STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re:	Blue Cross and Blue Shield of Vermont Third Quarter 2017 Large Group Rating Program Rate Filing	))))	GMCB-004-17rr SERFF No.: BCVT-130935599
In re:	The Vermont Health Plan Third Quarter 2017 Large Group Rating Program Rate Filing	)))))	GMCB-005-17rr SERFF No.: BCVT-130935776

DECISION & ORDER

Introduction

Vermont law requires that health insurers submit major medical rate filings to the Green Mountain Care Board which shall approve, modify, or disapprove a rate filing within 90 calendar days of its receipt. 8 V.S.A. § 4062(a)(2)(A). 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 23, 2017, Blue Cross and Blue Shield of Vermont (BCBSVT) submitted its Third Quarter 2017 (3Q17) Large Group Rating Program Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). On February 24, 2017, The Vermont Health Plan (TVHP), a for-profit subsidiary of Blue Cross and Blue Shield of Vermont (BCBSVT), submitted its 3Q17 Large Group Rating Program Rate Filing to the Board via SERFF. The filings incorporate the factor and rate development from combined BCBSVT and TVHP experience and propose identical changes to manual rates; we therefore consider both filings at the same time.[1] The Office of the Health Care Advocate (HCA), representing the interests of Vermont consumers of health insurance, entered an appearance as a party to these rate filings.

[1] For simplicity, we will generally refer to both insurers as BCBSVT, or as "the carrier." The SERFF filings, as well as all documents referenced in this Decision and Order, can be found at http://ratereview.vermont.gov/BCVT-130935599 (BCBSVT) and http://ratereview.vermont.gov/BCVT-130935776 (TVHP).

On April 24, 2017, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E). The Board posted a materially identical actuarial memorandum regarding TVHP on April 25, and posted revised versions of both L&E memoranda on May 9. On April 26, the Board posted to the web the Department of Financial Regulation's (Department) analysis regarding the filing's impact on the BCBSVT's and TVHP's solvency. The Board received no comments during the public comment period for either filing.

The parties have waived hearings pursuant to GMCB Rule 2.000 and have filed memoranda in lieu of hearing. BCBSVT has also filed a reply memorandum for each filing.

Findings of Fact

Nature of the Filings

1. BCBSVT is a non-profit hospital and medical service corporation. TVHP is a licensed health maintenance organization (HMO) and for-profit, wholly-owned subsidiary of BCBSVT. Each offers a variety of plans and products in the group market in Vermont.

2. These filings establish the formula, manual rate, and accompanying factors that will be used to establish premiums as members renew their coverage. They combine five factors that have historically been filed separately: trend; benefit relativities; administrative costs and contribution to surplus; aggregate stop loss; and large claim factors.

3. BCBSVT's and TVHP's combined large group business consists of 67 groups, with 8,200 subscribers and 15,900 covered lives.

4. The filing proposes a 10.7% increase to the carrier's large-group manual rate.[2]

Summary of the Data and Analysis

5. For the base experience period, BCBSVT used claims data from BCBSVT insured and Cost Plus large groups and TVHP insured large groups for the period from November 1, 2012 to August 31, 2016, and paid through October 31, 2016.

6. BCBSVT projected adjusted claims forward using a 6.0% allowed medical trend based on 1.3% utilization and 4.7% unit-cost trends.

[2] A manual rate is a baseline rate structure that a carrier will blend with a specific group's claims experience to produce the group's actual rates. The weight of the manual rate in calculating rates for a specific group will vary according to the size and actuarial credibility of the group.

7. Using a regression analysis of 24 months of historical data, a projected generic dispensing ratio (GDR) of 89%, and including a 19.3% trend for high-cost specialty drugs, BCBSVT calculated an overall allowed pharmacy trend of 11%.

