STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: TVHP 3Q 2017 Large Group Rating Program Filing SERFF No. BCBSVT 130935776	))))	GMCB 05-17-rr

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 % and adopting the rate modification proposed by the Board's actuaries.

I. Introduction

This Third Quarter 2017 Large Group Rating Program Filing establishes the formula, manual rate and accompanying factors that will be used in renewals for the Vermont Health Plan (TVHP). TVHP proposes an average 10.7% rate increase. GMCB 05-17-rr, System for Electronic Rates and Form Filing (SERFF Filing) Actuarial Opinion at page 2. TVHP estimates that this filing and the related Blue Cross and Blue Shield of Vermont (BCBSVT) Third Quarter 2017 Large Group Rating Program Filing, GMCB 04-17rr, will affect approximately 15,908 members (8,159 subscribers) in 67 groups who are expected to enroll in BCBSVT or TVHP plans. Ibid.

TVHP filed this rate request on February 23, 2017. GMCB 05-17-rr, SERFF Filing. On April 26, 2017, the Department of Financial Regulation (DFR) submitted its review of TVHP's financial solvency; on April 25, 2017, Lewis and Ellis (L&E), the contracted actuaries for the Board, presented an Actuarial Opinion on this filing; and on May 9, 2017 L&E submitted an Amended Report. GMCB 05-17-rr, DFR Solvency Analysis, L&E Actuarial Opinion and L&E Amended Report.

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 recommended that the specialty drug trend for the filing be reduced to 18.4% but otherwise did not recommend modifications to the requested rate increase. GMCB 05-1-rr L&E amended report at page 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 05-17rr Solvency Opinion at page 1. The Opinion expresses DFR's belief that the rates as filed "likely will have the impact of sustaining the current level of solvency." Id. at page 3.

IV. Analysis

The HCA asks the Board to reduce the CTR from 2% to no more than 1%. This modification would result in a more affordable product for Vermont policyholders and thereby promote access to care and maintain an adequate level of reserves for the carrier. TVHP proposes a 2% CTR for this filing. However, the carrier has failed to demonstrate a need for this level of contribution.

Contribution to reserves request

In response to L&E's question in the related BCBSVT Third Quarter 2017 Large Group Rating Program Filing, BCBSVT has described the top end of its target range for its Risk Based Capital (RBC) as 700. GMCB 05-17rr, Response #10 to Objection Letter 1 at page 5. TVHP's current RBC level as demonstrated in its most recent Annual Statement is far above the top of BCBSVT's target range. The Five Year Histoical Data page of TVHP's 2016 Annual Statement

[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 at page 1.

(attached) shows the annual Total Adjusted Capital and Authorized control level risk-based capital figures from which RBC is calculated. The insurer's RBC level has continued to grow significantly each year in 2014, 2015 and 2016 compared to its levels in 2012 and 2013. Ibid. The Five Year Historical Data chart also reflects a sharp decrease in membership in the TVHP plans since 2012 which further reduces the need to increase RBC.

TVHP argues for its requested 2% CTR in very general terms:

> 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 TVHP's ability to pay claims. TVHP must remain financially strong in order to continue to provide Vermonters with outstanding member experiences, responsible cost management and access to high value care. TVHP also believes that CTR should be managed to an adequate long-term level, rather than fluctuating significantly from year to year. We believe that maintaining the currently approved CTR of two percent for Insured Groups represents an adequate long-term, yet not excessive, CTR. While this may fall above or below that required to maintain RBC in this or any given future year, consistently maintaining an adequate long-term assumption will allow us to avoid rate shocks in years of high growth in membership or high increases in health care cost trend. Using these long-term assumptions maintains consistency across product lines, which promotes fairness to ratepayers.
> SERFF Actuarial memo at page 24.

The TVHP argument is the same argument for a 2% CTR that was presented in BCBSVT's Third Quarter Large Group Rate Filing. GMCB 05-17-rr SERFF, Actuarial Memorandum at page 24. The request in the TVHP filing does not take into account the very different RBC levels of BCBSVT and TVHP. The carrier's general unsupported assertion that a 2% CTR is adequate but not excessive does not meet its 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 far above the BCBSVT target range, TVHP should not charge policyholders money to further increase or even maintain its RBC and can afford a lower CTR for this filing.

