

July 5, 2023

Green Mountain Care Board  
 144 State Street  
 Montpelier, VT 05602

Re: Blue Cross and Blue Shield of Vermont  
 Vermont Health Connect 2024 Individual Rate Filing  
 SERFF# BCVT-133654578

The purpose of this letter is to provide a summary and recommendation regarding the proposed 2024 Individual Filing for Blue Cross and Blue Shield of Vermont (BCBSVT or Company) and to assist the Green Mountain Care Board (GMCB or Board) in assessing whether to approve, modify, or disapprove the Company’s requested rate changes.

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## FILING DESCRIPTION

1. BCBSVT is a non-profit hospital and medical service corporation that provides health insurance coverage to Vermonters. This filing proposes premiums for BCBSVT’s Qualified Health Plans (QHPs) that will be offered on Vermont Health Connect (VHC), beginning January 1, 2024.
2. As of February 2023, there were approximately 18,517 members<sup>1</sup> enrolled in individual plans. Enrollment from the last several years is demonstrated in the following table:

### INDIVIDUAL MEMBERSHIP BY COVERAGE YEAR

Coverage Year	Members	Percent Change
2017	28,710	
2018	23,361	-18.6%
2019	19,431	-16.8%
2020	17,627	-9.3%
2021	15,878	-9.9%
2022	16,556	+4.3%
2023	18,517	+11.8%

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<sup>1</sup> L&E uses the term “members” to refer to the number of covered lives. That is, a single policy covering two family members is comprised of two members.

3. For the 2022 rating year, the Small Group and Individual markets were separated for rating purposes. In accordance with Act 7 of 2023, the markets will continue to be separate for rating year 2024. This report will focus on the proposed unmerged premium rates for the Individual market.
4. As required by the Affordable Care Act, insurers selling individual plans on VHC must offer Silver plans with cost-sharing reductions (CSRs) to Vermonters with certain income levels, known as “Silver Loaded.” These members pay a reduced premium that is limited to a specified percentage of their income. These plans include premium funding to offset the loss of federal CSR payments.

In addition to the Silver plans offered on VHC, beginning in 2019, carriers began offering “Silver Reflective” plans outside of VHC. The Silver Reflective plans do not include CSR premium funding since federal CSR payments do not apply. While the VHC Silver Loaded plan premiums are substantially higher than the Silver Reflective premiums, most members in these plans will not pay higher premiums because of the federal premium subsidies.

5. The proposed rate impact of this filing is an average rate increase of 15.5%. The tables below illustrate the approved premium rate changes for last year’s 2023 QHP filing and the proposed premium rate increase for the 2024 QHP filing.

#### 2023 APPROVED INDIVIDUAL RATE CHANGES

Plan Type	Percent Change	Percent of Membership
<b>Catastrophic</b>	+10.7%	2.1%
<b>Bronze</b>	+12.4%	24.1%
<b>Silver Loaded</b>	+10.3%	34.0%
<b>Silver Reflective</b>	+9.5%	8.1%
<b>Gold</b>	+12.7%	22.3%
<b>Platinum</b>	+12.6%	9.5%
<b>Overall</b>	<b>+11.4%</b>	<b>100.0%</b>

## 2024 PROPOSED INDIVIDUAL RATE CHANGES

Plan Type	Average 2023 Premium PMPM	Average 2024 Premium PMPM	Percent Change	PMPM Change	Percent of Membership
<b>Catastrophic</b>	\$241.10	\$277.64	15.2%	\$36.55	1.8%
<b>Bronze</b>	\$605.43	\$689.04	13.8%	\$83.61	29.7%
<b>Silver Loaded</b>	\$788.61	\$949.52	20.4%	\$160.91	30.6%
<b>Silver Reflective</b>	\$696.08	\$792.01	13.8%	\$95.93	6.9%
<b>Gold</b>	\$852.87	\$965.10	13.1%	\$112.22	24.2%
<b>Platinum</b>	\$1055.60	\$1197.66	13.5%	\$142.06	6.7%
<b>Overall</b>	<b>\$751.32</b>	<b>\$869.47</b>	<b>15.5%</b>	<b>\$118.14</b>	<b>100.0%</b>

## STANDARD OF REVIEW

Pursuant to 8 V.S.A. § 4062, 18 V.S.A. § 9375(6), and Green Mountain Care Board (Board) *Rule 2.000: Health Insurance Rate Review*, this letter is to assist the Board in determining whether the proposed rate increase 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 RECEIVED DATA

BCBSVT provided the methodology used to develop the proposed 2024 individual and small group premiums. The Company provided exhibits which demonstrated the quantitative development for each component of the premium request, including trend, network changes, morbidity adjustments, federal programs, administrative costs, and taxes and fees. Most exhibits were provided on separate individual and small group bases, in addition to a hypothetical combined version illustrating the market in a scenario where the two cohorts are being remerged.

Exhibit 3 illustrates the development of the proposed pharmacy and medical trend factors.

For medical services, the projected annual allowed trend from 2022 to 2024 is 8.8%. The portion applicable to unit cost changes is projected to be 7.8% annually based on projected contracting and provider budgetary changes. The portion applicable to utilization changes is projected to be 0.8% annually.<sup>2</sup>

For pharmacy cost trends, the combined utilization for non-specialty drugs was projected and then split into categories to separately model unit cost by category. Due to the relative infrequency and high cost nature of specialty drugs, this pharmacy category was analyzed on a PMPM basis rather

<sup>2</sup> The trend assumptions are the same for individual and small group markets. However, due to slight differences in distribution between facilities/services, the average for each market is slightly different. In this report, we will discuss average trend for the two markets because this is the basis on which these assumptions were set.

than separately by utilization and unit costs. The projected annual allowed trend from 2022 to 2024 for pharmaceuticals is 14.9%<sup>3</sup>.

Exhibit 5 demonstrates the development of the Market Adjusted Index Rate. Adjustments to the experience period Index Rate were made for population risk morbidity, unit cost trend, utilization trend, non-system claims, market wide adjustments and other factors (such as changes in provider networks).

