STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: TVHP 3Q 2016	)	
Large Group Rating Program Filing	)	GMCB 05-16-rr
	)	
SERFF No. BCBSVT 130457790	)	

MEMORANDUM IN LIEU OF HEARING

The Office of the Health Care Advocate (HCA) asks the Green Mountain Care Board (the Board) to modify the proposed rates for the above named filing by lowering the contribution to reserves (CTR) level to no more than 1.3%.

I. Introduction

For its Third Quarter 2015 Large Group Rating Program Filing, covering an estimated 2400 subscribers and 4500 lives in its Insured Large Groups, The Vermont Health Plan (TVHP) proposes an average 4.3% rate increase. GMCB 05-16-rr, System for Electronic Rates and Form Filing (SERFF Filing); Actuarial Opinion p. 1. TVHP filed this rate request for review by the Board on February 22, 2016. GMCB 05-16-rr, SERFF Filing. On April 18, 2016, the Department of Financial Regulation (DFR) submitted its review of TVHP's financial solvency, and on April 20, 2016, Lewis and Ellis (L&E), the contracted actuaries for the Board, presented an Actuarial Opinion on this filing. GMCB 05-16-rr, DFR Solvency Analysis and L&E Actuarial Opinion.

The HCA entered an appearance pursuant to GMCB Rule 2.000 §§2.105(b) and 2.303. The parties have agreed to waive the hearing in this matter.

II. Standard of Review

Health insurers operating in Vermont have the burden of showing that their rates are reasonable and meet the statutory criteria. GMCB Rule 2.104(c). The Green Mountain Care

Board has the power to approve, modify, or disapprove requests for health insurance rates. 18 V.S.A. §9375(b)(6); 8 V.S.A. §4062(a).

When "deciding whether to approve, modify, or disapprove each rate request, the Board shall determine whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, is not unjust, unfair, inequitable, misleading, or contrary to law, and is not excessive, inadequate, or unfairly discriminatory." GMCB Rule 2.000 §2.301(b); GMCB Rule 2.000 §2.401; 8 V.S.A. §4062(a)(3). In addition, the Board shall take into consideration the requirements of the underlying statutes, changes in health care delivery, changes in payment methods and amounts, DFR's Solvency Analysis, and other issues at the discretion of the Board. GMCB Rule 2.000 §2.401; 18 V.S.A. §9375(b)(6). Further, the Board "shall consider any [public] comments received on a rate filing and may use them to identify issues." GMCB Rule 2.000 §2.201(d). The record for rate review includes the entire SERFF filing submitted by the insurer, questions posed by the Board to its actuaries, questions posed to the insurer by the Board, its actuaries, and DFR, DFR's Solvency Analysis, and the Actuarial Opinion from the Board's actuary. GMCB Rule 2.000 §2.403(a).

III. Actuarial Opinion and Solvency Analysis

L&E analyzed the filing to assist the Board in determining whether to approve, modify or disapprove the requested rate increase, focusing on whether the filing produces rates that are "excessive, inadequate, or unfairly discriminatory." L & E did not recommend any modifications to the requested rate. GMCB 05-16-rr Actuarial Opinion p. 10.

DFR's Solvency Opinion discusses the impact of the filing as proposed on the solvency and reserves of Blue Cross and Blue Shield of Vermont (BCBSVT), the parent company for

TVHP.[1] GMCB 05-16rr Solvency Opinion p. 1. The Opinion expresses DFR's belief that the range of surplus targeted by BCBSVT is "reasonable and necessary for the protection of policyholders and BCBSVT is within the range determined to be necessary." DFR notes that rates should be set at a level that "maintains adequate surplus" to keep pace with medical trend and membership growth. Id.

IV. Analysis

The HCA asks the Board to reduce the contribution to reserves from 2% to no more than 1.3% for Insured Groups. This modification would result in a more affordable product for Vermont policyholders and thereby promote access to care.

Contribution to Reserves

TVHP proposes a 2% CTR for this filing. However, Exhibit 7A of the SERFF filing demonstrates that TVHP only needs a 1.3% CTR to maintain its current levels of reserves. GMCB 05-16-rr SERFF filing.

