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April 17, 2018

Jude Daye, Executive Assistant
The Vermont Health Plan
445 Industrial Lane
Montpelier, VT 05601

Re: The Vermont Health Plan
3Q 2018 LG Rating Program Filing
SERFF Tracking #: BCVT-131424558

Dear Jude Daye:

We have been retained by the Green Mountain Care Board ("GMCB") to review the above referenced group products filing submitted on 3/15/2018. The following additional information is required for this filing and is being submitted on behalf of the Office of the Health Care Advocate.

Notice regarding proper responses:

- A minimum-acceptable response to quantitative questions from us must include a spreadsheet calculation with retained formulas such that we can replicate the calculations therein.
- Explanatory responses are merely a supplement to the spreadsheet material and in of themselves will constitute a lack of response.

Questions:

1. Please provide an estimate of the distribution of expected rate increase by large group account.

2. In TVHP's Actuarial Memorandum for this filing (p. 30), TVHP states that the Tax Cuts and Job Act (Act) reduces the average rate increase by 1.2 percent and that this change is reflected by a 0.5% decrease in CTR and a 0.5 percent decrease in the premium impact of the insurer fee. Please demonstrate how the two 0.5 percent decreases that you listed lead to an overall 1.2 percent decrease.

3. In TVHP's answer to L&E's April 3 Objection Letter, Question #10, BCBSVT calculates how the Act effects the level of CTR that TVHP needs to maintain risk based capital in the middle of its target range. Will the Act impact TVHP's financials in additional ways?

4. Please explain how TVHP is controlling costs for this book of business by using or planning to use alternative payment methodologies, such as capitated payments inside or outside of OneCare Vermont agreements. Please address each of the below-stated cost control issues in the response:

a. Whether TVHP incorporates alternative payment methodologies into direct contracts with providers;

b. Will TVHP's large group book of business be included in a contract with OneCare Vermont in 2019; and

c. What are TVHP's concerns about using alternative payment methodologies in direct contracts with providers and/or OneCare Vermont for this book of business? Please specify if TVHP's concerns are due to provider participation, large employer preferences, individual member preferences, and/or BCBSVT's belief that alternative payment methodologies will not increase value for consumers.

5. What metrics TVHP will collect to evaluate the success of TVHP's current OneCare Vermont contract to determine which book(s) of business, such as the large group book of business, to include in future ACO contract(s); and

a. What specific metrics from hospitals, insurers, and/or ACOs would help TVHP in further developing, evaluating, or clarifying its role in health care reform and the all-payer model?

6. TVHP's filing demonstrates that TVHP has lost money on its large group book of business in recent years. BCBSVT states, in the Actuarial Memorandum (p. 3), that the newly implemented manual rating methodology requires a 5.1 percent premium increase.

a. Would the rates on TVHP's large group book of business have been higher in the past five years if it had used the newly implemented manual rating methodology during that period?

b. What is TVHP's estimate of the extent to which previously experienced losses would have been reduced had this new manual rate methodology been implemented at an earlier point in time?

Please be aware that we expect to have further questions regarding the filing as the review continues.

To ensure that the review of your filing has been completed before statutory deadlines, we expect you to respond as expeditiously as possible to every objection in our letter, but no later than April 24, 2018. Note that the responses can be submitted separately and do not have to be submitted all at the same time.

We trust that you understand these forms may not be used in Vermont until they are formally approved by the GMCB.

Sincerely,

Josh Hammerquist F.S.A., M.A.A.A.
Vice President & Consulting Actuary
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BlueCross BlueShield of Vermont

April 25, 2018

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

Subject: Your 04/17/2018 Questions re: Blue Cross and Blue Shield of Vermont 3Q 2018 Large Group Rating Program Filing (SERFF Tracking #: BCVT-131424513) and Your 04/17/2018 Questions re: The Vermont Health Plan 3Q 2018 Large Group Rating Program Filing (SERFF Tracking #: BCVT- 131424558)

Dear Mr. Hammerquist:

In response to your requests submitted on behalf of the Health Care Advocate dated April 17 2018, here are *your questions* and our answers:

1. *Please provide an estimate of the distribution of expected rate increase by large group account.*

   A range of expected increases using the methodology described in section 2.2 of the actuarial memorandum is below. Please note that these represent increases due to changes to the rating formula, rating factors, and an additional year of trend. Actual rate increases will be driven by the claims experience in the period used to develop rates, premium currently in force, and underwriting judgment applied to the case.