8. Consistent with prior filings, BCBSVT applied an administrative trend of 2.4% over actual administrative costs for the year ending October 2016, assuming that wages and benefits will increase at 3.0%. For the present filing, BCBSVT assumed additional administrative costs as a result of a large Cost Plus group moving to an administrative-services-only (ASO) arrangement, leaving a smaller large group pool in which to spread administrative expenses. Additionally, BCBSVT's filed increase includes a 2.6% charge resulting from the return of the annual health insurer fee assessed under the Affordable Care Act, which was suspended for 2017 and is scheduled to return in 2018. The present filings remove this charge from the requested increase if the fee is repealed.

9. BCBSVT requests a 2.0% contribution to reserve (CTR) for fully-insured groups and 0.5% for Cost Plus groups. The request includes 1.4% to maintain risk based capital (RBC) at the mid-point of its target range due to the impact of the 6% total allowed trend, plus a margin to keep pace with trend and ensure stability of the block in case of one or more significant adverse claims events.

10. L&E performed an independent calculation of utilization and unit-cost components of medical trend. L&E reviewed the annual change in the total allowed medical claims for the prior 24 months, adjusting this data to account for the "buy down" effect on utilization caused by groups moving to higher cost-sharing plans. L&E also reviewed confidential data on unit-cost trends, resulting in an estimated range for overall medical trend of 3.9% to 7.8%. L&E opined that BCBSVT's proposed 6.0% trend was reasonable and comfortably within estimated range, but slightly higher than L&E's best estimate of 5.8%.

11. L&E's independent analysis produced a pharmacy trend figure of 9.7%, with an estimated range of 7.8% to 11.6%, basing its estimate on a regression analysis of recent historical claims data. L&E recommended correcting for an error in BCBSVT's filed specialty pharmacy trend, reducing it from 19.3% to 18.4%, and reducing the filed trend from 11% to 10.6%. L&E considered BCBSVT's pharmacy trend reasonable, if higher than L&E's best estimate. Reducing the specialty pharmacy trend only would have a non-material impact on the filed rate.

12. L&E opines that the carrier's proposed 2.0% CTR for fully insured groups and 0.5% CTR for cost-plus groups is reasonable, not excessive, and allows for a margin to protect against adverse events. L&E states that a review of BCBSVT's company-wide reserve level is beyond the scope of its review, and recommends consideration of the Department's solvency analysis to determine an appropriate CTR figure.

13. The Department reviewed the filing in light of BCBSVT's financial status, and states that the rates as filed likely would not have a significant impact on the Department's solvency assessment, but states that downward reduction of the filed rates could negatively impact the carrier's solvency.

14. The HCA requests that the Board reduce BCBSVT's change in administrative costs from 1.5% to 1% of the filed increase, and reduce the CTR to no more than 1.4%, arguing that BCBSVT has not demonstrated why the administrative cost increase is necessary or that it faces risks justifying a 2% CTR. The HCA requests that the Board reduce TVHP's CTR to 1% and adopt L&E's recommendation to reduce the specialty pharmacy trend.

Standard of Review

1. The Board reviews rate filings to ensure that rates are affordable, that they 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. §§ 4512(b); 4062(a)(3); GMCB Rule 2.000, §§ 2.301(b), 2.401. In addition, the Board takes into consideration changes in health care delivery, changes in payment methods and amounts, and other issues at its discretion. 18 V.S.A. § 9375(b)(6). When approving rates for a non-profit hospital service corporation, the Board has authority under 8 V.S.A. § 4513 to attach supplemental orders necessary to ensure that benefits and services are provided at minimum cost under efficient and economical management of the corporation.

2. As part of its review, the Board will consider the Department's analysis and opinion on the impact of the proposed rate on the insurer's solvency and reserves. 8 V.S.A. § 4062(a)(3). In addition, the Board shall consider any public comments received on a rate filing. Rule 2.000, §2.201.

