

March 7, 2024

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

Subject: Your 02/27/2024 Questions re: Blue Cross and Blue Shield of Vermont 2025 Large Group Rating Program Filing (SERFF Tracking #: BCVT-133971481)

Dear Mr. Rugeberg:

In response to your request dated February 27, 2024, here are *your questions* and our answers:

1. *Reconcile the 7.1% "Manual Rate Increase" shown on page 25 of the actuarial memorandum to the 9.0% "component increase" for "Manual Claims" shown on page 3 of the actuarial memorandum.*

We normalize for the average industry, demographic, and benefit relativity factor underlying the experience of the manual rate base. The change in these factors flow through to the change in manual claims, but they are not included in the manual rate. The table below provides the manual rate increase by component.

Manual Claims Increase by Component		
Manual Claims	\$34,803,240	
Update Medicare Primary Manual Rate	\$34,805,522	0.0%
Update Manual Rate	\$37,290,960	7.1%
Renormalize for Demographics	\$37,083,674	-0.6%
Renormalize for Industry	\$36,927,071	-0.4%
Renormalize for Benefits	\$37,941,327	2.7%

The renormalization for benefits incorporates the change in benefit and tiering mix between the groups underlying the 2024 and 2025 manual rates, as well as the update to the benefit relativity model. Since the manual rate is on a paid basis, changes in the relative value of benefits between the group mix flows through to the manual claims component. This is the primary driver of the increase this year. The table below provides the average benefit and tiering factor of the 2024 and 2025 manual rate group base relative to the 2024 benefit relativity model.

Benefit and Tiering Mix Change, Measured by 2024 Benefit Relativity Model		
Ratio of 2024 Manual Rate Average to 2024 Benefit Model Average	A	1.0034
Ratio of 2025 Manual Rate Average to 2024 Benefit Model Average	B	0.9808
Impact of the Change in Benefit and Tiering Mix	C = A / B	1.0231

The remainder of the impact is attributable to the update from the 2024 to 2025 benefit relativity model. The 2025 benefit relativity model updated the underlying claims, membership, trend factors, and induced utilization assumptions, and therefore measures the relative value of benefits differently than the 2024 model.

2. *Please provide the distribution of current membership between the three networks encompassed by this filing.*

The table below provides the membership distribution as of January 31, 2024.

	Blue Cross VT Non-Managed	Blue Cross VT Managed	TVHP Managed
Members	1,028	3,236	0
Subscribers	547	1,899	0

3. *Provide further detail regarding the differences in FWA activities between 2021 and 2023 that are expected to have resulted in a 1% decrease in allowed medical claims as assumed in Exhibit 2B.*

We implemented a second claims editing program in January 2023, which accounts for most of the additional savings. We added a secondary program because of new recommendations from CMS as well as a new Blue Cross and Blue Shield Association requirement for the implementation of a “second pass” editing system.¹

4. *Please indicate where in the filing the seasonality factors used in Line L of the rate calculation are provided. If this was not a part of the initial filing, please provide support for the seasonality factors.*

We develop seasonality factors as part of the monthly reserving process. Our reserving model and methodology are subject to independent auditor and DFR review. For each month in that experience period, we normalized the observed claims PMPM for the number of working days in the month. We take the natural logarithm of each adjusted PMPM and use an exponential regression on the 24 months of experience to create an initial claims baseline. We divide the adjusted claims PMPM over the baseline PMPM for each month in the experience to calculate a seasonal factor, then average the seasonal factors for each calendar month (e.g., the January 2024 seasonal factor is the average of the seasonal factors from January 2022 and January 2023). There is no margin added to the seasonal factors.

We use the most current factors produced by our monthly reserving process. We apply the seasonal factors regardless of the length of experience period, but if there is a 12-month experience period

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<https://legislature.vermont.gov/Documents/2024/WorkGroups/House%20Health%20Care/Bills/H.766/Witness%20Testimony/H.766~Sara%20Teachout~Blue%20Cross%20Blue%20Shield%20of%20Vermont%20-%20Follow-up%20-%20Claims%20Edits~1-24-2024.pdf>

and there are no changes in benefits or enrollment, the normalization of the seasonality factors would cause the seasonal adjustment to be 1.000.

The table below provides the factors as of February 29, 2024.

Benefit Month	Blue Cross VT Non-Managed CDHP		All Else	
	Med	Rx	Med	Rx
1	0.7593	0.8011	0.7105	0.9115
2	0.9746	0.8203	1.0305	0.9641
3	0.7851	0.9160	0.9992	1.0035
4	0.8806	0.9063	0.8495	1.0078
5	1.0512	1.1296	1.0406	0.9561
6	0.9980	1.0765	0.9730	1.0917
7	0.8347	0.9569	1.1765	1.0777
8	0.9245	1.1395	1.0329	1.0574
9	1.1624	1.0768	1.0045	0.9745
10	1.1606	1.0435	1.1369	0.9805
11	1.2081	1.0842	1.0610	1.0096
12	1.2608	1.0494	0.9850	0.9656

5. *We note that the plan relativity factors in Exhibit 3B through 3H increased from the previously filed values for all plans. This would seemingly be the result of the higher projected costs. Please explain how this does not double-count the leveraging factor assumed in the trend rate.*

We apply the benefit relativity values (BRVs) in ratios. For experience claims, we use the ratio of the BRV for the renewing benefit to the BRV for the experience benefit. For manual claims, we use the ratio of the renewing benefit to the average BRV underlying the manual rate. Any leveraging factor present in the BRVs is therefore applied in both the numerator and denominator of that ratio and does not have an impact on the pricing.

