STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

| In re: | MVP Health Insurance Company<br>Third Quarter 2014 and Fourth Quarter<br>2014 Grandfathered Individual Indemnity<br>Rate Filing | )<br>)<br>)<br>)<br>) | GMCB-014-14rr<br><br>SERFF No.: MVPH-129401327 |
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# DECISION & ORDER

## Introduction

As of January 1, 2014, Vermont law requires that health insurers submit major medical rate filings to the Green Mountain Care Board which shall approve, modify, or disapprove the filing within 90 calendar days of its receipt. 8 V.S.A. § 4062(a)(2)(B) (*as amended by* 2013, No. 79, §5c). On review, the Board must determine whether the proposed rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair inequitable, misleading or contrary to Vermont law. 8 V.S.A. § 4062(a)(3).

## Procedural History

On February 5, 2014, MVP Health Insurance Company (MVPHIC) submitted its Third Quarter 2014 (3Q14) and Fourth Quarter 2014 (4Q14) Grandfathered Individual Indemnity Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). http://ratereview.vermont.gov/sites/dfr/files/MVPH-129401327.pdf. The Office of the Health Care Advocate (HCA), representing the interests of Vermont consumers of health insurance, entered an appearance as a party to this rate filing.

On February 6, 2014, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E), and the Vermont Department of Financial Regulation's (Department) analysis and opinion regarding the impact of the proposed filing on the insurer's solvency. *See* http://ratereview.vermont.gov/sites/dfr/files/MVPH-129401327_ActMemo_Final.pdf (L&E Memo); http://ratereview.vermont.gov/sites/dfr/files/014_Solvency_Analysis.pdf (DFR Solvency Analysis). The Board received no comments during the public comment period that ran from February 6 through April 21, 2014.

The parties have waived a hearing pursuant to GMCB Rule 2.000 and each has filed a memorandum in lieu of hearing.

Findings of Fact

1. MVPHIC is a for-profit New York health insurer that provides PPO[1] and EPO[2] products to individuals and employers in the small and large group markets in New York and Vermont. MVPHIC is owned by MVP Health Care, Inc. (MVP), a New York corporation that transacts health insurance business in New York and Vermont through a variety of for-profit and non-profit subsidiaries.

2. This filing sets forth proposed rates for MVPHIC's 3Q14 and 4Q14 grandfathered[3] individual indemnity products. MVPHIC proposes a 9.4% average annual rate increase over third and fourth quarter 2013 rates.

3. The rates proposed by this filing impact 424 policyholders and 675 covered lives. The deductible options for this block range from a low of $3,500 to a high of $100,000, with an average deductible of approximately $12,300.

4. In developing its rates, MVPHIC utilized grandfathered and non-grandfathered individual claim data from August 1, 2012 through July 31, 2013, with claims paid through October 31, 2013 as the base period experience. If the entire block was eligible for renewal, the projected claim costs suggest an increase of 15.5% over the previous quarter's (2Q14) rates. If only the grandfathered block was taken into account, the projected claim costs would increase 26.8% over 2Q14 rates.

5. MVPHIC projected medical claims forward using a 7.8% annual effective medical trend. An assumed physician trend of 16.6%, resulting from a revised contractual arrangement between MVPHIC and a major provider group, has a significant impact on the medical trend and requested rate increase. According to L&E's calculations, if MVPHIC had settled contracts at a more typical unit cost trend of 5%, the aggregate physician trend level would drop from 16.6% to 2.4%.

[1] A PPO (preferred provider organization) is a health care plan that contracts with medical providers to create a network of participating (preferred) providers. Members pay less if they use network providers, but can use providers outside of the network for an additional cost.

[2] An EPO (exclusive provider organization) is a managed care plan that only covers services provided by network providers, except in an emergency.

[3] Pursuant to the Affordable Care Act, a grandfathered health plan is one created or purchased on or before March 23, 2010. These plans are exempted from many changes under the ACA, but may lose their "grandfathered" status if the issuer makes significant changes that reduce benefits or increase consumer costs. For a more detailed description, *see* https://www.healthcare.gov/what-if-i-have-a-grandfathered-health-plan/.

6. MVPHIC analyzes its pharmacy data by drug category (traditional vs. specialty) and uses annual trend factors provided by Express Scripts, MVPHIC's pharmacy vendor, to project prescription drug costs to the rating period. For this filing MVPHIC's utilized an overall annual effective prescription drug trend of 4.5%.

7. This declining block of business has experienced highly volatile medical loss ratios for the last several years. For the three preceding twelve-month periods beginning August 2010, the historical medical loss ratios for the grandfathered business were 68.9%, 78.4%, and 95.3%; for the grandfathered and non-grandfathered business combined, they were 60.5%, 65.9%, and 73.8%. MVPHIC anticipates that this filing will produce a medical loss ratio of 80.1%.

8. MVPHIC's historical expense ratio has exceeded 18% for the individual block of business for each year beginning in 2010. In 2010, the expense ratio was 18.8%; for 2011 it was 28.3%, and for 2012 it was 22.5%.