Exhibit 6 demonstrates how the Market Adjusted Index Rate, which is the same for all plans, is adjusted to reflect each plan's particular benefits. Exhibit 7 further adjusts each plan for non-benefit costs and contribution to reserves (CTR).

Exhibit 8 demonstrates the development of expected loss ratios. BCBSVT projects the following 2024 loss ratios, which exceed the 80% minimum requirement.

#### PROJECTED 2024 LOSS RATIOS

Cohort	Traditional Loss Ratio	ACA MLR
Individual	88.2%	88.9%
Small Group	89.6%	90.3%

Exhibit 9A shows the impact of the single conversion factor which is needed to convert preliminary rates into final rates based on predetermined Vermont tier factors. Exhibit 9B shows the final proposed 2024 premiums, proposed rate increase by plan, and calculation of the average proposed rate increases.

BCBSVT provided additional exhibits and information as requested during the rate review process.

<sup>3</sup> The trend assumptions are the same for individual and small group markets. However, due to slight differences in distribution between drug tiers, the average for each market is slightly different. In this report, we will discuss average trend for the two markets because this is the basis on which these assumptions were set.

## L&E ANALYSIS

The average proposed 2024 individual market rate increase of 15.5% is attributable to several rating components. To create a consistent comparison for both companies filing VHC products, L&E categorized the proposed premium changes reflective of the Unified Rate Review Template (URRT), rather than the distinct rating methodology used by each company.

### COMPONENTS OF 2024 PROPOSED RATE CHANGE

Rating Component <sup>4</sup>	Percentage Change <sup>5</sup>
1. 2022 Actual/Projected Claims Experience	-5.7%
2. Difference in Trend from 2022 to 2023	-0.6%
3. Trend from 2023 to 2024	+8.3%
4. Changes to Population Morbidity Adjustment	+2.1%
5. Demographic Shift	+0.8%
6. Plan Design Changes	+0.1%
7. Changes to Other Factors	+5.3%
8. Changes to Risk Adjustment	+0.3%
9. Changes in Actuarial Value	+1.4%
10. Changes in Administrative Costs	-1.1%
11. Changes in Taxes & Fees	-0.2%
12. Changes in Contribution to Reserves	+4.5%
13. Changes in Single Contract Conversion Factor	+0.0%
<b>Total Proposed Rate Change</b>	<b>+15.5%</b>

1. **2022 ACTUAL/PROJECTED CLAIMS EXPERIENCE:** Actual 2022 claims experience for the individual market was 5.7% lower than the one-year-trended 2021 costs expected in the 2023 filing.<sup>6</sup>

<b>2021 Experience Allowed PMPM</b>	\$827.88
<b>Last Year's One-Year Trend</b>	+9.1%
<b>Previous Prediction of 2022</b>	\$903.04
<b>Actual 2022 Allowed PMPM</b>	\$851.67
<b>Impact of Actual Experience</b>	-5.7%

Since this change is based on actual claims experience, this rate component appears to be

<sup>4</sup> The percentages that are attributed to each component may not match the percentages provided by the Company due to the different methodologies that were used; therefore, a direct comparison is not appropriate.

<sup>5</sup> The percentage changes are multiplicative and may not sum to the requested premium increase percentage.

<sup>6</sup> L&E has historically used the URRT's base period and Year 1 Trend factors to calculate this value. However, because the COVID impact in the 2022 rates was primarily a first-year effect, we have moved that into this first line item as well.

reasonable and appropriate.

2. **DIFFERENCE IN TREND FROM 2022 TO 2023:** In the 2023 filed rates, the assumed 2022 to 2023 trend was approximately 12.1%. BCBSVT now projects a 2022 to 2023 allowed trend rate of approximately 11.4%. Therefore, the 2023 assumed trend has decreased, resulting in a premium decrease of approximately 0.6%. The trend development is discussed further in the next section.
3. **TREND FROM 2023 TO 2024:** The Company projects an average total allowed trend of approximately 10.0% per year, after adjustments for changes to Rx rebates. The trend is higher in the first year of the projection than the second, with the trend from 2023 to 2024 being 8.3% per year.

#### 2022 TO 2024 ALLOWED TRENDS

Cost Category	Total Allowed Trend
Medical	8.7%
Pharmacy	14.9%
<i>Total</i>	<i>10.0%</i>

**MEDICAL TREND:** The allowed trend reflects changes in both the cost of medical services and changes in utilization of medical services by members. The Company projected an annual allowed medical trend of 8.7%, which is comprised of 7.8% for unit cost changes and 0.8% for utilization and intensity changes.

#### Medical Unit Cost Trend

To project medical unit costs forward from 2022 to 2023, actual negotiated provider payment changes were used.

For the BCBSVT service area, the Company analyzed recent changes to provider contracts as the starting point for the 2023 to 2024 unit cost trend estimates. Approximately 52% of medical costs are related to facilities impacted by the Board's Hospital Budget Review process.

BCBSVT took the following approach in setting the 2023 to 2024 unit cost trend assumptions:

- For hospitals under the jurisdiction of GMCB, commercial increases for fiscal years 2024 and 2025 will be equal to those approved for fiscal year 2022.
- For non-GMCB providers within the broader BCBSVT service area, 2024 and 2025 rate increases are based on a two-year average of past increases, except for cases where early negotiations have indicated otherwise.
- For providers outside the BCBSVT service area, the Company used the Fall 2022 Blue Trend Survey conducted by the Blue Cross Blue Shield Association.

Once 2024 hospital budget requests are submitted, L&E recommends that this new information be considered.

#### GMCB HOSPITAL BUDGET REVIEW

The overall annualized unit cost medical trend of 7.8% includes:

- 1) a trend of 9.3% for facilities and providers that are impacted by the GMCB's Hospital Budget Review, and
- 2) a trend of 6.2% for other medical facilities and providers that are not subject to the Hospital Budget Review.

#### Medical Utilization Trend

BCBSVT made assumptions regarding future changes to the utilization of medical services based on analyzing historical data by benefit category. BCBSVT categorized medical claims into Facility (Inpatient/Outpatient), Professional, and Outpatient Drug categories.

