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Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Re: Blue Cross and Blue Shield of Vermont
Vermont Health Connect 2025 Individual Rate Filing
SERFF# BCVT-134091560

The purpose of this letter is to provide a summary and recommendation regarding the proposed 2025 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.

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, 2025.

2. As of March 2024, there were approximately 23,164 members[1] enrolled in BCBSVT individual plans. Enrollment from the last several years is demonstrated in the following table:

BCBSVT INDIVIDUAL MEMBERSHIP BY COVERAGE YEAR

Coverage Year	Members	Percent Change
2019	19,431	
2020	17,627	-9.3%
2021	15,878	-9.9%
2022	16,556	+4.3%
2023	18,517	+11.8%
2024	23,164	+25.1%

3. For the 2022 rating year, the Small Group and Individual markets were separated for rating

[1] 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.

purposes. In accordance with Act 7 of 2023, the markets will continue to be separate for rating year 2025. 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 plans include premium funding to offset the loss of federal CSR payments. Anyone eligible for CSRs is also eligible for Advanced Premium Tax Credits (APTCs). APTC recipients pay a reduced premium due to a subsidy that is based on their income.

   Beginning in 2025, insurers must use a uniform silver load as prescribed by the Board to individual plans on VHC. This load is 41.87% for 2025.

   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 16.3%[2]. The tables below illustrate the approved premium rate changes for last year's 2024 QHP filing and the proposed premium rate increase for the 2025 QHP filing.

2024 APPROVED INDIVIDUAL RATE CHANGES

Plan Type	Percent Change	Percent of Membership
Catastrophic	+19.6%	2%
Bronze	+14.1%	27%
Silver Loaded	+15.4%	37%
Silver Reflective	+13.6%	6%
Gold	+12.5%	22%
Platinum	+12.5%	7%
Overall	***+14.0%***	***100.0%***

[2] In prior years, our report has been based on the average rate increase using the current enrollment as of the year the report was written. This year, due to the expected shifts in enrollment related to the new CSR guidance, the average rate increase differs materially whether it is based on current or projected enrollment. Using projected enrollment more accurately reflects the premium increases that will be charged, so we have used projected enrollment throughout this report.

2025 PROPOSED INDIVIDUAL RATE CHANGES

Plan Type	Average 2024 Premium PMPM	Average 2025 Premium PMPM	Percent Change	PMPM Change	Percent of Membership
Catastrophic	$306.68	$372.61	21.5%	$65.93	1.5%
Bronze	$689.32	$789.42	14.5%	$100.10	29.8%
Silver Loaded	$961.93	$1,360.33	41.4%	$398.40	11.8%
Silver Reflective	$731.50	$840.26	14.9%	$108.76	4.4%
Gold	$955.06	$1,089.48	14.1%	$134.41	40.4%
Platinum	$1,201.84	$1,303.84	8.5%	$102.00	12.1%
Overall	***$885.81***	***$1,030.62***	***16.3%***	***$144.82***	***100.0%***

These gross premiums do not accurately reflect the premiums faced by most households purchasing coverage in the Individual market due to the Silver Load and subsidies. According to the most recent CMS data available, about 88% of households in Vermont's Individual market receive Advanced Premium Tax Credits ("APTC")[3]. These credits are calculated based on the second-lowest cost (premium) Silver Loaded plan (SLCSP) available in the market and household income. Because the Board's guidance regarding Silver Loading changed this year, there are increased subsidy amounts that will reduce premiums for most households.

Based on the initial filing submissions, the SLCSP is offered by MVP, and its premium will increase by about $277 PMPM from 2024 to 2025. Since APTC subsidies are based on this increased premium, eligible families' APTCs will increase by the same amount. The table below shows the approximate change to the actual net BCBSVT premiums that will be charged to a hypothetical family of four with an income of $60,000 on VHC. Such a family will be able to purchase a Gold plan for a $0 premium or buy a Platinum plan for $441.04 per month, saving nearly$6,500 per year on premiums for a Platinum plan. Thus, while the gross premiums are projected to increase substantially, the net premiums charged will decrease for a large majority of households.

Metal Tier	Average 2024 Net Premium PMPM	Average 2025 Net Premium PMPM	PMPM Change
Catastrophic	$0.00	$0.00	$0.00
Bronze	$0.00	$0.00	$0.00
Silver Loaded	$262.15	$611.65	$349.49
Gold	$241.42	$0.00	-$241.42
Platinum	$986.81	$441.04	-$545.77

[3] https://www.cms.gov/files/document/early-2023-and-full-year-2022-effectuated-enrollment-report.pdf.

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. In this report, L&E refers to assumptions and resulting rates that fit these criteria as 'reasonable and appropriate'.

SUMMARY OF RECEIVED DATA

BCBSVT provided the methodology used to develop the proposed 2025 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. However, because the assumptions are the same for the two filings, our report discusses the two combined. Some figures will therefore not match the separate filings due to weighted averaging.