Lower Bound	Upper Bound	Number of Groups
-	4.9%	1
5.0%	9.9%	16
10.0%	14.9%	25
15.0%	20.0%	16
20.0%	+	5

2. *In BCBSVT's Actuarial Memorandum for this filing (p. 30), BCBSVT states that the Tax Cuts and Job Act (Act) reduces the average rate increase by 1.2 percent and that this change is reflected by a 0.5 percent decrease in CTR and a 0.5 percent decrease in the premium impact of the insurer fee. Please demonstrate how the two 0.5 percent decreases that you listed lead to an overall 1.2 percent decrease.*

Certain premium components, such as the federal insurer fee, contribution to reserves, and broker commissions, are calculated as a percentage of total premium. Therefore, a change in one component is amplified across other components that are also calculated as a percent of premium.

Change		Premium
2019 Premium with 2.0% CTR & 2.6% Insurer Fee		$570.50
Reduction to CTR	x	(1 - 0.005)
Reduction to insurer fee	x	(1 - 0.005)
2019 Premium after CTR and insurer fee reduction	=	$564.81
Reduction in Broker Commissions	-	$0.13
2019 Premium after tax reform impact	=	$564.68

	Before Tax Reform	After Tax Reform
2019 Premium PMPM	$570.50	$564.81
2018 Premium PMPM	$497.23	
Average Rate Increase	14.74%	13.56%
Change in Average Rate Increase		-1.2%

Please note that the "After Tax Reform" increase is measured before the suspension of the Federal Insurer Fee. The removal of the fee brings the increase from 13.56 percent to the filed 11.2 percent.

3. *In BCBSVT's answer to L&E's April 3 Objection Letter, Question #10, BCBSVT calculates the level of CTR that BCBSVT needs to maintain risk based capital in the middle of its target range. Will the Act impact BCBSVT's financials in additional ways?*

The Tax Cuts and Jobs Act enacted in late 2017 is anticipated to have two specific impacts on BCBSVT's financials. First, beginning with the 2018 tax year, the BCBSVT legal entity will no longer be subject to federal income taxes (note that BCBSVT subsidiaries will continue to be taxable). The savings resulting from the elimination of BCBSVT's annual federal tax obligation are being passed on directly to our customers via premium rates, and that is what has led us to reduce the CTR component of our rates from 2.0% to 1.5%.

The second expected impact results from the repeal of the corporate AMT in the new law. As a low to moderately capitalized Blue Plan, BCBSVT has been subject to federal income taxes at an alternative minimum tax (AMT) rate since 1987. AMT credits accumulated by BCBSVT since 1987 have become refundable under the law, and the total AMT credit balance is scheduled to be paid to BCBSVT over a four year period from 2019 through 2022, based on filed federal tax returns from 2018 through 2021. Assuming the credits are refunded to BCBSVT in accordance with the provisions set out in the Tax Cuts and Jobs Act, these funds will also be used for the direct benefit of our customers as they are

received from the IRS. The method(s) for returning the AMT credits to customers will be determined at that time, and may include lower premium rates than would otherwise have been necessary, replenishment of member surplus shortfalls, or other appropriate measures designed to protect and minimize the costs incurred by our members.