There are certain high-cost therapies and procedures that can affect the overall cost for the block materially even when they only impact one member. In order to reduce the noise from such high-cost members, any member incurring cost greater than \$500,000 is removed from the trend data. Additionally, BCBSVT adjusted the historical data to remove the impact of changes to Fraud, Waste, and Abuse (FWA) recoveries and assumed that 2024 FWA recoveries will remain at 2022 levels. L&E notes that this methodology is reasonable.

Starting in the 2022 filing, BCBSVT utilized a “matched population” method to control for historical changes in population characteristics. By selecting individuals from different time periods who mirror each other regarding important demographic and diagnostic characteristics (and removing data from unmatched members), BCBSVT attempts to mitigate the impact of population changes on observed utilization trends. After adjustment, the observed trends better reflect the underlying utilization changes to be funded by premium changes.

For example, the average age of BCBSVT members rose from 42.1 to 42.6 between 2018 and 2021. This age increase would generally be expected to produce an increase in claims; however, that increase would also be offset by receiving additional risk adjustment transfers payments. In

the matched population method, a constant age of 42.9 is assumed for all time periods. Similarly, the population used to analyze trend data have a constant split between male and female, individual and small group, and choice of metal tier. By carefully selecting a matched population, BCBSVT has taken significant steps towards ensuring that there is consistency in the measurement of historical trends.

The introduction of the matched population method is an enhancement to BCBSVT's trend modeling and produces trend estimates that appear to better represent the covered population. More details are provided in Exhibit 3B of the filing.

BCBSVT provided historical data, adjusted to reflect the matched population, for various service categories. All trend data is for individual and small group combined. This data was provided in Exhibits 3C through 3E of the filing.

To ensure that the total allowed cost projection is consistent with expectations, BCBSVT measures utilization trend as the trend in allowed cost normalized for the trend in unit cost. This implicitly includes trends in the mix of services as utilization trend. This is a standard practice and L&E finds it reasonable.

Using this data, the Company performed regression and time-series methods as part of their analysis to support their utilization trends. They ultimately assumed the following:

#### ASSUMED MEDICAL UTILIZATION TRENDS

Cost Category	2-Year Average
Facility	0.5%
Professional	1.0%
Medical Rx	2.0%
<b>Total Medical</b>	<b>0.8%</b>

Facility claims were assumed to increase by 0.5% per year between 2022 and 2024. The single-year changes since 2019 are summarized below:

Year	Normalized PMPM	Annual Change
2019	\$309.04	
2020	\$276.12	-10.7%
2021	\$326.65	+18.3%
2022	\$324.55	-0.6%
<b>Average</b>		<b>+1.6%</b>

Clearly, COVID-19 resulted in a disruption to the pattern of facility utilization. However, utilization has increased since the most recent pre-COVID year, at a rate of 1.6% per year on average. Additionally, BCBSVT notes that the Green Mountain Surgery Center was opened in July 2019, and the period since then has experienced a downward pressure on cost as a result of



procedures shifting to this lower cost facility. Because the numbers above are not adjusted for this one-time event, they may actually understate the historical trend during this period.

Professional claims are assumed to increase by 1.0% per year. The annual changes since 2019 are shown below:

Year	Non-Mental Health		Mental Health		Combined	
	Normalized PMPM	Annual Change	Normalized PMPM	Annual Change	Normalized PMPM	Annual Change
2019	\$128.10		\$15.32		\$143.42	
2020	\$109.42	-14.6%	\$16.73	+9.2%	\$126.15	-12.0%
2021	\$136.78	+25.0%	\$18.13	+8.3%	\$154.91	+22.8%
2022	\$136.40	-0.3%	\$18.56	+2.4%	\$154.96	+0.0%
Average		+2.1%		+6.6%		+2.6%

As with facility claims, the 2022 utilization is measurably higher than the 2019 utilization. Thus, it appears that there is likely some underlying trend increasing utilization when the disruptions from COVID are removed.

The utilization of drugs processed through the medical benefit is assumed to increase at a rate of 2.0% per year. L&E estimates that the 3-year change is as follows:<sup>7</sup>

Year	Normalized PMPM	Annual Change
2019	\$46.27	
2020	\$52.38	+13.2%
2021	\$50.83	-2.9%
2022	\$50.19	-1.3%
Average		+2.7%

BCBSVT noted that there was a transition from higher-cost injections to available biosimilar equivalents between 2019 and 2022. In particular, of drugs where lower-cost biosimilars are available, 6.2% were dispensed as biosimilars in 2019, as opposed to 39.3% in CY2022. This value actually peaked in CY2021 at 41.2% and cannot be expected to rise indefinitely. Thus, BCBSVT assumed that 49.3% would be biosimilars in CY2024, representing a continued but slowed down transition towards less expensive drugs.

Each component of the medical utilization trend development is reasonable. However, as a secondary check to determine whether the methodologies are consistent and coherent when

<sup>7</sup> BCBSVT provided this data on an allowed basis. L&E has normalized the allowed cost to reflect the change in facility reimbursement by year, consistent with BCBSVT's figures provided for facility claims.

considered in aggregate, L&E also considered the aggregate utilization data across all medical services. The results of that analysis are shown below:

Year	Normalized PMPM	Annual Change
2019	\$498.73	
2020	\$454.65	-8.8%
2021	\$532.39	+17.1%
2022	\$529.70	-0.5%
Average		+2.0%

Consistent across the service categories, 2020 claims were distinctly low, followed by a sharp rebound in 2021. In aggregate, total utilization shows a slight decrease from 2021 to 2022. These data suggest two plausible interpretations.

Firstly, that whatever underlying trend was present prior to 2022 has now ended, and there is a zero or slightly negative trend. Alternately, that there is a continued positive trend, which is masked by either a random fluctuation in 2021 and/or 2022, or by artificially inflated 2021 claims resulting from the provision of care which was deferred during COVID lockdowns and social distancing during 2020.