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

For medical services, the projected annual allowed trend from 2023 to 2025 is 7.4%. The portion applicable to unit cost changes is projected to be 4.4% annually based on projected contracting and provider budgetary changes. The portion applicable to utilization changes is projected to be 2.9% annually.[4]

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 than separately by utilization and unit costs. The projected annual allowed trend from 2023 to 2025 for pharmaceuticals is 11.1%[4].

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).

[4] The trend assumptions are the same for individual and small group markets. However, due to slight differences in distribution between facilities/services/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.

Exhibit 8 demonstrates the development of expected loss ratios. BCBSVT projects the following 2025 loss ratios, which exceed the 80% minimum requirement.

PROJECTED 2025 LOSS RATIOS

Cohort	Traditional Loss Ratio	ACA MLR
Individual	89.5%	90.1%
Small Group	89.2%	89.8%

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 2025 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.

L&E ANALYSIS

The average proposed 2025 individual market rate increase of 16.3% 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 2025 PROPOSED RATE CHANGE

Rating Component[5]	Percentage Change[6]
1. 2023 Actual/Projected Claims Experience	-0.8%
2. Difference in Trend from 2023 to 2024	+1.2%
3. Trend from 2024 to 2025	+8.2%
4. Changes to Population Morbidity Adjustment	-2.0%
5. Demographic Shift	-0.6%
6. Plan Design Changes	+1.6%
7. Changes to Other Factors	+1.1%
8. Changes to Risk Adjustment	+6.5%
9. Changes in Actuarial Value	+0.7%
10. Changes in Administrative Costs	-1.0%
11. Changes in Taxes & Fees	-0.1%
12. Changes in Contribution to Reserves	+1.0%
13. Changes in Single Contract Conversion Factor	+0.0%
Total Proposed Rate Change	**+16.3%**

1. **2023 ACTUAL/PROJECTED CLAIMS EXPERIENCE:** Actual 2023 claims experience for the individual market was 0.8% lower than the one-year-trended 2022 costs expected in the 2024 filing.

2022 Experience Allowed PMPM	$851.67
Last Year's One-Year Trend	+10.6%
Previous Prediction of 2023	$941.66
Actual 2023 Allowed PMPM	$933.72
Impact of Actual Experience	-0.8%

Since this change is based on actual claims experience, this rate component appears to be reasonable and appropriate.

[5] 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.

[6] The percentage changes are multiplicative and may not sum to the requested premium increase percentage.

2. **DIFFERENCE IN TREND FROM 2023 TO 2024:** In the 2024 filed rates, the assumed 2023 to 2024 allowed Medical and Rx trend was approximately 7.4%. BCBSVT now projects a 2023 to 2024 allowed Medical and Rx trend rate of approximately 8.7%. Therefore, the 2024 assumed trend has increased, resulting in a premium increase of approximately 1.2%. The trend development is discussed further in the next section.

3. **TREND FROM 2024 TO 2025:** The Company projects an average total allowed trend of approximately 8.4% 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 2024 to 2025 being 8.2% per year.

2023 TO 2025 ALLOWED TRENDS

Cost Category	Total Allowed Trend
Medical	7.4%
Pharmacy	11.1%
Total	***8.4%***

MEDICAL TREND: The allowed medical 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 7.4%, which is comprised of 4.4% for unit cost changes and 2.9% for utilization and intensity changes.

MEDICAL UNIT COST TREND

To project medical unit costs forward from 2023 to 2024, 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 2024 to 2025 unit cost trend estimates. Approximately 54% of medical costs are related to facilities impacted by the Board's Hospital Budget Review process.

BCBSVT took the following approach in setting the 2024 to 2025 unit cost trend assumptions:

- For hospitals under the jurisdiction of GMCB, commercial increases for fiscal years 2024 and 2025 will be equal to the GMCB guidance maximum for commercial rate growth of 3.4 percent.

GMCB HOSPITAL BUDGET REVIEW

The overall annualized unit cost medical trend of 4.4% includes:

1) a trend of 3.9% for facilities and providers that are impacted by the GMCB's Hospital Budget Review, and

2) a trend of 5.0% for other medical facilities and providers that are not subject to the Hospital Budget Review.

- For non-GMCB providers within the broader BCBSVT service area, expected contract changes are reflected based on negotiations with BCBSVT's contracting division.

- For providers outside the BCBSVT service area, the Company used the Fall 2023 Blue Trend Survey conducted by the Blue Cross Blue Shield Association.

Once 2025 hospital budget requests are submitted, L&E recommends that this new information be considered.

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 (Mental Health and Other), and Outpatient Drug categories.