6. *BCBSVT has previously claimed that 2021 utilization was suppressed due to COVID-19. Please confirm that the trend analyses described in this filing do not adjust 2020 or 2021 data for the impact of COVID-19 and associated lockdowns, other than the removal of certain COVID-related claims.*

We most recently investigated the effects of COVID-19 on our large group population in response to question 11 of the February 27, 2023, objections to last year’s filing. In the response we noted, “The secondary COVID-19 waves had a limited impact on the overall utilization of services for our market... Since we consider the impact of secondary COVID-19 waves to be minimal on the utilization patterns in the most recent two years of the trend experience period, we believe the positive

measures calculated by the 24-month measures have validity in projecting utilization trend.”²

The two years referenced in the objection response are September 2020 through August 2022. As such, our view last year was that any utilization suppression in 2021 due to COVID-19 was minimal. Given this, we did not apply any adjustment factors for COVID-19 to our trend claims base for this filing.

7. *Provide further explanation of the “Adjustment for estimated cost sharing on COVID-19 claims” applied in the development of the manual rate.*

Following the end of the Public Health Emergency on May 11, 2023, Blue Cross VT began applying cost sharing to COVID-19 related services on July 1, 2023³. Since we use plan paid amounts in developing rates, any experience prior to July 1, 2023, would be overstated as the paid amounts were equal to the allowed amounts. We lower the manual rate by applying the paid-to-allowed ratio for medical claims underlying the 2024 manual rate to COVID-19 claims incurred before July 2023. The table below provides the calculation of the factor.

Experience Adjustment Factor Development		
Completed COVID Claims, 202210 - 202306	A	\$135,497
Medical Paid to Allowed Ratio, 2024 Large Group Filing	B	82.3%
Imputed Cost Sharing	$C = A \times (1-B)$	\$24,021
Incurred and Paid Experience Paid Claims, capped at \$120,000, and Estimated IBNR	D	\$27,624,499
Adjustment for estimated cost sharing on COVID-19 claims	$E = 1 - (C/D)$	0.9991

8. *Provide more detail regarding the +0.2% premium increase attributed to “additional items” in the actuarial memorandum.*

The table below provides the details of the “additional items” increase.

Impact of Additional Items				
Renewal Year	2024	2025	Component Increase	Premium Impact
Payment Reform Initiatives	\$106,488	\$118,320	11.1%	0.03%
Hearing Aids	\$71,082	\$71,082	0.0%	0.00%
Net Cost of Reinsurance	\$124,946	\$145,770	16.7%	0.05%
Broker Commissions	\$564,033	\$596,484	5.8%	0.08%
Additional Items Subtotal	\$866,549	\$931,656	7.5%	0.17%

² https://ratereview.vermont.gov/sites/dfr/files/documents/BCVT-133551255_5-22-23.pdf, pg. 143-144.

³ <https://www.bluecrossvt.org/health-community/news/dr-tom-weigel-what-blue-cross-vt-members-can-expect-end-federal-public-health-emergency>

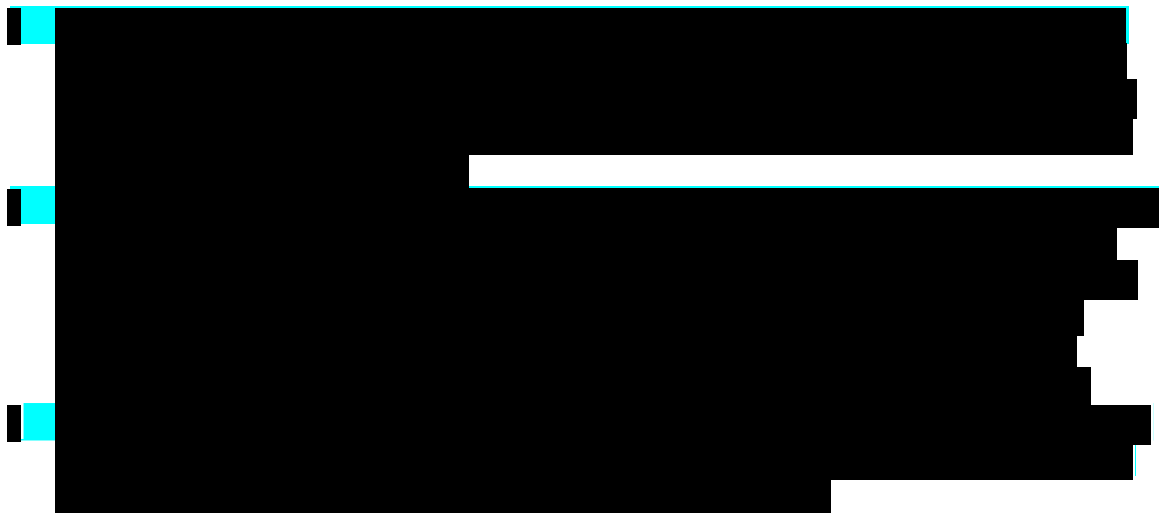
9. Provide a comparison of the actual and pooled claims over the pooling threshold for the claims data included in the base period for the last 3 years.