Affordability and access to care for ratepayers

Because the proposed rate 10.75 increase requested in this filing will be difficult for TVHP policyholders to afford, the increase should be kept to the lowest possible level. A significant portion of employed Vermonters struggle to afford their health insurance. According to the 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 page 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 pages 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 at page 38.

Wages in Vermont have not increased enough in recent years to allow Vermonters to afford the 10.7% increase in insurance costs requested in this filing. Wages in Vermont increased only 6.2% between the third quarter of 2015 and the third quarter of 2016 according to recent statistics from the Vermont Department of Labor.

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

The May 12, 2017 Consumer Price Index (CPI) Summary shows increases in prices that are far lower than the requested rate increase. For all items the CPI increased only 2.2% over the 12 months up to April 2017. The increase for medical care commodities was 2.6% and the increase for medical care services was 3.1%. https://www.bls.gov/news.release/cpi.nr0.htm

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 adopt the modification to the specialty drug trend recommended by L&E and reduce the requested CTR to no more than 1%. 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 12th day of May, 2017.

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 and Rebecca Heintz, representatives of the Vermont Health Plan, by electronic mail, return receipt requested, this 12th day of May, 2017.

s/ Lila Richardson
Lila Richardson

FIVE-YEAR HISTORICAL DATA

	1 2016	2 2015	3 2014	4 2013	5 2012
BALANCE SHEET (Pages 2 and 3)					
1. TOTAL Admitted Assets (Page 2, Line 28)	40,142,204	43,073,456	47,787,787	63,901,565	68,403,931
2. TOTAL Liabilities (Page 3, Line 24)	5,782,357	9,825,147	14,049,432	30,658,724	31,619,183
3. Statutory minimum capital and surplus requirement	2,500,219	4,405,600	6,023,838	15,509,105	15,317,104
4. TOTAL Capital and Surplus (Page 3, Line 33)	34,359,847	33,248,309	33,738,355	33,242,841	36,784,748
INCOME STATEMENT (Page 4)					
5. TOTAL Revenues (Line 8)	30,610,703	50,857,534	69,615,383	172,952,460	183,705,300
6. TOTAL Medical and Hospital Expenses (Line 18)	25,002,186	44,055,997	60,238,380	157,693,929	158,268,045
7. Claims adjustment expenses (Line 20)	2,270,890	3,060,999	2,981,559	7,649,830	7,103,470
8. TOTAL Administrative Expenses (Line 21)	3,229,111	5,540,253	6,877,609	12,264,823	12,859,725
9. Net underwriting gain (loss) (Line 24)	108,516	(1,799,715)	(482,165)	(4,656,122)	5,474,060
10. Net investment gain (loss) (Line 27)	1,003,491	1,052,011	1,169,582	1,835,610	1,986,803
11. TOTAL Other Income (Lines 28 plus 29)					
12. Net income or (loss) (Line 32)	1,112,007	(747,704)	687,417	(2,820,512)	7,460,863
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	(264,855)	(3,585,847)	(3,448,613)	(5,622,878)	10,572,625
RISK-BASED CAPITAL ANALYSIS					
14. TOTAL Adjusted Capital	34,359,847	33,248,309	33,738,355	33,242,841	36,784,748
15. Authorized control level risk-based capital	1,596,999	2,570,860	3,215,478	6,997,392	6,847,184
ENROLLMENT (Exhibit 1)					
16. TOTAL Members at End of Period (Column 5, Line 7)	9,373	12,504	14,299	38,359	41,159
17. TOTAL Members Months (Column 6, Line 7)	116,054	155,938	209,285	468,642	493,925
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)	81.7	86.6	86.5	91.2	86.2
20. Cost containment expenses	1.0	0.8	1.0	0.9	0.8
21. Other claims adjustment expenses	6.5	5.2	3.3	3.5	3.1
22. TOTAL Underwriting Deductions (Line 23)	99.6	103.5	100.7	102.7	97.0
23. TOTAL Underwriting Gain (Loss) (Line 24)	0.4	(3.5)	(0.7)	(2.7)	3.0
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5)	2,769,120	5,968,029	8,937,883	11,052,752	9,337,097
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)]	3,770,900	7,151,200	11,142,000	12,280,678	9,845,068
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::