BlueCross BlueShield of Vermont

March 13, 2017

Mr. Josh Hammerquist, A.S.A., M.A.A.A.
Assistant Vice President & Consulting Actuary
Lewis & Ellis, Inc.

Subject: Your 03/07/2017 Questions re: Blue Cross and Blue Shield of Vermont
3Q 2017 BCBSVT Large Group Rating Program Filing (SERFF Tracking #: BCVT-130935599)

Dear Mr. Hammerquist:

In response to your request dated March 7, 2017, here are *your questions* and our answers:

1. *Please provide an illustrative exhibit of the 25.0% increase in the administrative charges.*

   Below are the calculations of the total administrative charges for the 2017 and 2018 mock renewals for the 59 groups with 12 months of experience we expect to renew 2018.

   For the 2017 mock renewals, the charges were based on four cost categories: Account, Billing Group, Member, and Cost Plus Medicare Supplement Member.

	Account	Billing Group	Member	Cost Plus Medicare Supplement Member
Charge	$405.49	$520.04	$24.83	$28.95
Monthly Units	59	69	14,406	53
Total Admin PMPM				**$29.09**

   For the 2018 mock renewals, the charges were based on six cost categories: Account, Member, Contract, Medical Claim Count, Projected Claims, and Cost Plus Medicare Supplement Member. These cost categories best align with our current cost allocation model.

	Account	Member	Contract	Medical Claim Count	Total Projected Claims	Cost Plus Medicare Supplement Member
Charge	$864.18	$15.46	$1.83	$1.19	3.0%	$29.29
Monthly Units	59	14,406	7,317	32,567	$6,548,864	53
Total Admin PMPM						**$36.36**

   The increase in administrative costs is $36.36/$29.09 – 1 = 25.0 percent. As indicated in the Memorandum, the bulk of the increase is due to the change from combining Large

Group Insured and Cost Plus to only using Large Group Insured for experience period expenses.

2. *Provide additional details regarding the first footnote on the bottom of page 3 of the Actuarial Memorandum.*

Below is the first line of the table in the Memorandum comparing the mock renewals from 2017 to 2018, along with the first footnote:

Component	2017 PMPM	2018 PMPM	PMPM Change	Impact on Premium Increase
Projected Paid claims[1]	$415.34	$443.87	$28.52	6.9%

(1) Projected paid claims include manual claims (5.9 percent increase), experience claims (7.4 percent increase), and projected rebates (5.6 percent increase).

Projected paid claims increased by $28.52 PMPM. The components in the projected paid claims are manual claims, experience claims, and projected rebates. For each group, manual and experience claims are blended by credibility. Projected rebates are applied to the blended claims to get the total projected paid claims. Below are the increases for each component in aggregate for the 59 renewing large groups with 12 months of experience:

Component	2017 PMPM	2018 PMPM	PMPM Change	Percent Change
Manual Claims	$401.54	$425.29	$23.75	5.9%
Experience Claims	$442.94	$475.78	$32.84	7.4%
Blended Claims	**$423.94**	**$452.95**	**$29.01**	**6.8%**
Projected Rebates	-$8.60	-$9.09	-$0.48	5.6%
Projected Paid Claims	**$415.34**	**$443.87**	**$28.52**	**6.9%**

3. This question involves confidential and proprietary information and has been provided under separate cover.

4. *Is the seasonality adjustment described at the bottom of page 4 of the Actuarial Memorandum only used when an experience period of 12 months is not used?*

No. As described in Section 3, we calculate a seasonally-adjusted benefit relativity value. Based on the seasonal patterns observed as part of the reserving process for each calendar month, we determine seasonal factors for CDHPs and for non-CDHPs and normalize them so that they total to 12. Then, a benefit relativity value (BRV) for each benefit in the experience period is calculated. The benefit relativity values are multiplied by the seasonal factors to calculate a seasonally-adjusted factor.