The table below provides the uncapped claims, actual claims above \$120,000, and estimated claims above \$120,000 in the experience base underlying the 2025 manual rate.

2025 Manual Rate – Actual and Expected High-Cost Claims			
Year Ending	Sep 2023	Sep 2022	Sep 2021
Actual Claims >\$120,000	\$5,436,799	\$7,166,700	\$6,262,847
Estimated Claims >\$120,000	\$4,230,699	\$3,580,112	\$3,205,907

10. Provide further detail regarding any GNCB-regulated facilities for which the assumed FY 2025/2026 rate approval differs from the 5-year average as described in the actuarial memorandum.

We identified three facilities where the assumed FY 2025/2026 rate approval differs from the 5-year average as described in the actuarial memorandum:



Corrected Manual Rate Development		
Filed Medical Manual Rate	A	\$660.10
Filed Medical Paid Trend Factor	B	1.2174
Update Medical Paid Trend Factor	C	1.2175
Update Medical Manual Rate	$D = A \times (C/B)$	\$660.16
Filed Pharmacy Manual Rate	E	\$157.13
Update Total Manual Rate	$F = D + E$	\$817.29
Change in Manual Rate		+0.01%
Change in Full Manual Premium		+0.01%

11. Provide further detail regarding any GMCB-regulated facilities for which the assumed FY2024 rate approval differs from the amount approved by the GMCB.

	FY 2024 Unit Cost - Inpatient	FY 2024 Unit Cost - Outpatient	FY 2024 Unit Cost - Professional	FY 2024 Unit Cost - Composite	GMCB FY 2024 Approved Change in Charges	Notes
Brattleboro					1.5%	(1)
CVMC					5.0%	(2)
Copley					8.0%	(3)
Gifford					3.6%	(4)
Grace Cottage					4.0%	(5)
Mt. Ascutney					5.1%	(6)
North Country					4.0%	(7)
Northeastern					8.0%	(8)
Northwestern					6.0%	(9)
Porter					3.1%	(10)
Rutland					5.62%	(11)
Southwestern					6.6%	(12)
Springfield					6.0%	(13)
UVMHC					3.1%	(14)

[REDACTED]

[REDACTED]

12. Provide the anticipated rate impact under the following two scenarios:

- a. All GMCB-regulated facilities have a 0% unit cost change approved for FY 2025.
- b. All GMBC-regulated facilities have a +10% unit cost change approved FY 2025.

The table below provides the anticipated rate impact by scenario. We also assumed any subsequent increase after FY 2025 would follow the unit cost change noted in each respective scenario.

Rating Impact by Scenario			
Scenario		A (0%)	B (10%)
Filed Medical Manual Rate	A	\$660.11	\$660.11
Filed Medical Paid Trend Factor	B	1.2174	1.2174
Scenario Medical Paid Trend Factor	C	1.1711	1.2427
Scenario Medical Manual Rate	$D = A \times (C/B)$	\$635.00	\$673.81
Filed Pharmacy Manual Rate	E	\$157.13	\$157.13
Scenario Total Manual Rate	$F = D + E$	\$792.13	\$830.94
Change in Manual Rate		-3.1%	1.7%
Change in Full Manual Premium		-2.9%	1.6%

13. Provide the combined impact on projected premium of the two aspects of the AMP cap removal, i.e. the change to Rx drug trend and the change to projected rebates.

We estimate the combined impact as a 0.3 percent increase to the full manual premium.

AMP Cap Impact on Full Manual Premium		
Prior to AMP Cap Change	\$41,356,011	
Update Rebates	\$41,743,268	0.9%
Update Trend	\$41,477,754	-0.6%

14. The memorandum references a “rebasing” of GLP-1 drugs. Please clarify if this means that the base period experience included in Exhibit 2F reflects only May-September 2023, and whether the months of trend applied assumes that the incurrals were at the same time as the other drug classes.

The base period included in Exhibit 2F reflects actual claims incurred in the year ended September 2023. The rebasing of GLP-1 drugs is achieved through the utilization trend component of GLP-1s in Exhibit 2F.

15. The memorandum states that “we observed minimal cost changes for drugs affected by the AMP cap.” If possible, please provide historical unit cost for brand drugs split by whether they are affected by the AMP cap

Please see *Responses to 2025 LG Rating Program Inquiry Letter 1 - Q15.xlsx*

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 Lemieux, F.S.A., M.A.A.A.