STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: The Vermont Health Plan, LLC	)	
3Q 2016 Large Group Rating Program Filing	)	GMCB-05-16-rr
	)	

The Vermont Health Plan, LLC's Reply Memorandum

The Vermont Health Plan, LLC (TVHP) files this Reply Memorandum to clarify the record before the Green Mountain Care Board (GMCB). Because TVHP is a wholly owned subsidiary of Blue Cross and Blue Shield of Vermont (BCBSVT), the Commissioner of the Vermont Department of Financial Regulation determined that the focus of her solvency opinion would be on the financial strength of BCBSVT. This Memorandum uses the same approach and evaluates the need for an adequate and stable contribution of reserve for BCBSVT for the benefit of TVHP members.

A contribution to reserves (CTR) is required in order to maintain an adequate level of surplus. Surplus is a critical consumer protection that allows members to receive needed care and providers to continue to receive payments in the event of unforeseen adverse events that may otherwise impact BCBSVT's ability to pay claims. We believe that a long-term CTR of two percent represents an adequate, yet not excessive, contribution to reserves. CTR at this level allows us to manage short-term fluctuations in order to maintain Risk-Based Capital (RBC) levels that are within our established, modest target range.

BCBSVT's and TVHP's CTR should be managed to an adequate long-term level, rather than fluctuating significantly from year to year with changes in membership and health care cost trend. For this reason, we have continued to file a CTR of two percent for 2017. It is our expectation that our future filings will also include a two percent contribution to reserves. While this amount may exceed or fall below that required to maintain RBC in any given future year, maintaining an adequate long-term assumption will allow us to avoid rate shocks in years of expected high growth in membership.

BCBSVT must remain financially strong in order to continue to provide Vermonters with outstanding member experiences, responsible cost management and access to high value care. We are therefore filing for a two percent CTR, which represents the long-term level necessary to maintain Risk-Based Capital (RBC) levels that are within our established, modest target range in the face of short-term membership and/or health care cost trend fluctuations.

It bears repeating that both DFR and L&E were in agreement that a CTR of 2 % was appropriate and reasonable for this filing. DFR's opinion stated:

> Unless GMCB's consulting actuary explicitly opines that this filing will produce rates that are inadequate or excessive, DFR's opinion is that these rates as filed likely will have the impact of sustaining the current level of solvency, which DFR has determined to be appropriate and necessary. Further, if rates are consistently reduced to the low end of a range of reasonableness, the likelihood of insufficient rates is increased. Therefore, DFR is also of the opinion that downward adjustments to rate components should not be made unless GMCB's consulting actuary explicitly opines that the filed rates, without any modification, are excessive.

In its memorandum, the HCA focuses on TVHP as if it were a stand-alone company and argues for a CTR of 0 %. This position ignores the fact that TVHP's RBC is rolled up into BCBSVT's RBC and a 0 % CTR for TVHP would suppress BCBSVT's RBC. Both companies are members of one enterprise and manage to one surplus level. It also does not make sense that these two companies would offer products to the same market segment with two different CTRs. In the alternative, the HCA argues for 1.3 % CTR, the level that would be necessary to maintain the current RBC level, effectively dismissing the need for an adequate CTR. HCA Memo, page 4 and 6. CTR must be adequate to *avoid* a specific threat to solvency. If TVHP were able "to demonstrate there is a specific threat to solvency in the period represented by the filing," it would take more than a 2 % CTR to address the issue. If the threat is known, we would price for it. It is the unknown that puts us at risk. An example just this year of an event that cannot be calculated and priced for in advance is DVHA's Medicaid requalification program. While the Medicaid requalification is not being directed at large groups, it has an impact on RBC because some of the people being disenrolled from Medicaid will enroll in their employer's plans—additional membership requires additional capital. Finally, it also bears repeating that a stable CTR promotes affordability over time by avoiding rate shock that an "all at once" increase in CTR to make up for prior inadequacy would cause.

TVHP requests the Green Mountain Care Board (GMCB) approve its 3Q2016 large group rating program filing as filed.

Dated at Berlin, Vermont, this 16th day of May, 2016.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Memorandum in Lieu of Hearing has been duly served upon Judith Henkin, General Counsel to the Green Mountain Care Board, and Lila Richardson and Kaili Kuiper, Office of Vermont Health Advocate, by electronic mail, return receipt requested, this 16th day of May, 2016.

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