The Board found a 1% CTR to be sufficient for BCBSVT's 2016 Vermont Exchange Products filing, concluding that it "adequately protects BCBSVT's solvency and therefore its continued ability to provide health insurance coverage to Vermonters." GMCB 8-15rr Decision p. 10. In the 2015 Large Group Rating Program filing, the Board reduced a requested 2% CTR to 1.1% which was the amount required by BCBSVT and TVHP to maintain the current level of reserves. GMCB 04-15rr Decision p. 5.

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[1] DFR explains that its solvency analysis focuses on BCBSVT: "TVHP is a wholly owned subsidiary of Blue Cross and Blue Shield of Vermont Inc. ("BCBSVT"). TVHP and BCBSVT are two insurers within an Insurance Holding Company System as defined by 8 V.S.A. § 3681(4). Under these circumstances, the solvency analysis of TVHP and BCBSVT concentrates on the financial position of the parent, BCBSVT." DFR Solvency Opinion p. 1.

BCBSVT has previously described its target range for RBC. GMCB 08-15rr Hearing Transcript, p. 27. TVHP's current RBC level as demonstrated in its most recent Annual Statement is well above the top of BCBSVT's target range. TVHP 2015 Annual Statement, p. 29 (attached). Further, the insurer's current RBC level was significantly higher in 2014 and 2015 than it had been in the prior three years. Id. The anticipated membership in the TVHP plans will be much lower in the next year than it was for the last filing[2], reducing the need to increase RBC.

TVHP argues that it needs a CTR that is higher than the amount that is necessary to maintain current RBC levels because, "unexpected events or periods of sustained losses may lead to financial deterioration of sufficient magnitude to render a company insolvent" and further notes that this "is the basic tenet of classical ruin theory." GMCB 05-16rr SERFF Filing, Actuarial Memorandum p. 23. The TVHP argument is the same argument for a 2% CTR that was presented in BCBSVT's Third Quarter Large Group Rate Filing. GMCB 03-16-rr SERFF, Actuarial Memorandum p. 24. It does not take into account the very different RBC levels of BCBSVT and TVHP. This general explanation of possible risks to surplus does not meet the insurer's burden of proof to demonstrate there is a specific threat to solvency in the period represented by the filing that would justify the requested 2% CTR. Because TVHP's current RBC level is already well above the BCBSVT target range, TVHP should not charge policyholders money to further increase its RBC and can afford a 0% CTR for this filing.

Affordability and access to care for ratepayers

The proposed rate increase for this filing will be difficult for TVHP policyholders to afford and therefore the increase should be kept to the lowest possible level. A significant portion

[22] The 2015 TVHP filing affected 3980 subscribers and 7670 covered lives. GMCB 04-15rr Decision p. 2.

of employed Vermonters struggle to afford their health insurance. According to the Vermont DFR 2014 Vermont Household Health Insurance Survey, almost 60% of uninsured working Vermont residents report that they did not enroll in their employer's health plan because it was too expensive. Comprehensive Report, 2014 Vermont Household Health Insurance Survey at 46. Almost a quarter of uninsured adults work for employers that offer health insurance, and slightly more than a quarter of working adults with uninsured children work for companies that offer some type of health insurance. Survey, at.13, 24.

Most Vermonters who find their employer sponsored health insurance to be unaffordable do not have other insurance options. Federal rules disqualify most people who are offered employer sponsored health insurance from receiving premium subsidies for health insurance purchased on the state health insurance exchange. Unless the actuarial value of the employer sponsored insurance is below 60% or the employee's share of the premium to cover just the employee (not including the expense of covering family members) exceeds 9.5% of the employee's income, the employee is not eligible to receive premium tax credits through the state insurance exchange. Survey, p. 38.

Wages in Vermont have not increased enough in recent years to allow Vermonters to afford the 4.3% increase in insurance costs requested in this filing. Wages in Vermont increased only 3% between the third quarter of 2014 and the third quarter of 2015 according to recent statistics from the Vermont Department of Labor.

http://www.vtlmi.info/indareanaics.cfm?areatype=01.

Increases in premium costs for employer sponsored health insurance plans are very difficult for employers to absorb. The increases are typically passed on to the employees through increased employee contributions to insurance or through lost wages, or both. Sarah Kliff, The

Washington Post, You're Spending Way More on Your Health Benefits than You Think, August 30, 2013.