BCBSVT has assumed, across all medical services, an average utilization trend of approximately 0.8%. This is well below the observed average trend since 2019, the most recent reliable pre-COVID figure. This assumption strikes a reasonable balance in aggregate between the recent dip in utilization and the longer-term suggestion of increased utilization since before the pandemic. Therefore, L&E believes the medical trend assumptions are reasonable in aggregate.

#### Total Allowed Medical Trend

The table below summarizes the trend assumptions for medical costs, and the overall medical allowed trend from 2022 to 2024.

#### FILED ALLOWED MEDICAL TRENDS

Cost Category	Annual Unit Cost	Annual Utilization	Annual Allowed Trend
Inpatient	8.7%	0.5%	9.2%
Outpatient	8.5%	0.5%	9.0%
Mental Health Professional	5.7%	1.0%	6.8%
Facility Professional	5.7%	0.5%	6.2%
Other Professional	5.7%	1.0%	6.8%
Medical Rx <sup>8</sup>	9.3%	2.0%	11.5%
<b>Total Medical</b>	<b>7.8%</b>	<b>0.8%</b>	<b>8.7%</b>

<sup>8</sup> The assumptions for Medical Rx unit cost trend are consistent with those for facility costs, but reflect a different mix of facilities and therefore a different average cost increase.

The assumed trends in allowed medical costs are reasonable.

### Pharmacy Trend

The Company is proposing an allowed pharmacy trend of 14.9% per year, net of changes to pharmacy rebates.

The Company's approach accounted for pharmacy changes by:

- Adjusting historical experience for changes in benefits and an aging population.
- Analyzing cost and utilization trends for Brands, Generics, and Specialty drugs separately.
- Including the transition of some drugs to generic status which included a unit cost reduction for those drugs.
- Analyzing trends for a matched population consistent with the medical trend analysis.

### ASSUMED ANNUALIZED ALLOWED RX TRENDS – 2022 TO 2024

Tier	Unit Cost	Utilization	Total Trend	Portion of Rx Spend
<b>Generics<sup>9</sup></b>	+3.8%	+2.0%	0.4%	6%
<b>Brand</b>	+10.5%	+2.0%	+12.5%	26%
<b>Vaccines</b>	+10.5%	+2.0%	+12.7%	1%
<b>OTC</b>	-	+2.0%	+2.0%	0%
<b>Devices</b>	+10.5%	+2.0%	+12.7%	1%
<b>Compounds</b>	-	+2.0%	+2.0%	0%
<b>Specialty<sup>10</sup></b>	+5.7%	+13.0%	+19.5%	65%
<b>Total<sup>11</sup></b>	<b>+5.6%</b>	<b>+8.9%</b>	<b>+14.9%</b>	<b>100%</b>

The development of the pharmacy trend assumptions was provided in Exhibits 3F through 3I in the initial filing. Exhibit 3F addresses utilization trend for non-specialty drugs. Since members often have a choice of utilizing a brand or a generic version of the same compound, the utilization trend is measured in the aggregate across all non-specialty drugs.

The historical Rx trend analysis begins with a review of historical non-specialty utilization. This analysis combines brand and generic drugs, as members often have a choice of whether to purchase the brand or generic versions of a given non-specialty drug. Unlike the medical trend analysis, pharmacy claims did not demonstrate COVID-19 disruptions.

The most recent three years of utilization trend data for non-specialty drugs show increases of 4.4%, 2.1%, and 2.0%, respectively. This fairly stable level of increase supports BCBSVT's

<sup>9</sup> Generic drugs include both those which have been available as generics in the base period, and those that will become generic during 2022 or 2023. There is an additional adjustment made to capture this dynamic, which is why the total Unit Cost trend is not the weighted average of the Unit Cost trend by tier.

<sup>10</sup> Specialty drug cost is projected on a PMPM basis and is not analyzed separately for utilization and unit cost trends. L&E believes this is reasonable.

<sup>11</sup> Total trend reflects the unit cost and utilization trends, in addition to contractual changes and the impact of brands becoming generic.

assumption that it is a trend that will continue into the future, and L&E agrees that an assumption of 2.0% for the next two years is reasonable.

Unit costs for generic drugs increased an average of 2.7% over the last three years. BCBSVT selected a generic unit cost trend of 3.8% per year. Based on historical data alone, this assumption might appear high. However, in light of substantially higher inflation, along with higher trends in 2022, L&E believes the assumed 3.8% is reasonable.

Brand drug unit costs have increased substantially in recent years. The increases in average cost per script were 7.8%, 12.5%, and 10.5% in 2020, 2021, and 2022 respectively. BCBSVT selected a trend estimate of 10.5%. We believe the brand drug unit cost trend is reasonable.

Specialty drugs make up the overwhelming majority of remaining pharmacy costs. Specialty costs have increased at a very high rate in recent years, as seen below:

#### ACTUAL ANNUALIZED ALLOWED SPECIALTY RX TRENDS – 2019 TO 2022

Year	Annual Allowed Specialty Trend
2022/2021	23.0%
2021/2020	3.2%
2020/2019	18.6%
<b>Three-year Average</b>	<b>14.9%</b>

BCBSVT selected a net annual allowed trend of 19.5% per year for the specialty tier. While 2021 costs increased at a notably lower level, this was also the year in which BCBSVT introduced Vermont Blue Rx, a program aimed at reducing the cost of prescription drug spending. While BCBSVT attempted to normalize the specialty data to remove the effect of this new program, it appears possible that some residual effect of it still remains in the data as presented.

The choice of 19.5% considers the average of three regression methods, two of which consider only 2021 and 2022 data, whereas the third considers 2020 through 2022 data. Thus, BCBSVT's assumption is about 80% based on the one-year change from 2021 to 2022.

However, while L&E does not necessarily agree with BCBSVT's decision to rely heavily on the most recent single year's trend increase, we note that using a longer lookback period consistently across medical and drug spending could have been used to support a higher total utilization trend level. So, while other specialty trend assumptions would potentially be appropriate, L&E believes this is a reasonable assumption based on recent trends and particularly the volatility observed.