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 fell from 42.5 to 41.3 between 2020 and 2023. This age decrease would generally be expected to produce a decrease in claims; however, that increase would also be offset by receiving less in risk adjustment transfers payments. In the matched population method, a constant age of 42.7 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. 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	3.0%
Professional	2.0%
Medical Rx	5.0%
Total Medical	***2.9%***

Facility Claims

Facility claims are assumed to increase by 3.0% per year between 2023 and 2025. The single-year changes since 2020 are summarized below:

HISTORICAL FACILITY CLAIMS UTILIZATION

Year	Normalized PMPM	Annual Change
2020	$278.25	
2021	$342.46	+23.1%
2022	$328.78	-4.0%
2023	$341.74	+3.9%

Clearly, COVID-19 resulted in a disruption to the pattern of facility utilization. Facility utilization fell from 2021 to 2022, and then rose again to nearly the same level from 2022 to 2023. Several one-time points were raised by BCBSVT which need to be considered when evaluating this historical data:

- In late 2020, UVM Health Network was the victim of a cyberattack that caused delays in care until early 2021. This resulted in artificially high utilization in early 2021.
- UVM Health Network has announced an initiative to increase the average intensity of their inpatient stays, which translates to higher utilization trend.
- Recent hospital budget approvals have incorporated higher revenue increases than unit cost increases, which imply increases to future utilization.
- UVM Medical Center's year-to-date reporting suggests that their revenue is 2.8% above budget, which is another indicator for high facility utilization.[7]
- While not yet complete, emerging 2024 experience reflects seemingly higher utilization than early 2023 for facility services.

[7] https://gmcboard.vermont.gov/sites/gmcb/files/documents/B24_UVMMC_April_Actual_submitted.pdf

Professional Claims

HISTORICAL PROFESSIONAL CLAIMS UTILIZATION

	Non-Mental Health		Mental Health		Combined	
Year	Normalized PMPM	Annual Change	Normalized PMPM	Annual Change	Normalized PMPM	Annual Change
2020	$111.02		$16.54		$127.56	
2021	$140.87	+26.9%	$18.10	+9.4%	$156.96	+24.6%
2022	$138.16	-1.9%	$18.72	+3.5%	$156.89	-1.3%
2023	$141.25	+2.2%	$18.78	+0.3%	$160.03	+2.0%

Professional claims are assumed to increase by 2.0% per year. This reflects a 2.1% trend for non-mental health services and a 1.1% trend for mental health services. These trend estimates are based on recent increases in utilization, placing most weight on changes from 2022 to 2023. Additionally, late 2023 utilization was materially higher than early 2023, which suggests trend may be higher than the above table captures. The mental health utilization rate has tapered off after exhibiting sharp increases during and after the COVID-19 pandemic. The assumed 1.1% increase per year from 2023 to 2025 appears reasonable in light of the general trend towards higher utilization.

As with facility claims, emerging 2024 experience does suggest increased utilization over 2024. BCBSVT provided data suggesting that the year ending March 2024 had 3.7% higher professional utilization than the year ending March 2023. While this is only a partial year of data, it does support the hypothesis that an extended pattern of increasing utilization is present.

Medical Rx Claims

The utilization of drugs processed through the medical benefit is assumed to increase at a rate of 5.0% per year. L&E estimates that the 3-year change is as follows:[8]

HISTORICAL MEDICAL RX CLAIMS UTILIZATION

Year	Normalized PMPM	Annual Change
2020	$52.66	
2021	$46.64	-11.4%
2022	$44.68	-4.2%
2023	$48.59	+8.8%

Looking at calendar-year results, it appears that 2022 utilization was below 2021 utilization consistently across service categories, with 2023 returning to approximately 2021 levels.

[8] 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.

Overall Medical Utilization Trends

BCBSVT demonstrated in a few ways that the above is not a complete picture of current trends in utilization.

First, regressions on the same time period show consistently positive trends, suggesting that utilization within each year shows a pattern of increase. Second, BCBSVT provided utilization trend data for early 2024. This data is summarized below:

Time Period	Facility	Professional	Mental Health	MedRx	Total
YE Mar 2023 / YE Mar 2022	2.9%	1.2%	3.2%	7.5%	**2.9%**
YE Mar 2024 / YE Mar 2023	3.3%	3.7%	8.3%	8.2%	**3.9%**

When experience from the first three months of 2021 is excluded, a clear pattern of increasing utilization over the last two years emerges, across all medical service categories. With the deferral of care during COVID and the cyberattack on UVM Health Network, there is good reason to believe that these early months in 2021 were artificially elevated. This table above shows an increase in utilization for the last two years.

Given the above indications that medical utilization has been increasing for the last two years and in light of the prospective information provided by BCBSVT, we believe the medical utilization trend assumptions in this filing are reasonable and appropriate.

TOTAL ALLOWED MEDICAL TREND

The table below summarizes the trend assumptions for medical costs, and the overall medical allowed trend from 2023 to 2025.