V. Conclusion

The HCA asks the Board to reduce the requested CTR to 0%. In the alternative, the HCA requests that the CTR be reduced to no more than the 1.3% needed to maintain existing surplus. This modification will produce a smaller but adequate rate increase and will increase affordability and access to health care for policyholders.

Dated at Montpelier, Vermont this 10th day of May, 2016.

s/ *Lila Richardson*

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CERTIFICATE OF SERVICE

I, Lila Richardson, hereby certify that I have served the above Memorandum on Judith Henkin, General Counsel to the Green Mountain Care Board, Noel Hudson, Health Policy Director of the Green Mountain Care Board, and Jacqueline Hughes, representative of the Vermont Health Plan and Blue Cross Blue Shield of Vermont, by electronic mail, return receipt requested, this 10th day of May, 2016.

s/ *Lila Richardson*

Lila Richardson
Staff Attorney
Office of the Health Care Advocate

FIVE-YEAR HISTORICAL DATA

	1 2015	2 2014	3 2013	4 2012	5 2011
BALANCE SHEET (Pages 2 and 3)					
1. TOTAL Admitted Assets (Page 2, Line 28)	43,073,456	47,787,787	63,901,565	68,403,931	58,402,743
2. TOTAL Liabilities (Page 3, Line 24)	9,825,147	14,049,432	30,658,724	31,619,183	28,579,642
3. Statutory minimum capital and surplus requirement	4,405,600	6,023,838	15,509,105	15,317,104	13,926,997
4. TOTAL Capital and Surplus (Page 3, Line 33)	33,248,309	33,738,355	33,242,841	36,784,748	29,823,101
INCOME STATEMENT (Page 4)					
5. TOTAL Revenues (Line 8)	50,857,534	69,615,383	172,952,460	183,705,300	169,981,798
6. TOTAL Medical and Hospital Expenses (Line 18)	44,055,997	60,238,380	157,693,929	158,268,045	143,505,663
7. Claims adjustment expenses (Line 20)	3,060,999	2,981,559	7,649,830	7,103,470	8,598,115
8. TOTAL Administrative Expenses (Line 21)	5,540,253	6,877,609	12,264,823	12,859,725	12,345,353
9. Net underwriting gain (loss) (Line 24)	(1,799,715)	(482,165)	(4,656,122)	5,474,060	5,532,667
10. Net investment gain (loss) (Line 27)	1,052,011	1,169,582	1,835,610	1,986,803	1,593,302
11. TOTAL Other Income (Lines 28 plus 29)					725,000
12. Net income or (loss) (Line 32)	(747,704)	687,417	(2,820,512)	7,460,863	7,850,969
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	(3,585,847)	(3,448,613)	(5,622,878)	10,572,625	9,019,814
RISK-BASED CAPITAL ANALYSIS					
14. TOTAL Adjusted Capital	33,248,309	33,738,355	33,242,841	36,784,748	29,823,101
15. Authorized control level risk-based capital	2,570,860	3,215,478	6,997,392	6,847,184	6,344,732
ENROLLMENT (Exhibit 1)					
16. TOTAL Members at End of Period (Column 5, Line 7)	12,504	14,299	38,359	41,159	40,038
17. TOTAL Members Months (Column 6, Line 7)	155,938	209,285	468,642	493,925	471,296
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. TOTAL Hospital and Medical plus other non-health (Lines 18 plus Line 19)	86.6	86.5	91.2	86.2	84.4
20. Cost containment expenses	0.8	1.0	0.9	0.8	1.2
21. Other claims adjustment expenses	5.2	3.3	3.5	3.1	3.9
22. TOTAL Underwriting Deductions (Line 23)	103.5	100.7	102.7	97.0	96.7
23. TOTAL Underwriting Gain (Loss) (Line 24)	(3.5)	(0.7)	(2.7)	3.0	3.3
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5)	5,968,029	8,937,883	11,052,752	9,337,097	7,491,275
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)]	7,151,200	11,142,000	12,280,678	9,845,068	8,985,389
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
26. Affiliated bonds (Sch. D Summary, Line 12, Column 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Column 1)					
28. Affiliated common stocks (Sch. D Summary, Line 24, Column 1)					
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)					
30. Affiliated mortgage loans on real estate					
31. All other affiliated					
32. TOTAL of Above Lines 26 to 31					
33. TOTAL Investment in Parent Included in Lines 26 to 31 above					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes[ ] No[ ] N/A[X]

If no, please explain::