Combining medical and prescription drug trends, the overall annual trend assumed in the filing is:

**TOTAL PROJECTED ALLOWED TREND**

	<b>Annual Allowed Trend</b>
<b>2022 to 2024</b>	
<b>Medical</b>	8.7%
<b>Rx</b>	14.9%
<b>Combined</b>	10.0%

Given the information we have reviewed, L&E believes this allowed trend assumption is reasonable in aggregate.

4. **CHANGES TO POPULATION MORBIDITY ADJUSTMENT:** In the 2023 filing, the Company estimated that the projected 2023 population morbidity would be 0.5% lower than the 2021 experience period morbidity.

In the 2024 filing, the population morbidity is projected to be approximately 1.6% higher than the 2022 experience period. The rates are therefore increasing by the difference between the factor in this filing and the factor in the previous filing, or +2.1%.

The claims that underlie this rate filing are from 2022. Since this rate filing was submitted after the 2023 Open Enrollment Period, BCBSVT knows which 2022 members remained in the block and which members no longer had coverage. To assess changes to pool morbidity, the Company separated the 2022 experience into those members who remained in 2023 and those who left in 2023. The impact of the members who left is expected to increase the average claims level by 1.6%.

L&E finds the population morbidity assumption to be reasonable and appropriate.

5. **DEMOGRAPHIC SHIFT:** This factor represents the expected change due to the aging of the population, newborns entering the covered population, and other demographic shifts between 2022 and 2024.

Last year's filing assumed that change in the age of the population would lead to a 1.2% decrease in costs. However, updated data suggests that the population will not be as young as expected, resulting in only a 0.4% decrease in cost. Replacing a 1.2% decrease with a 0.4% decrease has the net effect of increasing rates by 0.8% from the previous approved level.

The demographic adjustment is calculated in Exhibit 2E based on data from the Society of Actuaries and the actual observed age distribution of BCBSVT's covered population. L&E considers the demographic shift factor to be reasonable and appropriate. As with morbidity adjustments, the changes in demographics are partially offset by changes in risk adjustment. This dynamic will be discussed further in the Risk Adjustment section of this report.

6. **PLAN DESIGN CHANGES:** The plan design changes factor addresses any rate changes that are needed because members purchase products with different plan designs versus the prior year.

Because BCBSVT observed a change in purchased plan designs in 2023, BCBSVT expects a change in average cost sharing and average utilization from the experience period to the projection period.

Since members are expected to choose plans with higher cost sharing in 2024 compared to 2022, there is an anticipated 0.3% decrease in utilization. The projected enrollment shift by plan and benefit level is based on emerging 2023 experience, and therefore reflects more up-to-date information than the 2022 base period plan selections.

In the 2023 filing, BCBSVT projected that there would be a shift to leaner plans, resulting in a 0.4% decrease. Since the 2023 filing replaces a 0.4% decrease with a 0.3% decrease, the net effect relative to current premiums is a 0.1% premium increase.

The projected decrease is driven largely by the assumption that Silver enrollment will swell when Medicaid resumes eligibility terminations. During the public health emergency, enrollees in Medicaid were permitted to remain enrolled regardless of income changes. As referenced by BCBSVT, the University of Chicago's NORC estimated the number of members who would enroll in the individual and employer markets due to the renewed terminations<sup>12</sup>. BCBSVT relied on this study to develop their estimate of new members. These members are assumed to select Silver plans in the individual market and to have the same distribution as existing members in the small group market.

These assumptions are reasonable, and L&E is not recommending changes to this factor at this time.

7. **CHANGES TO OTHER FACTORS:** BCBSVT expects other changes to incurred claims to account for a 5.3% increase relative to the prior filing. This change is composed of the following factors:

**NON-SYSTEM CLAIMS: +2.5%**

This includes changes to pharmacy rebates, Blueprint payments, Interplan Teleprocessing System (ITS) fees<sup>13</sup>, vaccine payments (excluding COVID vaccines), and the net cost of reinsurance.

The primary driver of this change is the reduction to pharmacy rebates. As noted in BCBSVT's filing, the Vermont 340B Drug Pricing Program has reduced the price for some drugs, but at the cost of reducing the number of pharmacy rebates paid to BCBSVT for those drugs. The impact of these drugs no longer producing pharmacy rebates was calculated by BCBSVT as increases of 1.5% and 1.2% for the individual and small group markets, respectively.

**CYBER ATTACK IMPACT: +0.9%**

The claims used in last year's base period reflected claims at one facility that were artificially inflated by a cyber attack that caused rescheduling of surgical procedures. As a consequence,

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<sup>12</sup> <https://www.ahip.org/resources/medicaid-redetermination-coverage-transitions>

<sup>13</sup> BCBSVT provides members with healthcare coverage when they travel nationally or internationally.

last year's rates assumed a 0.9% decrease in claims from the base period to remove this artificial bump in utilization. As this filing is based on 2022 claims and there is therefore no bump to remove, the adjustment has been removed, resulting in an increase to premiums of 0.9%.

**CHANGES DUE TO ARPA: +0.1%**

At the time the 2023 filing, there was uncertainty whether the enhanced subsidies introduced in the American Rescue Plan Act (ARPA) in 2021 would expire in 2022 as originally written into law. Therefore, BCBSVT needed to make an assumption about the statute's expiration and corresponding impact on Individual market enrollment. BCBSVT assumed the subsidies would be extended into 2023 and the additional new enrollment would reduce claims by 0.1%.

The enhanced ARPA subsidies were extended by the Inflation Reduction Act (IRA) through 2025. BCBSVT has not made an explicit assumption regarding the extension of the subsidies. Because the base period includes enrollees who joined the market in the first full year ARPA was in effect, L&E believes this assumption is reasonable. Since the 2024 filing replaces a 0.1% decrease with a 0.0% decrease, the net effect relative to current premiums is a 0.1% premium increase.

**CHANGES RELATED TO COVID-19: +0.3%**

Last year's filing contained two adjustments related to COVID-19. Firstly, BCBSVT previously removed direct COVID-related costs from the base period, replacing them with a smaller figure looking forward. With the end of the Public Health Emergency, BCBSVT is now incorporating COVID costs into the rates as any other disease, and assuming that the 2024 costs will mirror 2022 costs. This change increases projected claims by about 1.6%.