FILED ALLOWED MEDICAL TRENDS

Cost Category	Annual Unit Cost	Annual Utilization	Annual Allowed Trend
Inpatient	4.3%	3.0%	7.4%
Outpatient	4.5%	3.0%	7.6%
Professional	4.4%	2.0%	6.4%
Medical Rx	4.6%	5.0%	9.9%
Total Medical	***4.4%***	***2.9%***	***7.5%***

PHARMACY TREND

The Company is proposing an allowed pharmacy trend of 11.1% 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 – 2023 TO 2025

Tier	Unit Cost	Utilization	Total Trend	Portion of Rx Spend
Generics[9]	+3.8%	+1.1%	+4.9%	6%
Brand	+7.3%	+1.1%	+8.5%	20%
Vaccines	+7.3%	+1.1%	+8.5%	2%
OTC	-	+1.1%	+1.1%	0%
Devices	+7.3%	+1.1%	+8.5%	1%
Compounds	-	+1.1%	+1.1%	0%
GLP-1	+14.8%	+1.1%	+21.5%[10]	10%
Specialty[11]			+12.5%	61%
Total[12]	***+5.4%***	***+5.4%***	***+11.1%***	***100%***

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.

Non-Specialty Utilization

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 1.3%, 2.0%, and 0.0%, in 2021, 2022, and 2023, respectively. This fairly stable level of increase supports BCBSVT's assumption that it is a trend that will continue into the future.

[9] Generic drugs include both those which have been available as generics in the base period and those that will become generic during 2024 or 2025. 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.

[10] Effective total trend from 2023 to 2025 for GLP-1 scripts also incorporates the one-time adjustment described in the relevant section of this report.

[11] 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.

[12] Total trend reflects the unit cost and utilization trends, in addition to contractual changes and the impact of brands becoming generic.

GLP-1 Drugs

This class of drugs, which includes Ozempic and Trulicity, saw dramatically increased usage during 2023. BCBSVT assumed the following adjustments to 2023 claims for these drugs:

- 1.1% annual utilization trend, consistent with other non-specialty drugs;
- 14.8% unit cost trend; and
- An adjustment increasing 2023 claims by about 10% to a level reflecting the latter six months of the year.

The basis for the unit cost change is the observed increase in average cost per script between 2022 and 2023. The shift from cheaper drugs within this class to more expensive drugs within this class caused a dramatic increase in average cost per script between 2022 and 2023. With the more expensive drugs only comprising 27.8% of scripts in 2023, there is substantial room for this trend to continue, and BCBSVT provided data showing that it has in fact continued into 2024, with the newer GLP-1's rising to 35.3% of scripts so far in 2024.

Similarly, BCBSVT provided data showing that utilization of these drugs continues to rise from the level observed in late 2023. As such, it does appear that the early part of 2023 is less relevant to the future utilization of GLP-1 drugs than the latter part of 2023.

Non-Specialty Unit Cost

Unit costs for generic drugs increased an average of 3.2% over the last three years and about 4.1% per year over the last two years. BCBSVT selected a generic unit cost trend of 3.8% per year. An adjustment is made to reflect that some drugs which are currently under patent will become less expensive in 2025.

Brand drug (excluding GLP-1s) unit costs have increased substantially in recent years. The increases in average cost per script were 3.0%, 9.1%, and 6.6% in 2021, 2022, and 2023, respectively. BCBSVT selected a trend estimate of 7.3%.

As discussed in the prior section, the new GLP-1 drugs became available during 2023 and have become a large portion of pharmacy spend due to their high cost and utilization. BCBSVT projected unit cost trends for these drugs separately from other brand drugs. Unit costs for GLP-1s increased 14.8% in 2023 after the introduction of these new drugs, and BCBSVT assumed this level of trend would continue into 2025.

Specialty Trends

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

Year	Annual Allowed Specialty Trend
2021/2020	12.0%
2022/2021	12.9%
2023/2022	11.6%
Three-year Average	**12.2%**

BCBSVT selected a net annual allowed trend of 12.5% per year, net of contractual changes, for the specialty tier. This was based on averaging several regression methods. Ultimately, it is similar to the average of the last three years of changes.

Overall Pharmacy Trends

Given the above indications that pharmacy trends have been increasing and in light of the support provided by BCBSVT, we believe the pharmacy trend assumptions in this filing are reasonable and appropriate.

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

TOTAL PROJECTED ALLOWED TREND

2023 to 2025	Annual Allowed Trend
Medical	7.4%
Rx	11.1%
Combined	**8.4%**

4. **CHANGES TO POPULATION MORBIDITY ADJUSTMENT:** In the 2024 filing, the Company estimated that the projected 2024 population morbidity would be 1.6% higher than the 2022 experience period morbidity.

   In the 2025 filing, the population morbidity is projected to be approximately 0.5% lower than the 2023 experience period. The rates are therefore increasing by the difference between the factor in this filing and the factor in the previous filing, or -2.0%.

   The claims that underlie this rate filing are from 2023. Since this rate filing was submitted after the 2024 Open Enrollment Period, BCBSVT knows which 2023 members remained in the block and which members no longer had coverage. To assess changes to pool morbidity, the Company separated the 2023 experience into those members who remained in 2024 and those

who left in 2024. The impact of the members who left is expected to decrease the average claims level by 0.6%.

