

June 20, 2023

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

Subject: Your 06/13/2022 Questions re:
Blue Cross and Blue Shield of Vermont
2024 Vermont ACA Market - Individual Rate Filing (SERFF Tracking #: BCVT-133654578)
And
2024 Vermont ACA Market – Small Group Rate Filing (SERFF Tracking #: BCVT-133654592)

Dear Mr. Rugeberg:

In response to your requests dated June 13, 2023, here are *your questions* and our answers:

1. *Since the filing was submitted, L&E has used information from both carriers to project final 2022 risk adjustment transfers. What is the rating impact of this updated projection?*

The table below shows the estimated risk adjustment transfers included in the rate filings and the projected final transfers from L&E, along with the impact to the Blue Cross VT filed rates.

	Risk Adjustment Transfer (Receivables)		Average Rate Increases	
	Individual (incl. Catastrophic)	Small Group	Individual (incl. Catastrophic)	Small Group
Estimated Final 2022 - as filed	-\$14,752,591	-\$11,339,783	15.5%	14.5%
Estimated Final 2022 - from L&E	-\$11,867,950	-\$8,947,929	17.7%	16.5%

2. *Provide more detail regarding the assumed CY2023 hospital unit cost increases in any cases where they differ from the approved effective commercial rates.*

We interpret “assumed CY2023” to be the hospital unit cost increases for the fiscal year starting on October 1, 2022. On September 28, 2022, the GMCB presented the FY 2023 change in charge decisions and an estimated change in the commercial effective rate by facility¹. The estimated change in commercial effective rate, which was provided by the hospitals as part of their budget submission, was considered informational only. The increases reflected in those figures vary, sometimes significantly, from the approved change in charges and other information the hospitals provided to the GMCB. Since there was not an established reporting methodology, we believe they were calculated inconsistently among hospitals². Our response uses the Board-approved change in charge decisions, and rely on the details in the hospitals’ deliberation

¹ https://gmcboard.vermont.gov/sites/gmcb/files/documents/2022_09_28_FY23_Debrief_Updated_with_Board_Feedback_0.pdf

² Some hospitals suggested to Blue Cross VT that they included Medicare Advantage reimbursements in their reported increase by commercial payer.

presentations (linked in respective footnotes below) as the sources for the average increases and increases by claim categories.

[REDACTED]

The footnotes below provide the assumptions used for each facility.

The table below provides further details regarding how the approved change in charges ties to the filed unit cost increases for those hospitals where the increases differ from the reported aggregate increase.

	Inpatient Unit Cost Increase	Outpatient Unit Cost Increase	GMCB FY 2023 Approved Change in Charges	Notes
Brattleboro	[REDACTED]	[REDACTED]	14.61%	(1)
CVMC	[REDACTED]	[REDACTED]	12.5% ³	(2)
Copley	[REDACTED]	[REDACTED]	12.0%	(3)
Mt. Ascutney	[REDACTED]	[REDACTED]	4.7%	(4)
North Country	[REDACTED]	[REDACTED]	12.24%	(5)
Northwestern	[REDACTED]	[REDACTED]	9.0%	(6)
Porter	[REDACTED]	[REDACTED]	11.5% ⁴	(7)
RRMC	[REDACTED]	[REDACTED]	17.4%	(8)
Southwestern	[REDACTED]	[REDACTED]	9.5%	(3)
Springfield	[REDACTED]	[REDACTED]	10.0%	(9)

- (1) [REDACTED]
- (2) [REDACTED]
- (3) [REDACTED]
- (4) [REDACTED]
- (5) [REDACTED]
- (6) [REDACTED]

³ Approved commercial effective rate.

⁴ Approved commercial effective rate.

[REDACTED]

(7) [REDACTED]
(8) [REDACTED]
(9) [REDACTED]

3. *Provide a decomposition of the "Other" factor on URRT Worksheet 1.*

Please see tab "Q3" in attached Responses Blue Cross VT 2024 ACA Rate Filing - Inquiry 3 – Individual and Small Group.xlsx.

4. *Last year's filing indicated that "it is impractical to react to enrollment shifts by immediately right-sizing staff", implying that the variable costs BCBSVT was incurring could support a higher volume of enrollment than BCBSVT actually had enrolled. However, the administrative cost projection in this filing assumes that the entire increase to enrollment from 2022 to 2024 will translate directly to proportional increases to variable costs. Please explain.*

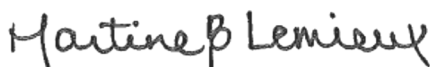
As noted in the actuarial memorandum, we assume 70 percent of administrative expenses are fixed and 30 percent are variable. We only apply 70 percent of the change in enterprise membership to the base administrative charges, which implies that the current *fixed* administrative expenses will support a higher volume of enrollment in 2023 and 2024. Our employees, who are central to meeting customer and provider needs and regulatory obligations, can support short-term fluctuation in membership.