Additionally, BCBSVT assumed last year that the base period claims had been suppressed by COVID lockdowns and social distancing. This adjustment increased last year's premiums by 1.3%. As this assumption has been removed, there is a downward effect on the rates by 1.3%. So, combined with the previously described change to direct COVID costs, the combined effect is to increase rates by about 0.3%.

**OTHER MISCELLANEOUS CLAIMS IMPACTS: +1.5%**

Various other minor adjustments are made to reflect catastrophic claimants, whose experience is volatile and therefore smoothed out between years; non-Essential Health Benefit claims; and changes in provider networks. L&E reviewed these changes, and they appear reasonable.

- 8. CHANGES TO RISK ADJUSTMENT:** Under the Affordable Care Act, premiums are transferred between carriers in this market based on the age, sex, and health status of the enrolled members. BCBSVT consistently receives funds through this system, known as "Risk Adjustment", in this market. This additional funding serves to reduce the necessary premium. BCBSVT's updates to their projection of risk adjustment resulted in a filed rate increase of +0.3%.

BCBSVT projected the 2024 risk adjustment transfer payment based on the most recent data available at the time of the rate filing. The data available was: 1) CMS's interim risk adjustment report<sup>14</sup> published March 27, 2023, and 2) BCBSVT's internal risk adjustment data. The projection considers changes to the number and demographics of the enrolled population, changes to the marketwide average premium, and changes the statistical model used by CMS to calculate transfer payments.

L&E reviewed these changes and found them to be reasonable and consistent with the manner in which BCBSVT projected their future claims.

Actual risk adjustment transfers were published<sup>15</sup> by CMS on June 30, 2023. Based on the report and analysis performed by L&E using confidential information from both carriers, BCBSVT will receive \$11,883,040 in risk adjustment payments for the individual market. This is less than the \$14,752,592 they originally projected.

We recommend that the Board require that BCBSVT use this updated transfer estimate in calculating the final premiums. The approximately \$3 million decrease in receivables over BCBSVT's original expectations produces a 2.2% increase in premiums.

- 9. CHANGES IN ACTUARIAL VALUE:** The Change in Actuarial Value (AV) assumption reflects Pricing AV changes, such as changes in Metal AVs, induced utilization, cost sharing changes, and changes in projected enrollment among plans. The average AV increased by 1.4% from the 2023 filing.

This rate component is impacted by the enrollment projections, expected distribution of claim levels by member, and induced utilization assumptions. It is also impacted by the assumed relationship between members' morbidity level and plan selection. L&E reviewed these aspects of BCBSVT's projections and found them reasonable.

During L&E's review, the plan design for some plans was changed slightly to comply with updated IRS guidelines regarding High-Deductible Health Plans. We recommend that the rates for these plans be reduced slightly, producing a reduction to the overall rate level of less than 0.1%. L&E considers this change to be reasonable, and L&E recommends it be applied in the final filing.

- 10. CHANGES IN ADMINISTRATIVE COSTS:** The 2024 administrative costs are projected to be 1.1% lower than 2023 on a percentage of revenue basis. That is, administrative costs are projected to grow by 1.1% less than premiums.

The 2024 projected administrative cost is based on the following analysis:

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<sup>14</sup> <https://www.cms.gov/cciiio/programs-and-initiatives/premium-stabilization-programs/downloads/interim-ra-report-by2022.pdf>

<sup>15</sup> <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RA-Report-BY2020.pdf>



- ***Base Administrative Charges:*** A base administrative cost of \$58.92 PMPM is included equally in all plans' rates to cover BCBSVT's operating costs. This amount reflects actual 2022 administrative costs of \$56.38 adjusted for two factors, as outlined in the following table.

#### DEVELOPMENT OF BASE ADMINISTRATIVE CHARGES

Line Item	Impact PMPM	Updated Admin Cost PMPM
Actual 2022 Admin Cost	-	\$56.38
Administrative Cost Trend	\$4.60	\$60.98
Impact of Membership Changes	-\$2.06	\$58.92

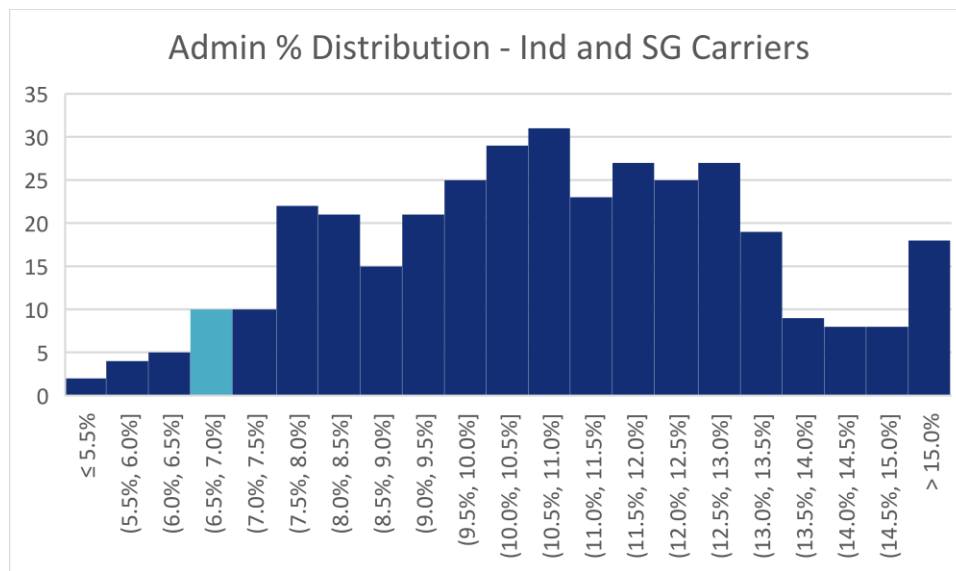
- *Administrative Cost Trend:* Costs are projected forward to 2024 using a 4% annual trend. In past filings, a lower rate was applied solely to personnel costs. However, in light of the current inflation environment, we believe an assumption of 4% increase per year is reasonable.
  - *Impact of Membership Changes:* BCBSVT estimates that 70% of the allocated base administrative expenses are fixed costs, and therefore changes in enrollment cause changes in administrative costs PMPM. As a result, the fixed costs for their core business are expected to be spread over more members in 2024 than in 2022. The result is a 3.4% decrease to the projected administrative costs on a per member basis.
- ***Administrative Charges for Outside Vendors:*** Dental and vision benefits are administered by third parties. In addition, an external vendor provides HSA and HRA integration services. The fees charged for these programs are equivalent to a \$0.22 PMPM in the individual market. No adjustment was made to the base period data for this item.
  - ***Credit Card Fees:*** BCBSVT members can pay their premiums with debit and credit cards. Based on 2022 data, 0.25% of total premiums in the individual market were charged as transaction fees. BCBSVT has appropriately reflected this amount in the premiums.