Beginning in April 2023, Vermont began to redetermine eligibility for those on Medicaid after the ending of the COVID-19 Public Health Emergency. BCBSVT saw large Individual market growth in 2023 as the result of this process. Since these members joined mid-year, their expected 2025 claim experience is not fully reflected in the base period. BCBSVT adjusted these members' claim experience using seasonality factors by service category to estimate their full calendar year 2023 claims. The resulting adjustment increases premiums by about 0.1%.

The two adjustments described above result in an overall morbidity adjustment of -0.5%. 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 2023 and 2025.

Last year's filing assumed that change in the age of the population would lead to a 0.4% decrease in costs. However, updated data suggests that the population will be younger than expected, resulting in a 1.0% decrease in cost. Replacing a 0.4% decrease with a 1.0% decrease has the net effect of decreasing rates by 0.6% 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. 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 2024, 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 lower cost sharing in 2025 compared to 2023, there is an anticipated 1.3% increase in utilization. The projected enrollment shift by plan and benefit level is based on emerging 2024 experience, and therefore reflects more up-to-date information than the 2023 base period plan selections.

In the 2024 filing, BCBSVT projected that there would be a shift to leaner plans, resulting in a 0.3% decrease. Since the 2025 filing replaces a 0.3% decrease with a 1.3% increase, the net effect relative to current premiums is a 1.6% premium increase.

These assumptions appear reasonable and appropriate.

7. **CHANGES TO OTHER FACTORS:** BCBSVT expects other changes to incurred claims to account for a 1.1% increase relative to the prior filing. This change is composed of the following factors:

   NON-SYSTEM CLAIMS: +0.4%
   This includes changes to pharmacy rebates, Blueprint payments, Interplan Teleprocessing System (ITS) fees[13], vaccine payments (excluding COVID vaccines), and the net cost of reinsurance.

   BILL H.766: +1.7%
   At the time of the filing, Bill H.766, which would change prior authorization, step therapy, and other allowable payment integrity programs, was being considered by the Vermont legislature. BCBSVT analyzed the legislation and calculated the expected loss of savings. This resulted in a premium increase of 1.7% compared to the prior filing.

   After the filing was submitted, H.766 was revised and signed into law in a slightly different form. BCBCVT estimated a reduced impact of the bill and the revised impact of H.766 is +0.9%. L&E recommends that the filing should be revised to reflect this lower estimate. L&E estimates this would reduce premiums by about 1.0%.

   Leap Year Impact: -0.3%
   Calendar year 2024 was a leap year. As a result, 2024 premiums had to be higher to cover one extra day of coverage. Because 2025 is not a leap year, rates have this adjustment for an additional day removed.

   OTHER MISCELLANEOUS CLAIMS IMPACTS: -0.8%
   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; changes in expected pharmacy costs due to BCBSVT's CivicaRx partnership and manufacturer pricing changes as the result of the American Rescue Plan Act; and changes in provider networks.

   After modification, L&E finds the changes to the Other factor to be reasonable and appropriate.

8. **CHANGES TO RISK ADJUSTMENT:** Under the Risk Adjustment program outlined in 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 the Risk Adjustment system 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 +6.5%, meaning that BCBSVT expects to less receive funds as compared to last year.

   BCBSVT projected the 2025 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

[13] BCBSVT provides members with healthcare coverage when they travel nationally or internationally.

report[14] published March 14, 2024, 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 to 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 will be published by CMS on July 22, 2024, which is delayed from the typical timing of the report release. L&E has utilized RATEE data from the EDGE server to calculate the actual risk adjustment transfer for benefit year 2023. Based on L&E's calculation, BCBSVT will receive $8,685,572 in risk adjustment payments for the 2023 individual market. This amount is greater than the $7,860,996 they originally projected.

L&E recommends that the Board require that BCBSVT use this updated transfer estimate in calculating the final premiums. The approximately $1 million increase in receivables over BCBSVT's original expectations produces a 0.4% decrease in premiums.

If CMS' final report is available when the Board makes a decision, and it differs from L&E's estimate, we recommend this information be used instead. However, L&E's preliminary calculation has correctly predicted the final values for several years, and we do not anticipate this will occur.

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. This component of the calculated rates increased by 0.7% from the 2024 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 to be reasonable and appropriate.

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.

HEARING AIDS

Beginning in 2024, QHPs must cover hearing aids as an Essential Health Benefit. The only experience BCBSVT has offering hearing aids in thus from early 2024. This filing contains a memorandum developing a proposed claims cost of $1.26 PMPM for the addition of hearing aid coverage. Actual claims in the first four months of 2024 amounted to about $0.50 PMPM for this

[14] https://www.cms.gov/files/document/by23-interim-ra-report-final.pdf

benefit. Because this coverage is new, we would generally expect an early peak of claims due to "pent up demand". The emerging data is not yet fully credible but does not suggest that the long-term average cost will be as high as $1.26 PMPM. L&E recommends that this assumption be reduced to the midpoint of these two figures, resulting in a decrease to rates of approximately $0.38 PMPM (or about 0.05%.)

