Period Year 1	50%	+2.0%
Experience Period Year 2	25%	-9.4%
Experience Period Year 3	12.5%	-10.2%
Manual Rate	12.5%	+2.0%

For this hypothetical group, the rating impact would be the weighted average using these weights, or a rate reduction of about 2.4%.

Based on the current book of Large Groups, BCBSVT estimates that the overall impact of correcting the formula error will be to reduce Large Group premiums by 2.4%. Due to the currently-unknown nature of group-specific experience, our Large Group filing summaries tend to focus on the manual rate premium as a proxy for overall premium. However, it is important to note that this change, while it increases the manual rate premium, will almost certainly decrease the overall premiums paid by Vermont Large Groups.

Moreover, as the calculation as previously approved is clearly in error, L&E recommends that the factors and methodology be corrected as proposed by BCBSVT.

Hospital Budget Updates

In the original 2024 Large Group filing, BCBSVT assumed that the hospital budget increases approved for Fiscal Year 2024 would be equivalent to the average of the last two years of increases. The FY2023 budget cycle was very atypical, and the Board ordered that the filing be modified to reflect instead a five-year average of past unit cost increases. That change was made, and the filing was approved as modified.

Within this filing, BCBSVT did not assume any changes to the GMCB-regulated facilities' charge level from what was approved in the previous filing. However, hospital budget submissions are now available, providing a new source of information on which to base this assumption. Consistent with our previous recommendation, L&E believes this new information should be considered in the evaluation of the proposed rating factors.

The Board should consider premium increases consistent with what they anticipate will occur with hospital budgets. While L&E cannot predict what the Board will do regarding hospital budgets, we can inform the Board's understanding of how hospital budget decisions impact the premiums for the BCBSVT VISG filings. The table below shows the approximate impact to the proposed premium rate increase for large group policies that would result from various levels of FY2024 hospital budget unit cost increases.

Average 2024 Hospital Budget Unit Cost Increase Approved	Impact to Initially Filed Large Group Rate Increase
0%	-2.8%
1%	-2.4%
2%	-2.0%
3%	-1.5%
4%	-1.1%
5%	-0.7%
6%	-0.3%
7%	+0.1%
8%	+0.6%
9%	+1.0%
10%	+1.4%
11%	+1.8%
12%	+2.2%
13%	+2.7%
14%	+3.1%
15%	+3.5%

Please note that these assume a flat increase across all facilities, and the intricacies of contract renewal timing and the distribution of services across service categories mean that Budget orders which produce a given average according to the Hospital Budget systems weightings might not be perfectly equivalent to the corresponding average increase in the table above, which should be understood as approximate.

Recommendation

Using all information available, the Board should require that the assumed FY2024 hospital budget increase assumptions reflect a reasonable best estimate of their eventual value. Additionally, we recommend that the Board require use of updated non-GMCCB unit cost estimates, which will reduce the filed rates by approximately 0.4%.

Given these considerations, L&E believes the proposed rates and factors are reasonable as filed.

Sincerely,



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Vice President & Principal
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ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations¹, promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct², to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary

The responsible actuaries are:

- Kevin Rugeberg, FSA, MAAA, Vice President & Senior Consulting Actuary at Lewis & Ellis, Inc.
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc.

These actuaries are available to provide supplementary information and explanation. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents

The date of this document is July 17, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 17, 2023.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but L&E has not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- L&E is not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

Actuarial Findings

The actuarial findings of the report can be found in the body of this report.

¹ The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

² These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

Methods, Procedures, Assumptions, and Data

The methods, procedures, assumptions and data used by the actuary can be found in body of this report.

Assumptions or Methods Prescribed by Law

This report was prepared as prescribed by applicable law, statues, regulations and other legally binding authority.

Responsibility for Assumptions and Methods

The actuaries do not disclaim responsibility for material assumptions or methods.

Deviation from the Guidance of an ASOP

The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.