In addition to reviewing each of BCBSVT's specific proposed modifications, L&E also compared BCBSVT's administrative costs for the individual and small group markets to other nationwide individual and small group plans. The comparison was based on a review of the Center for Consumer Information & Insurance Oversight (CCIIO) public use files (PUFs), which contain data on all individual and small group carriers nationwide.

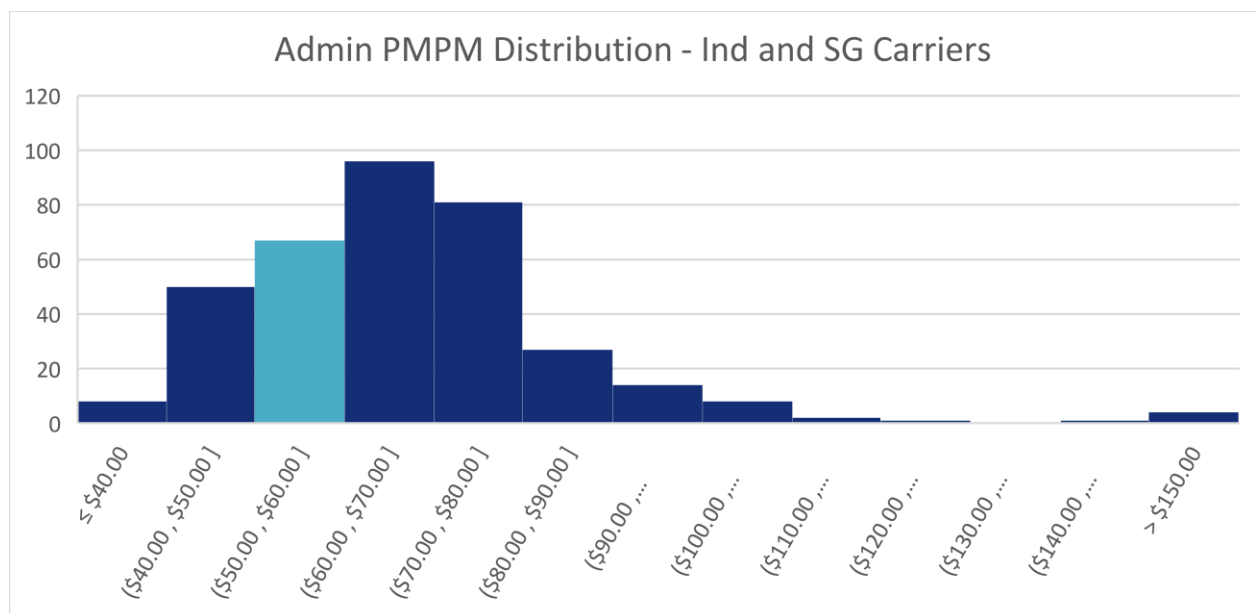
Previously, L&E has compared BCBSVT's administrative costs to other Blues plans, rather than to all participants in the ACA markets. However, the average Blues plan is substantially larger than BCBSVT and thus is able to leverage greater economies of scale. Thus, we believe a comparison to all carriers, including other small carriers, is a more equitable way of determining whether BCBSVT's administrative costs are in line with the industry.

Administrative costs are projected to be slightly higher in the individual market than the small group market. This is typical due to the additional costs involved in billing, marketing, and enrolling individual members. Combined across the two markets, the projected administrative cost is approximately \$54.46 PMPM, including both base administrative charges and other components. This is approximately 6.6% of premium.

The corresponding percent of premium allocated to non-benefit expenses for other carriers nationwide in 2023 is shown below. The range containing BCBSVT’s administrative cost level is highlighted in light blue.



The following shows the distribution of administrative costs PMPM for carriers nationwide in 2023:



Among individual and small group carriers nationwide, these figures are in the 26<sup>th</sup> percentile on a PMPM basis and the 4<sup>th</sup> percentile as a percentage of premium. That is, BCBSVT has atypically low administrative costs, despite not being a very large health plan. It therefore appears that BCBSVT manages and limits administrative costs better than the typical health plan nationally.

L&E considers the non-benefit expense assumptions to be reasonable and appropriate.

- 11. CHANGES IN TAXES & FEES:** The 2024 taxes and fees provision are projected to be 0.2% lower than 2023 as a percentage of premium revenue. The decrease is due to some fees, such as the federal PCORI assessment and the Risk Adjustment user fee, being fixed as PMPM values and therefore shrinking relative to the proposed premiums. The projected taxes and fees appear reasonable and appropriate.
- 12. CHANGES IN CONTRIBUTION TO RESERVES:** The Company has proposed an aggregate contribution to reserves of 3.0%, with a 0.2% provision for bad debt. This is an increase from the standard 1.5% amount filed in most past years and from the -0.8% level ordered in relation to the CY2023 rates.

The table below shows the actual historical CTR and the expected CTR based on the Company's forecasting model, which incorporates final premiums and modifications ordered by the Board. L&E believes that the results demonstrate that BCBSVT has reasonably accurately projected future results based on the information available at the time final rates are approved by the Board.