NEW CSR GUIDANCE ENROLLMENT SHIFT

The Pricing AVs in this filing differ significantly from those in the approved 2024 rates, due primarily to the updated GMCB guidance regarding Silver Loading. Previously, carriers calculated Silver Loads based on their own CSR enrollment, but this year, the Board calculated a factor based on marketwide enrollment and assumed that members would leave the Silver Loaded plans due to its elevated premiums. This updated load is higher than last year and significantly increased Silver Loaded premiums, also resulting in noticeably reduced premiums for all other plans. While the Silver Loads change the premium for every particular plan, they have no impact on the overall average rate level across all plans.

During our review, L&E found that BCBSVT's methodology was not in alignment with the Board's guidance. Under this original methodology, the plan-level Pricing AV differs from the mandated value due to the Silver Load being applied prior to certain other adjustments. After correcting this issue, the rates for Silver Loaded plans reduced by about 2.1%, and the rates for all other plans increased by about 0.3%. The combined impact on the overall rate change is immaterial.

L&E recommends that the BCBSVT update their methodology to be compliant with the Board's guidance.

10. **CHANGES IN ADMINISTRATIVE COSTS:** The 2025 administrative costs are projected to be 1.0% lower than 2024 on a percentage of revenue basis. That is, administrative costs are projected to grow by 1.0% less than premiums.

	2024 Filing		2025 Filing	
Market	**Individual**	**Small Group**	**Individual**	**Small Group**
Admin Expense PMPM	$61.32	$48.62	$63.61	$52.24
Admin Expense % Premium	7.3%	6.5%	6.4%	5.9%

The 2025 projected administrative cost is based on the following analysis:

- *Base Administrative Charges:* A base administrative cost of $60.31 PMPM is included equally in all plans' rates to cover BCBSVT's operating costs. This amount reflects actual

2023 administrative costs of $54.35 adjusted for two factors, as outlined in the following table.

DEVELOPMENT OF BASE ADMINISTRATIVE CHARGES

Line Item	Impact PMPM	Updated Admin Cost PMPM
Actual 2023 Admin Cost	-	$54.35
Administrative Cost Trend	+$4.44	$58.79
Impact of Membership Changes	+$1.52	$60.31

- *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.

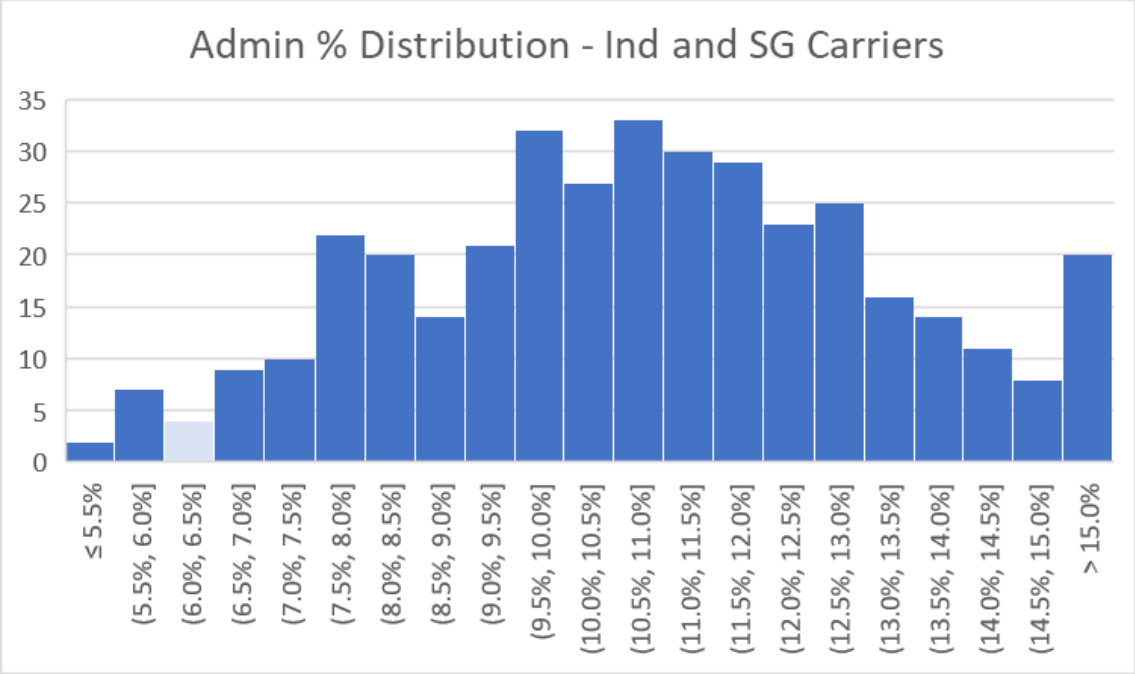
- *Impact of Membership Changes*: BCBSVT estimates that 70% of the allocated base administrative expenses are fixed costs, and therefore changes in enrollment across the entire enterprise cause changes in administrative costs PMPM. While BCBSVT enrollment in this market is growing, their membership in other markets is not. As a result, the fixed costs for their core business are expected to be spread over fewer members in 2025 than in 2023. The result is a 2.6% increase to the projected administrative costs on a per member basis.

