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Department of Financial Regulation
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MEMORANDUM

To: Green Mountain Care Board

From: Susan L. Donegan
Commissioner, Department of Financial Regulation

Date: November 25, 2013

Re: Recommendation for Modification and Approval of TVHP 2013 Group Merit Rating Formula Filing (SERFF Tracking No. BCVT-128888672)

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1. Introduction

The Green Mountain Care Board (GMCB) was created by Act 48 of the Vermont Legislature in 2011 to oversee a broad range of health care reforms in Vermont as part of the eventual transition to a publicly-financed single payer system known as Green Mountain Care. The reforms mandated by Act 48 are designed to increase Vermonters' access to quality health care services while at the same time containing the rapid rise of health care costs. Although Act 48 will be implemented in coordination with the federal Affordable Care Act, its reforms go significantly beyond those required by federal law, particularly in the areas of payment reform and cost containment.

Through the end of 2013, proposed rates for major medical health insurance policies will be reviewed by the Commissioner of Financial Regulation. If the Commissioner finds that the proposed rate satisfies the applicable statutory requirements (see "Standard of Review" below) the Commissioner is required to make a recommendation for approval, modification or disapproval of the rate to the GMCB. This represents a change from prior statutory procedure, which gave the Commissioner the sole discretion to approve proposed health insurance rates. If the Board approves the recommended rate, the Commissioner is responsible for implementing the Board's decision.

2. Brief Description of Company and Filing

The Vermont Health Plan (TVHP) is a licensed health maintenance organization (HMO) and for-profit subsidiary of BlueCross BlueShield of Vermont (BCBSVT) that provides HMO, point of service

(POS), and Medicare supplement coverage to approximately 41,200 Vermonters. The company offers a variety of plans and products in the group market in Vermont.

The present filing is a not a premium rate filing but rather sets forth the methodology that TVHP proposes to use to calculate rates in the large group market.[1] Previous TVHP large group rate filings sought approval not only of the company's rate development formula, but also of the specific components (or factors) that go into determining a particular group's rate (i.e., medical and drug trend, benefit relativity factors and administrative expenses).[2] Beginning in 2013, however, TVHP decided to align its filing schedule with that of its corporate parent BCBSVT, which makes separate filings for its large group rating methodology and for each individual rating component. TVHP has already made its trend, benefit relativity and administrative expense filings for 2013.[3] This is TVHP's first Group Merit Rating Formula filing and the rate development methodology for which TVHP is seeking approval is substantially similar to the methodology approved by the Board for BCBSVT in Docket No. GMCB-022-12rr.

3. Standard of Review

Section 5104(a)(2) of Title 8 V.S.A. provides that rates submitted by a health maintenance organization such as the Vermont Health Plan must not be "excessive, inadequate or unfairly discriminatory or fail to meet the standards of affordability, promotion of quality care, and promotion of access pursuant to section 4062 of this title."

The terms "excessive," "inadequate" and "unfairly discriminatory" all have well-accepted definitions that are codified in the insurance laws of most states. Thus, rates are generally considered excessive if they are likely to produce unreasonably high profits for the insurance provided or if expenses are unreasonably high in relation to services rendered. Rates are considered inadequate if they are insufficient to sustain projected losses and expenses in the class of business to which they apply. Finally, rates are unfairly discriminatory if price differentials for groups of insureds fail to reflect equitably the differences in projected losses and expenses for those groups.

For the purpose of applying the statutory criteria set forth in 8 V.S.A. §4062, the Department has adopted the following definitions.

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[1] The large group market is for employers with more than 50 employees.

[2] A trend factor represents the percentage by which the carrier expects its per capita twelve-month medical or pharmaceutical costs to increase for policyholders who enroll or renew coverage during the rating period. A benefit relativity factor is a ratio that measures the richness of a particular health plan's benefits and cost-sharing features relative to a base or standard plan and that enables the insurer to calculate the premium rate that it should charge for that plan.

[3] TVHP's 3Q13-4Q13 medical and pharmaceutical trends were approved by the Board on June 13, 2013. Its 4Q13-3Q14 administrative charges were approved on September 27, 2013 and its 2013 benefit relativity factors were deemed approved (i.e., approved without a formal decision) on May 1, 2013.