**ACTUAL-TO-EXPECTED BASE CTR**

<b>Year</b>	<b>Company Expected</b>	<b>Company Actual<sup>16</sup></b>
<b>2014</b>	-0.1%	1.0%
<b>2015</b>	1.0%	-2.5%
<b>2016</b>	0.8%	-3.8%
<b>2017</b>	1.0%	1.0%
<b>2018</b>	-3.8%	-1.8%
<b>2019</b>	0.0%	-0.7%
<b>2020</b>	1.5%	5.5%
<b>2021</b>	0.5%	0.4%
<b>2022</b>	1.0%	-4.5%
<b>Cumulative</b>	0.5%	-0.7%

The 0.2% provision for bad debt is based on the actual unpaid premium experienced by BCBSVT on individual business between 2019 and 2022. The bad debt provision appears reasonable.

<sup>16</sup> 2015 and 2016 actuals are adjusted to remove risk corridor payments. Risk corridor payments exist to correct for mispricing, and therefore should be excluded when evaluating pricing performance. Additionally, note these values are for the small group and individual markets combined.

The base CTR of 3.0% is addressed in Attachment C of the filing submission. As noted therein, the ACA individual and small group markets “have not resulted in a contribution to member reserves to the minimum 1.5 percent level required in recent years.” Due to this and other sources of loss in recent years, BCBSVT’s Risk-Based Capital (RBC) ratio is at 434%, below the range mandated as a target by DFR. The targeted range is 590% to 745%.

As a reasonableness check of the proposed CTR provision, L&E again reviewed the 2023 PUFs. In 2023, there were 359 carriers who submitted On-Exchange individual or small group ACA filings nationally. The filed CTR varied from -24% to +9%, but most often fell between 0% and 5%. The mode is between 2% and 3%, and the premium-weighted average CTR for all carriers was filed as 2.8%.

BCBSVT’s filed base CTR of 3.0% would place it at around the 52<sup>nd</sup> percentile for all QHP carriers, and the 0.2% margin for bad debt in the individual market increases this to the 67<sup>th</sup> percentile. Given the RBC position of BCBSVT and the fact that the proposed CTR falls near the median targeted by individual and small group carriers nationwide, L&E believes the proposed CTR is reasonable.

- 13. CHANGES IN SINGLE CONTRACT CONVERSION FACTOR:** A conversion factor<sup>17</sup> adjustment is used to convert and allocate the gross claim costs to premiums based on state-mandated tier factors. The single conversion factor is not materially changing from the prior filing. This is considered reasonable and appropriate.

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## RECOMMENDATIONS

After modification, L&E believes that this filing does not produce rates that are excessive, inadequate, or unfairly discriminatory. Therefore, L&E recommends that the Board make the following modifications:

- **CONSIDER UPDATED HOSPITAL BUDGET INFORMATION:** If updated information regarding unit cost trends is known at the time of the Board order, L&E recommends updating the assumed unit cost trends in the 2024 premium rate calculations. The impact of such a change cannot be estimated at this time.
- **REFLECT UPDATED RISK ADJUSTMENT TRANSFERS:** L&E recommends that the projected risk adjustment receivable be changed to reflect the final market-wide figure announced by CMS. Based on our current estimates, this will increase rates by approximately 2.2%.
- **REFLECT UPDATED BENEFITS:** L&E recommends that the rates reflect the final benefit designs complying with IRS rules on HDHPs. This has an immaterial impact on rates.

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<sup>17</sup> The conversion factor adjusts the premium that is developed on a PMPM basis to be on a tiered basis. This adjustment is necessary because the premium on a PMPM basis is an average over all adults and children. However, Vermont’s tiered premiums require the base premium to be for a single adult.

After the modifications, the anticipated rate changes will change from +15.5% to +17.7%, plus any impact from updated hospital budget information.

### 2024 RECOMMENDED RATE CHANGES

A breakdown of L&E's recommendation by rating component is provided below with L&E's recommended changes highlighted:

Rating Component	BCBSVT Filed	L&E Recommendation
1. 2022 Actual/Projected Claims Experience	-5.7%	-5.7%
2. Difference in Trend from 2022 to 2023	-0.6%	-0.6%
3. Trend from 2023 to 2024	+8.3%	+8.3%
4. Changes to Population Morbidity Adjustment	+2.1%	+2.1%
5. Demographic Shift	+0.8%	+0.8%
6. Plan Design Changes	+0.1%	+0.1%
7. Changes to Other Factors	+5.3%	+5.3%
8. Changes to Risk Adjustment	+0.3%	+2.5%
9. Changes in Actuarial Value	+1.4%	+1.4%
10. Changes in Administrative Costs	-1.1%	-1.1%
11. Changes in Taxes & Fees	-0.2%	-0.2%
12. Changes in Contribution to Reserves	+4.5%	+4.5%
13. Changes in Single Contract Conversion Factor	+0.0%	+0.0%
<b>Total Proposed Rate Change</b>	<b>+15.5%</b>	<b>+17.7%</b>

Sincerely,



Kevin Ruggenberg, FSA, MAAA  
Vice President & Senior Consulting Actuary  
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA  
Vice President & Principal  
Lewis & Ellis, Inc.

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## ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>18</sup>, 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 Conduct<sup>19</sup>, 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 ACTUARIES

The responsible actuaries are:

- Kevin Ruggeberg, FSA, MAAA, Vice President & Senior Consulting Actuary.
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal.
- Jason Doherty, ASA, MAAA, Consulting Actuary

### IDENTIFICATION OF ACTUARIAL DOCUMENTS

The date of this document is July 5, 2023. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is July 5, 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 is financially and organizationally independent from BCBSVT. L&E is not aware of anything 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 BCBSVT for reasonableness; however, not every aspect of the data has been audited. Neither L&E, nor the responsible actuaries, assume responsibility for the 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.

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<sup>18</sup> 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.

<sup>19</sup> These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- Notwithstanding the ongoing COVID-19 pandemic, 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.

**ACTUARIAL FINDINGS**

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

**METHODS, PROCEDURES, ASSUMPTIONS, AND DATA**

The methods, procedures, assumptions, and data used by the actuaries 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 the applicable ASOPs.