- *Credit Card Fees:* BCBSVT members can pay their premiums with debit and credit cards. Based on 2023 data, 0.3% of total premiums in the individual market were charged as transaction fees. BCBSVT has reflected this amount in the premiums.

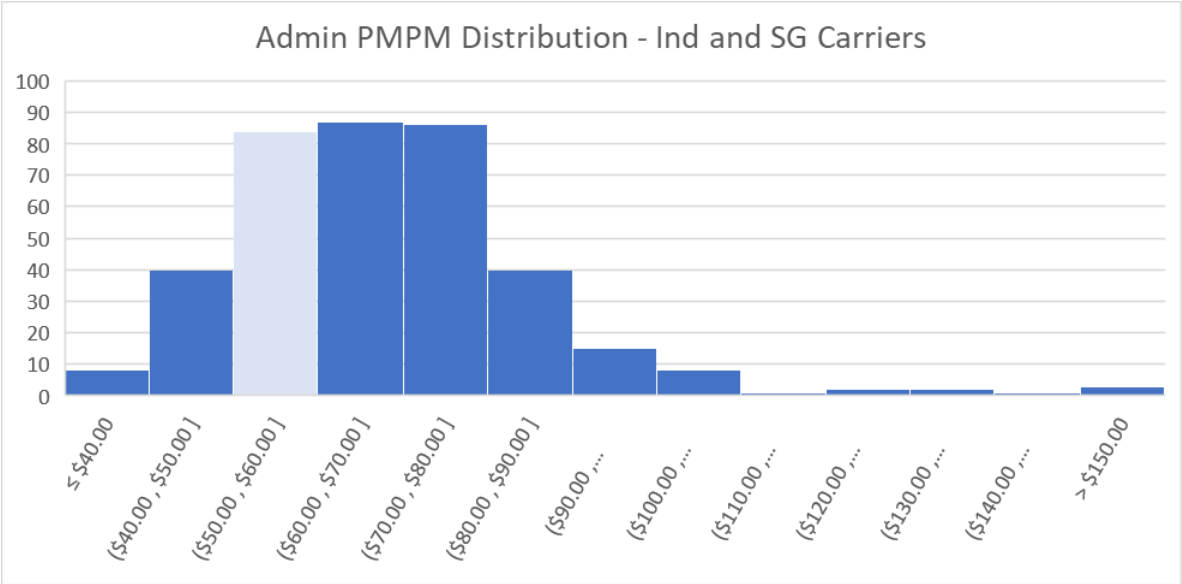
In addition to reviewing each of BCBSVT's specific proposed modifications, L&E also compared BCBSVT's administrative costs for the individual and small group markets to other nationwide individual and small group plans. The comparison was based on a review of the Center for Consumer Information & Insurance Oversight (CCIIO) public use files (PUFs), which contain 2024 data on all individual and small group carriers nationwide.

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 $57.47 PMPM, including both base administrative charges and other components. This is approximately 6.2% of premium.

The corresponding percent of premium allocated to non-benefit expenses for other carriers nationwide in 2024 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 2024:



Among individual and small group carriers nationwide, these figures are in the 43rd percentile on a PMPM basis and the 3rd 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 Administrative Cost assumptions to be reasonable and appropriate.

11. **CHANGES IN TAXES & FEES:** The 2025 taxes and fees provision are projected to be 0.1% lower than 2024 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 0.1% provision for bad debt, increasing rates 1.0%. This is an increase from the standard 1.5% amount filed in most years prior to 2024 and the 2.0% amount approved in the prior filing.

    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. The material deviation between actual and expected results in recent years points to volatility and market trends that have been materially unfavorable to BCBSVT.

ACTUAL-TO-EXPECTED BASE CTR

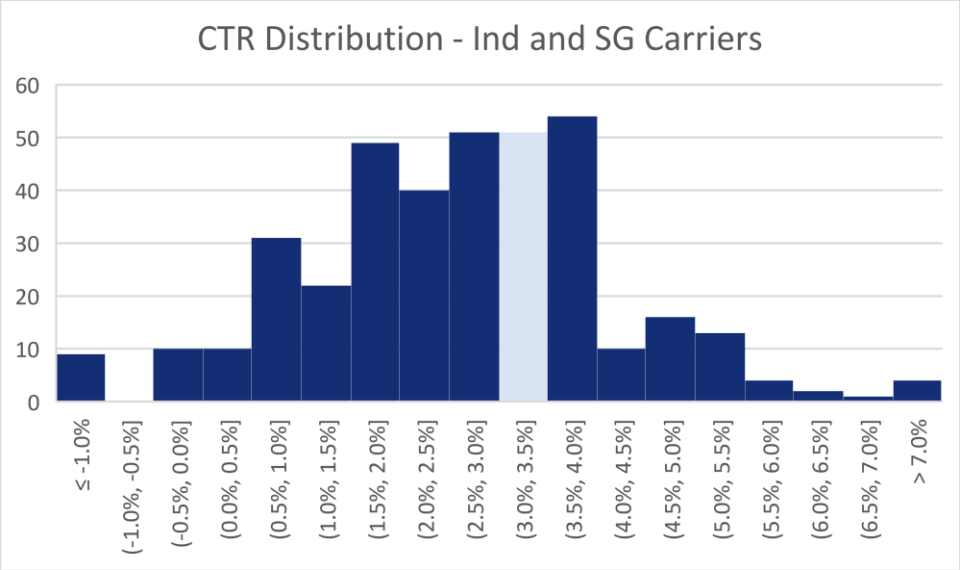
Year	Company Expected	Company Actual[15]
2014	-0.1%	1.0%
2015	1.0%	-2.5%
2016	0.8%	-3.8%
2017	1.0%	1.0%
2018	-3.8%	-1.8%
2019	0.0%	-0.7%
2020	1.5%	7.2%
2021	0.5%	-0.2%
2022	1.0%	-5.2%
2023	-0.3%	-8.8%
Cumulative	**0.1%**	**-1.7%**