A. Affordable: A rate change (or trend factor change) is affordable, if:

1. The overall proposed increase is less than 10.0% higher than previously approved overall change; and

2. Following review, the rate or trend factor change is found to be actuarially justified.

3. A proposed rate or trend factor increase of ten percent or greater over the previously approved change is presumptively not affordable, unless, following review, the Department finds that the proposed increase is actuarially justified and is necessary to sustain projected losses and necessary expenses for the class of business in question.

B. Promotes quality of care: The Department does not supervise providers. In the context of rate regulation, a rate or trend factor, whether new or a proposed change, promotes quality of care if the policy forms with which the rate or trend factor will be used have been filed with and approved by the Department. Department approval of the policy forms means that all health care benefits mandated by Vermont law have been provided.

C. Promotes access to health care: A rate or trend factor, whether new or a proposed change, promotes access to health care if it is affordable, as defined above, and if the policy forms with which the rate or trend factor will be associated provide consumers an opportunity to seek an independent review of adverse coverage determinations.

4. Analysis and Recommendation

a. Summary of Analysis by DFR Contract Actuary, Oliver Wyman:

TVHP's rate making methodology in the large group market relies, to the extent possible, on each group's own claims experience.[4] If a group's claims history (or experience) is large enough to be fully credible (i.e., statistically valid), the group's rate will be based on that claims experience, projected forward to the new rating period using the most recently approved medical and administrative expense trend filings and making adjustments for items like new benefits and taxes. In cases where a group's

[4] Experience rating is the opposite of community rating. Community rating of health insurance policies is a method of setting premiums that spreads risk evenly across the entire population of insureds. In pure community rating, everyone pays the same rate regardless of age, gender, health status, or claims history. In experience rating, on the other hand, rates are developed based on a particular group's own claims history, without blending that history with the experience of other groups. This means that, all else being equal, a healthier group will pay lower rates than a sicker group

claims history is not fully credible, its rate will be a mathematically-calculated blend of its own experience, projected forward to the new rating period, and what is known as the manual rate (TVHP calls this "The Book of Business Standard Plan Expected Single Claims Rate"). A manual rate is an insurer's standard or base rate for a unit of insurance and is based on claims data from a large number of groups of varying sizes. Before being blended with a particular group's own loss history, the manual rate is adjusted to reflect the age, gender and industry risk characteristics of the group and is then multiplied by the applicable trend factor. The final step in the process involves adjusting a group's projected losses, as determined by this formula, to reflect the benefit relativities (i.e., the benefit and cost-sharing design) of the specific health insurance plan(s) that it has selected.[5]

The foregoing is the basic methodology that both TVHP and BCBSVT use to calculate rates in the large group market. In the present filing, TVHP also proposes to make several minor adjustments to the formula. These adjustments (a simplification of its high cost claims pooling methodology,[6] a refinement of its benefit relativity factors to reflect seasonal variations in claims, and a revision of the mathematical formula that it uses to blend group specific experience with the manual rate) are substantially the same as those approved by the Board in its decision on BCBSVT's large group merit rating formula in Docket No. GMCB-022-12rr. Oliver Wyman concludes, as it did with the earlier BCBSVT filing, that both the basic methodology outlined above and the proposed adjustments are reasonable and should produce premiums that are not excessive, deficient or unfairly discriminatory. Oliver Wyman notes, however, that the cost-savings yielded by the first two adjustments are not likely to be significant. (*Actuarial Opinion* at 5, 6).