3. The burden falls on the insurer proposing a rate change to justify the requested rate. *Id*. § 2.104(c)

Conclusions of Law

1. We reduce the allowed medical trend in both filings under review from 6.0% to 4.85%, and the allowed prescription drug trend in both filings from 11% to 8.75%. These reduced trend figures represent the bottom-quarter point of our actuaries' estimated ranges, and keep the approved trends within the range of actuarial reasonableness. Rates built from lower but actuarially reasonable trends will result in premiums for Vermonters that are as fair, equitable, and affordable as possible while also being adequate to cover the carrier's anticipated claims expenses, thereby promoting both access to care and quality of care. The effect of these reduced trends is an approximate 1.3% reduction of the overall proposed rate increase of 10.7%.

2. We acknowledge our actuaries' view that adopting trends lower than the mid-point of the estimated ranges is a departure from their best estimates, and we acknowledge as well the Department's solvency opinion recommending against reducing the filed rates. In departing from these recommendations, however, we note that both actuarial review and the Department's solvency analyses aim to assess rate adequacy from a position of neutrality regarding a carrier's future claims liability to medical providers. In contrast, today's Decision and Order approaches the question of rate setting as an integrated part of the Board's overall efforts to contain medical costs in Vermont, and incents the carrier to bring its considerable market share to bear on its negotiations with providers over negotiated rates for medical services. Although we are prevented from publicly addressing facility-specific trend rates that are exempt from disclosure under Vermont's Public Records Act as proprietary trade secrets and for which the carrier requested confidentiality, we note that the carrier assumed the Board would approve hospital budgets with commercial price increases for fiscal year (FY) 2018 and 2019 identical to those approved for FY 2017. This assumption ignores the downward trend in prices ordered by the Board in recent years, which the Board expects to continue. Moreover, a number of facility-specific trends in the present filings assume a sharp increase in commercial pricing that the Board is unlikely to approve. Reducing trend rates in the present filings will encourage the carrier to conduct its negotiations with Vermont hospitals on a trajectory that reflects the Board's hospital budget reviews, and further incents the carrier to maximize savings to Vermonters when negotiating rates with providers and pharmaceutical suppliers outside the hospital budget review process.

3. We accept our actuaries' recommendation that the administrative expense assumption in the filings are reasonable, appropriate, and adequately justified. However, we note that the

2.4% administrative trend, consistent with recent filings on this block of business, assumes a yearly 3% increase to wages that is in excess of inflation and in excess of wage growth seen by most working Vermonters. While we do not invoke our supplemental order authority under 8 V.S.A. § 4513 to prohibit these wage increases, we encourage the carrier to examine its administrative costs, including wage increases, to ensure that covered Vermonters are receiving benefits and services at an affordable cost.

4. Additionally, we conclude that the 2.0% CTR proposed by BCBSVT for fully insured groups and 0.5% CTR proposed for cost-plus groups is reasonable and appropriate to maintain solvency while also providing adequate margin for unidentifiable future risks within Vermont's large group market.

5. Finally, we note that 2.6% of the filed 10.7% increase results from the return of the Affordable Care Act's annual health insurer fee, an assessment over which neither BCBSVT nor the State of Vermont has control and which could magnify public perception of premium growth in Vermont. Absent this federal assessment, the carrier likely would have filed for an approximately 8.1% increase, and the Board's trend reduction would have resulted in a manual rate increase of approximately 6.8%. The Board hereby approves the removal of the insurer fee from the filed rates if the fee is repealed.

Order

For the reasons discussed above, the Board modifies and approves the large group rating program filings from BCBSVT and TVHP. Specifically, the Board orders an allowed medical trend of 4.85% and an allowed prescription drug trend of 8.75%. This modification should reduce the overall manual rate increase from approximately 10.7% to approximately 9.4%.

So ordered.

Dated: May 24, 2017 at Montpelier, Vermont

s/ Cornelius Hogan	)	GREEN MOUNTAIN
	)	CARE BOARD
s/ Jessica Holmes	)	OF VERMONT
	)	
s/ Robin Lunge	)	

* Chair Kevin Mullin and Member Maureen Maureen Usifer did not participate in deliberations on this matter.

Filed: May 24, 2017

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: Marisa.Melamed@vermont.gov*). 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.*