9. MVPHIC has included proposed general administrative expenses of 18% in this filing – up from the 11% assumed in its last filing – and proposes a 2.0% contribution to reserves.

10. On review, L&E opines that MVPHIC's methodology and proposed trend rates are reasonable and appropriate, but cautions that if MVPHIC does not meet its anticipated expense load or the assumed 0% utilization trend, future rate increases could be higher than anticipated. L&E proposes that filings be reduced to once a year to encourage rate stability, and recommends that the contribution to surplus be reduced by 1%, resulting in an 8.3% rate increase. L&E concludes once modified, the filing does not produce rates that are excessive, inadequate or unfairly discriminatory.

11. Pursuant to 8 V.S.A. § 4062(a)(2)(B), the Department assessed the impact of the proposed filing on the carrier's solvency. Noting that it is not MVPHIC's primary regulator and that all of MVP's health operations in Vermont account for approximately five percent of its total premiums earned, the Department determined that the carrier's proposed rate "will likely have no impact on MVPHIC's solvency." *See*
http://ratereview.vermont.gov/sites/dfr/files/014_Solvency_Analysis.pdf.

## Standard of Review

1. The Board reviews rate filings to ensure that rates are not "excessive, inadequate or unfairly discriminatory," that they promote quality care and access to health care, protect insurer solvency, and are not unjust, unfair, inequitable, misleading or contrary to Vermont law. 8 V.S.A. § 4062. In addition, the Board considers changes in health care delivery, changes in payment methods and amounts, and other issues at its discretion. 18 V.S.A. § 9375(b)(6).

2. In arriving at its decision, the Board will consider the analysis and opinion of the Department of Financial Regulation on the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062(a)(3).

3. The insurer proposing a rate change has the burden to justify the requested rate. GMCB Rule 2.000: Rate Review, § 2.104(c).

## Conclusions of Law

1. We remain concerned with the volatility of this shrinking block of business and the rate changes that result from this instability. Although average premium rates appear relatively low – MVPHIC represents that the average proposed per-member per-month rate is $232.94 – the corresponding deductibles average more than $12,000.

2. Further, we cannot conclude that the 9.4% rate increase is insubstantial, and consider the assumed administrative expense load of 18% – approximately 7% higher than in the prior filing – excessive when viewed in the context of other rate filings. We again request and encourage the carrier to exert downward pressure on administrative costs.

3. We have voiced similar concerns about this particular block of business in past decisions. In MVPHIC's first and second quarter 2014 filing, we observed that the carrier's assumed expense ratio was "aggressive," and that rates as proposed by MVPHIC were likely deficient. We modified the rates downward, but only to remove statutorily-barred brokers' fees and to reduce the contribution to surplus. *See* Docket no. GMCB 027-13rr, (MVPHIC 1Q14 and 2Q14 Grandfathered Individual Indemnity Rate Filing), *available at* http://gmcboard.vermont.gov/sites/gmcboard/files/027decision.pdf.

4. For MVPHIC's third and fourth quarter 2013 filing, we declined to issue a written decision and instead allowed a proposed 0% quarterly increase to go into effect despite the Department's concerns that the proposed rates appeared deficient. Docket no. 012-13rr (MVPHIC 3Q13 and 4Q13 Individual Indemnity Rate Filing), *available at*

http://gmcboard.vermont.gov/rate_review/MVP/128889199. In that filing, the anticipated rate deficiency resulted in large part due to an assumed administrative expense load that was most likely not achievable. *See* Oliver Wyman Actuarial Letter at 6; *available at* http://gmcboard.vermont.gov/sites/gmcboard/files/027decision.pdf (realizing a proposed 15.5% administrative expenses load required significant changes in underlying expense structure; MVPHIC concedes it did not expect to achieve the ratio).

5. Based on these observations, it is apparent at this time that further rate reductions in this diminishing block of business increase its volatility and the risk of rate deficiency. Accordingly, we accept our actuaries' recommendation to modify the filing by reducing the assumed administrative expense load from 2% to 1%, and then approve the filing. The resulting 8.3% rate increase is reasonable, actuarially sound, promotes access to quality care, and falls within the realm of affordability.

Order

For the reasons discussed above, the Board modifies MVPHIC's 3Q14 and 4Q14 Grandfathered Individual Indemnity Rate Filing by reducing the contribution to surplus to 1%, which reduces the overall proposed rate change to 8.3%, and then approves the filing.

**So ordered.**

Dated: May 5, 2014 at Montpelier, Vermont.

s/ Al Gobeille )
)
s/ Karen Hein ) GREEN MOUNTAIN
) CARE BOARD
s/ Cornelius Hogan ) OF VERMONT
)
s/ Betty Rambur )
)
s/ Allan Ramsay )

Filed: May 5, 2014

Attest: s/ Janet Richard
Green Mountain Care Board, Administrative Services Coordinator

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Board (by e-mail, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (E-mail address: Janet.Richard@state.vt.us).*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*