For each benefit by tier, the seasonally-adjusted benefit relativity value is multiplied by the benefit's enrollment and tier factor (as described in Section 4.3). The products are then summed by month and for the entire experience period. To calculate the impact of seasonality, the process is repeated using the non-seasonally adjusted benefit relativity value. The sum of the seasonally-adjusted factors is divided by the sum of the non-seasonally-adjusted factors in order to calculate the impact of seasonality on the

experience. If there were no changes in benefits or enrollment, the normalization of the seasonality factors would cause the seasonal adjustment to be 1.000. An example is provided below with illustrative seasonal factors, benefit relativity values, and enrollment.

	Seasonality Factors		Benefit Relativity Values			Seasonality Adjusted Benefit Relativity Values		
Month	Medical	Pharmacy	Medical	Pharmacy	Total	Medical	Pharmacy	Total
201601	1.013	0.987	0.800	0.200	1.000	0.810	0.197	1.008
201602	0.954	0.978	0.800	0.200	1.000	0.763	0.196	0.959
201603	1.004	0.991	0.800	0.200	1.000	0.803	0.198	1.002
201604	1.009	1.013	0.800	0.200	1.000	0.807	0.203	1.009
201605	1.025	0.982	0.800	0.200	1.000	0.820	0.196	1.017
201606	0.968	0.982	0.800	0.200	1.000	0.775	0.196	0.971
201607	0.991	0.996	0.800	0.200	1.000	0.793	0.199	0.992
201608	0.996	0.991	0.800	0.200	1.000	0.797	0.198	0.995
201609	1.017	0.978	0.800	0.200	1.000	0.814	0.196	1.009
201610	0.964	1.004	0.800	0.200	1.000	0.771	0.201	0.972
201611	0.954	1.029	0.800	0.200	1.000	0.763	0.206	0.969
201612	1.004	1.004	0.800	0.200	1.000	0.803	0.201	1.004

	Enrollment			Tier Factors			∑ (BRV * Enrollment * Tier Factor)	Σ (Seasonal BRV * Enrollment * Tier Factor)
Month	Single	2-Person	Family	Single	2-Person	Family		
201601	34	31	34	1	2	2.743	189.3	190.7
201602	35	33	32	1	2	2.743	188.8	181.0
201603	35	32	35	1	2	2.743	195.0	195.3
201604	32	30	35	1	2	2.743	188.0	189.8
201605	34	32	35	1	2	2.743	194.0	197.2
201606	34	35	35	1	2	2.743	200.0	194.3
201607	32	35	32	1	2	2.743	189.8	188.3
201608	30	32	31	1	2	2.743	179.0	178.1
201609	33	34	30	1	2	2.743	183.3	185.0
201610	31	34	34	1	2	2.743	192.3	186.9
201611	35	35	30	1	2	2.743	187.3	181.5
201612	32	30	32	1	2	2.743	179.8	180.6
						Sum	**2,266.5**	**2,248.6**

Seasonal Adjustment = 2,248.6 / 2,266.5 = 0.9921

5. *Please confirm that the revised credibility formula is factored into the projected rate increase.*

   We confirm that the revised credibility formula is factored into the projected rate increase.

6. *Please confirm that the trends at the top of page 14 of the Actuarial Memorandum should be switched.*

   We confirm that the trends at the top of page 14 of the Actuarial Memorandum should be switched. The total specialty trend is 14.9 percent and the trend for non-excluded specialty drugs is 17.3 percent.