    The 0.1% provision for bad debt is based on the actual unpaid premium experienced by BCBSVT on individual business between 2020 and 2023. The bad debt provision appears reasonable and appropriate.

    The base CTR of 3.0% is addressed in Attachment C of the filing submission. As noted therein, "Blue Cross VT has experienced significant losses over the last two years driven by escalating claims trend, resulting in a 2023 year-end Risk-Based Capital (RBC) ratio of 337, well below the range of 590 - 745 ordered by the Department of Financial Regulation."

[15] 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.

As a reasonableness check of the proposed CTR provision, L&E again reviewed the 2024 PUFs. In 2024, there were 377 carriers who submitted On-Exchange individual or small group ACA filings nationally. The filed CTR varied from -17% to +8%, but most often fell between 0% and 5%. The premium-weighted average CTR for all carriers was filed as 3.0%.



BCBSVT's filed base CTR of 3.0% would place it at around the 59th percentile for all QHP carriers, and the 0.1% margin for bad debt in the individual market increases this to the 61st percentile.

Since the filing was submitted, BCBSVT has requested that the CTR used in the 2025 premiums be increased to 7%. As can be seen by the chart above, this is an abnormally high level for the individual and small group markets. Given BCBSVT's current RBC situation, L&E estimates that the contribution to reserves could reasonably fall between roughly 3% and 7%, depending on factors outside the scope of our review. L&E recommends that the Board consult with DFR to determine the appropriate level of CTR for this business.

13. **CHANGES IN SINGLE CONTRACT CONVERSION FACTOR:** A conversion factor[16] 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.

[16] 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.

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 2025 premium rate calculations. The impact of such a change cannot be estimated at this time.

- **REDUCE ASSUMED COST FOR HEARING AIDS:** L&E recommends that the assumed cost for hearing aids be reduced from $1.26 PMPM to $0.88 PMPM.

- **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, decreasing rates by approximately 0.3%.

- **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.

- **MODIFY SILVER LOADING METHOD:** L&E recommends that the Pricing AVs reflect the corrected Silver Loading methodology wherein the Pricing AV for Silver Loaded and Silver Reflective plans vary by the factor mandated by the Board.

- **REDUCE IMPACT OF BILL H.766:** L&E recommends the impact of Bill H.766 be based on the final approved version of the bill rather than the version extant when the filing was submitted.

After the modifications, the anticipated rate changes will change from +16.3% to +14.5%, plus any impact from updated hospital budget information.

2025 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[17]	BCBSVT Filed	L&E Recommendation[18]
1. 2023 Actual/Projected Claims Experience	-0.8%	-0.8%
2. Difference in Trend from 2023 to 2024	+1.2%	+1.2%
3. Trend from 2024 to 2025	+8.2%	+8.2%
4. Changes to Population Morbidity Adjustment	-2.0%	-2.0%
5. Demographic Shift	-0.6%	-0.6%
6. Plan Design Changes	+1.6%	+1.6%
7. Changes to Other Factors	+1.1%	+0.1%
8. Changes to Risk Adjustment	+6.5%	+5.9%
9. Changes in Actuarial Value	+0.7%	+0.6%
10. Changes in Administrative Costs	-1.0%	-1.0%
11. Changes in Taxes & Fees	-0.1%	-0.1%
12. Changes in Contribution to Reserves	+1.0%	+1.0%
13. Changes in Single Contract Conversion Factor	+0.0%	+0.0%
Total Proposed Rate Change	**+16.3%**	**+14.5%**

Sincerely,

Kevin Ruggeberg, FSA, MAAA
Vice President & Senior Consulting Actuary
Lewis & Ellis LLC

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

[17] 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.

[18] The percentage changes are multiplicative and may not sum to the requested premium increase percentage.

ASOP 41 DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[19], 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[20], 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, 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 12, 2024. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is July 12, 2024.

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.

[19] 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.

[20] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- 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.