We assume the remaining 30 percent of administrative expenses will be variable and directly proportional to the assumed increase in membership. The development and application of this factor is consistent with previous ACA filings, where we assumed the fixed administrative expenses would support a lower volume of enrollment, but the variable costs would be proportionally lower.¹²

Because it is not feasible to react to enrollment shifts by immediately right-sizing staff, our filings assume that a high percentage of administrative expenses are fixed in the near term, whether enrollment grows or declines in the near term. However, we have used the same ratio of fixed-to-variable costs for several years. In practice, consistent application of this ratio would eventually result in a decrease in the absolute value of fixed costs in periods of consistent membership losses, or an increase in periods of consistent membership gains. This year-to-year rebalancing of fixed to variable costs is reasonably aligned with the nature of administrative expenses.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,



Martine B. Lemieux, F.S.A., M.A.A.A.
Actuarial Director, Financial Integrity

¹² SERFF BCVT-132823271, SERFF BCVT-132829562, SERFF BCVT-133243619, SERFF BCVT-133243509

BLUE CROSS AND BLUE SHIELD OF VERMONT
2024 VERMONT ACA MARKET RATE FILINGS - INDIVIDUAL AND SMALL GROUP

RESPONSES TO ACTUARIAL INQUIRY 3, DATED JUNE 13, 2023
QUESTION 3

RECONCILIATION OF URRT "OTHER" and EXHIBIT 5 - Individual Market			
	Exhibit 5 - IND	URRT	
Experience Allowed Claims (Line a1)	\$889.54	\$851.66	
Exclude High Claim and Non-EHB *	0.9851	1.0289	<i>Other</i>
Capped Experience Period Allowed Claims for EHB (Line A)	\$876.30		
Impact of leap year (1+c4)	1.0027	1.0027	
Changes in Provider Networks (1+c2)	0.9958	0.9958	
Non-System Claims = \$1031.42 / \$1068.48 = Line F / Line D	0.9653	0.9653	
Changes in Pool Morbidity due to cancelations (1+b9)	1.0159	1.0159	<i>Morbidity Adjustment</i>
Changes in demographics (1+c3)	0.9956	0.9956	<i>Demographic Shift</i>
Impact of different benefit plans (in experience vs projection) (1+c1)	0.9960	0.9960	<i>Plan Design Changes</i>
Addition of Hearing Aids Coverage (1+c6)	1.0013	1.0013	<i>Plan Design Changes</i>
Trend (1+d1 and 1+d2)	1.2106	1.2066	<i>Trend</i>
Adjustment to Trend for URRT Weights vs Filing Weights	1.0000	1.0034	<i>Other</i>
Projected Index Rate - Line F	\$1,031.42	\$1,031.42	

RECONCILIATION OF URRT "OTHER" and EXHIBIT 5 - Small Group Market			
	Exhibit 5 - SMG	URRT	
Experience Allowed Claims (Line a1)	\$757.34	\$721.67	
Exclude High Claim and Non-EHB *	0.9958	1.0450	<i>Other</i>
Capped Experience Period Allowed Claims for EHB (Line A)	\$754.15		
Impact of leap year (1+c4)	1.0027	1.0027	
Changes in Provider Networks (1+c2)	0.9950	0.9950	
Non-System Claims = \$882.44 / \$923.07 = Line F / Line D	0.9560	0.9560	
Changes in Pool Morbidity due to cancelations (1+b9)	1.0156	1.0156	<i>Morbidity Adjustment</i>
Changes in demographics (1+c3)	0.9998	0.9998	<i>Demographic Shift</i>
Impact of different benefit plans (in experience vs projection) (1+c1)	0.9976	0.9976	<i>Plan Design Changes</i>
Addition of Hearing Aids Coverage (1+c6)	1.0015	1.0015	<i>Plan Design Changes</i>
Trend (1+d1 and 1+d2)	1.2093	1.2006	<i>Trend</i>
Adjustment to Trend for URRT Weights vs Filing Weights	1.0000	1.0072	<i>Other</i>
Projected Index Rate - Line F	\$882.44	\$882.44	