Although Oliver Wyman found TVHP's proposed group merit rating formula to be actuarially reasonable, it discovered in reviewing the filing that TVHP has not updated the base manual rate that is the starting point of all large group rate-making since its 4Q12 Large Group Manual Rate Filing.[7] This omission is important because the claims experience underlying the 4Q12 filing – March 1, 2011 through February 29, 2012 – is now 20 months old. In a conversation between representatives from TVHP, the Department of Financial Regulation and Oliver Wyman on October 28, 2013, TVHP stated that it had intended to include an updated base manual rate in this filing, but inadvertently neglected to do so. (*Opinion* at 2). TVHP acknowledged that it is still using the 4Q12 manual rate as the basis for large group rate calculation, but stated that when it develops a rate it specifically incorporates the most recently-approved trend factors, administrative charges and benefit relativities. (*Id.* at 3). When asked about the age of the claims experience underlying the 4Q12 filing, TVHP indicated that updating that experience

[5] After a large group's expected losses are calculated in this fashion, administrative expenses from TVHP's most recently approved administrative charge filing are loaded into the rate.

[6] Large claim costs can vary significantly from year-to-year. If the experience period used in developing a rate contains a higher-than-average number of large claims, an insurer may wind up overstating such claims relative to the historical average and thus collect more premium in the rating period than it needs. In order to reduce the distorting effects of large claim volatility, insurers typically remove claims over a certain dollar threshold from the base experience and add a "pooling charge" that represents the expected amount of such claims during the rating period based on an analysis of historical trends and averages.

[7] GMCB-026-12rr, approved by the Board on October 31, 2012.

would be unlikely to have a significant impact on the manual rate. (*Id.* at 3). TVHP stated that it now intends to update the base manual rate in the benefit relativity filing that it will submit in January 2014.

At the request of the Department, Oliver Wyman compared the claims experience underlying the 4Q12 manual rate to the claims experience underlying TVHP's pending 1Q14-2Q14 trend filing. Although Oliver Wyman acknowledges that this is a "high level analysis," it did conclude that the claims experience underlying the 4Q12 manual rate is likely to "produce higher rates than using an updated manual rate based on more recent experience." (*Opinion* at 2). The Commissioner will address this finding in her recommendation.

b. Commissioner's Recommendation:

Since Oliver Wyman concludes that the rate-making methodology set forth in this filing is actuarially reasonable and may even result in modest savings for both TVHP and consumers, the Commissioner recommends that the Board approve TVHP's use of that methodology, as it did with BCBSVT's substantially similar group merit rating formula. At the same time, the Commissioner recognizes that the base manual rate that will be used in conjunction with this new methodology is outdated and may result in large group rates that are slightly overstated. Under these circumstances, it is not acceptable to delay the filing of a new manual rate until sometime in January. For that reason, the Commissioner recommends that the Board modify its approval of the present filing by ordering TVHP to file an updated manual rate as soon as is reasonably possible, but no later than the end of the current year. The Commissioner also recommends that the Board order TVHP, in the interim, to continue to incorporate the most-recently approved trend factors, administrative charges and benefit relativities in its calculation of rates in the large group market.

/s/ Susan L. Donegan
Susan L. Donegan
Commissioner

SUPPLEMENTAL INFORMATION

1. Insurance Company's Plain Language Summary

Not applicable to this rate filing because there is not a proposed rate increase of 5.0% or greater. *8 V.S.A. §4062(c)*.

2. General Information Pertaining to Rate or Trend Filing

a. Company: The Vermont Health Plan

b. Title of Rate Filing: Merit Rating Formula Filing.

c. Rate Proposal: TVHP proposes changes to its merit rating formula for large groups.

i. New Rate: No.

ii. Rate Change: Yes.

d. Range of Proposed Rate Change: Not applicable.

e. # of Policies Impacted: Not provided in the filing.

f. # of Covered Lives Impacted: Not provided in the filing.

3. Filing Information

1. Date of Submission: 2/12/2013.
2. Date Assigned to Rate Analyst: 2/12/2013.
3. Date Filing Deemed Complete: 10/28/2013.
4. Date Filing Posted on Dept. website: 2/14/2013.
5. Date Ending Public Comment: Not applicable.
6. SERFF Tracking Number: BCVT-128888672.

4. Actuarial Review

The rate filing was reviewed by the Department of Financial Regulation's contracted actuary. The actuary's opinion is included as an addendum to this report and marked as Attachment 1.

5. Public Comment

The filing was not subject to public comment because there is not a proposed rate increase of greater than 5.0%. *8 V.S.A. §4062(d)(2)*.