7. *Provide the number of new hepatitis C claimants for each quarter year from 2014 to 2016.*

   Below is the number of new hepatitis C claimants by quarter from 2014 to 2016:

Year	Quarter	Claimants
2014	1	12
2014	2	5
2014	3	4
2014	4	7
2015	1	16
2015	2	13
2015	3	1
2015	4	4
2016	1	7
2016	2	5
2016	3	11

8. *Please compare the projected utilization of PCSK9 inhibitors in 2018 to the utilization in the experience period or calendar year 2016, including a narrative description of the differences.*

   In calendar year 2016, there were 12 members who filled a total of 72 scripts for a PCSK9 inhibitor. Of the 12 members, three stopped taking a PCSK9 inhibitor during the year, one had monthly scripts with the exception of a three-month gap, and the remaining 8 had monthly scripts without interruption following the first script. The table below shows the number of scripts filled each month:

Month	Scripts
January	1
February	1
March	2
April	8
May	4

June	7
July	7
August	6
September	9
October	7
November	9
December	11

For our 2018 projection, we assumed there would be 16 members taking a PCSK9 inhibitor and that each member would fill 12 scripts. This assumes a slight uptake in the number of members between 2016 and 2018 as the PCSK9 inhibitors gain market acceptance.

9. *Please compare the projected utilization of Orkambi in 2018 to the utilization in the experience period or calendar year 2016, including a narrative description of the differences.*

In calendar year 2016, there was one member taking Orkambi who stopped in November. This member had been filling one script per month since Orkambi was approved in August 2015. In 2017, two new members began taking Orkambi. We project there will be 8 members taking Orkambi in 2018 and anticipate each member will fill 12 scripts. This projection was developed using incidence estimates provided by our Chief Medical Officer. Given that this is a new drug, we believe it is more appropriate to use the clinical estimates rather than extrapolating emerging experience.

10. *What level of CTR is required to maintain RBC levels at their current levels due to the impact of trend?*

A CTR of 1.8 percent would be required to maintain RBC at 700 percent, the top end of our target range, due to the impact of Large Group premium increases. Please see the attached file *Response to 3Q LG Rating Program Review Inquiry 1.xlsx* for the detailed calculation. You will note that we've made a relatively minor enhancement to our methodology in order to allocate investment income on the basis of capital requirements rather than premium and premium equivalents. Capital requirements are derived from the contribution each line of business makes toward the Authorized Control Level, the denominator in the RBC calculation.

Note that we are precluded by Vermont law from publicly discussing our current RBC percentage. We have accordingly interpreted your question to mean "within our target RBC range" rather than "at [the] current [RBC] levels."

11. *Please confirm that the 2017 assessment of $10.30 for the New Hampshire Purchasing Program Payments is per month for each child that is a New Hampshire resident.*

We confirm that this is the correct assessment. The New Hampshire Vaccine Association (NHVA) Notice dated October 28, 2016[1] states the NVHA board set the 2017 assessment at $10.30 per assessable life per month. An assessable life is defined as a child under 19

[1] http://www.nhvaccine.org/nhvaccine.nsf/documents/2016-10-28NHVAWebsiteNoticeReAssessmentRate.html/$File/2016-10-28%20NHVA%20Website%20Notice%20Re%20Assessment%20Rate.pdf

years of age who resides in New Hampshire. This amount is applied to all members who meet the definition of assessable lives. We will use this rate until a new rate is approved.

12. *Provide quantitative support for the projected performance payment of $0.25 PMPM for PCMH.*

PCMH performance payments were introduced on January 1, 2016. Since prior data was not available at that time, $0.25 PMPM was selected as it is the midpoint of the range of possible payments. 2016 PCMH performance payments averaged $0.20 PMPM for large groups.

13. *Provide quantitative support for the 0.1% estimate of the BCBSVT portion of the total assessment of the Federal Insurer Fee.*

The IRS Annual Fee on Health Insurance Providers for 2016 Invoice, dated August 24, 2016, calculated the BCBSVT portion of the total assessment as:

$$\frac{\text{Net premiums taken into account for BCBSVT}}{\text{Net premiums taken into account for all covered entities}} = \frac{\$536,434,161.00}{\$632,428,972,565.09} = 0.085\%$$

Although the estimate of the BCBSVT portion is displayed rounded to 0.1% in Section 4.10, the unrounded number was used to calculate the projected BCBSVT Federal Insurer Fee.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,

Paul Schultz, F.S.A., M.A.A.A.