4. *Please explain how BCBSVT is controlling costs for this book of business by using or planning to use alternative payment methodologies, such as capitated payments inside or outside of OneCare Vermont agreements. Please address each of the below-stated cost control issues in the response:*
a. Whether BCBSVT incorporates alternative payment methodologies into direct contracts with providers;

BCBSVT's contract with OneCare Vermont does not presently include any changes to the underlying reimbursement to network providers. Providers continue to be reimbursed pursuant to the direct contracts existing between BCBSVT and the provider. Independent of the OneCare contract, BCBSVT's network includes capitation contracts with approximately 50% of network primary care providers. Our network also includes a lab capitation agreement with one facility and a number of smaller value-based payment arrangements including enhanced reimbursement for participation in outcomes focused mental health programs, case rates for Hub opioid treatment programs, a joint replacement bundled payment pilot, and an outpatient case rate pilot for colonoscopies. BCBSVT expects to expand several of these programs over the next year and begin new alternative payment programs such as case rates for medication assisted therapy services at Spokes providers. We continue to develop and test focused payment reform programs supporting a variety of provider types, providing greater access and quality outcomes to our members. In alignment with the focused reform programs we continue to work with OneCare Vermont to evaluate alternative payment methodologies piloted with DVHA to determine potential incorporation into the BCBSVT/OneCare agreement.

b. Will BCBSVT's large group book of business be included in a contract with OneCare Vermont in 2019; and

OneCare Vermont and BCBSVT are evaluating potential inclusion of BCBSVT's large group insured population for 2019. If the population is included in a risk agreement with OneCare Vermont it is expected the target measuring ACO financial performance will flow directly from the approved GMCB premium and underlying assumptions

c. What are BCBSVT's concerns about using alternative payment methodologies in direct contracts with providers and/or OneCare Vermont for this book of business? Please specify if BCBSVT's concerns are due to provider participation, large employer preferences, individual member preferences, and/or BCBSVT's belief that alternative payment methodologies will not increase value for consumers.

BCBSVT supports increased provider participation in, and the number of, value based payment programs focused on quality of care, increasing patient access and supporting provision of care coordination services for our members. Development and implementation of value based programs must ensure that the goals and mechanics of the new methodology result in value to Vermonters — both providers and our members. BCBSVT is evaluating experiences resulting from the DVHA/OneCare alternative payment models. Difficulties related to applying alternative payment models to BCBSVT's

commercial population include (1) complexities resulting from configuration of member benefits and cost share; (2) costly and time consuming implementation reconfiguring claims system and provider contracts; (3) addressing provider by provider issues (e.g. reporting identifying subsets of the population included in alternative patients and impacts of claims reprocessing); and, (4) impacts of the transition of providers and members in and out of the ACO program. BCBSVT and OneCare continue to evaluate implementation of new payment methodologies ensuring that implementation supports the intended goal of supporting delivery system reform through new funding mechanisms and ultimately results in value to BCBSVT members.

5. *What metrics BCBSVT will collect to evaluate the success of BCBSVT's current OneCare Vermont contract to determine which book(s) of business, such as the large group book of business, to include in future ACO contract(s); and*
a. What specific metrics from hospitals, insurers, and/or ACOs would help BCBSVT in further developing, evaluating, or clarifying its role in health care reform and the all-payer model?

BCBSVT's agreement with OneCare aligns with the metrics within the All Payer Model and DVHA's implementation of their ACO program. BCBSVT will monitor financial results, quality outcomes and member experience metrics to determine success of the program and/or components that need to be modified. Early indicators of ACO success include decreased ER utilization, member engagement in joint BCBSVT/OneCare care coordination programs, inpatient admissions, and review of quarterly member calls/grievance rates. Relative to the impact of the All Payer Model and reform efforts, BCBSVT relies upon data from the GMCB to evaluate financial impact of the ACO as it relates to hospital budgets and impact on underlying cost of care.

6. *BCBSVT's filing demonstrates that BCBSVT has lost money on its large group book of business in recent years. BCBSVT states, in the Actuarial Memorandum (p. 3), that the newly implemented manual rating methodology requires a 5.1 percent premium increase.*
a. Would the rates on BCBSVT's large group book of business have been higher in the past five years if it had used the newly implemented manual rating methodology during that period?

Yes. As noted in section 4.4 of the actuarial memorandum, we believe the ratio of experience to manual claims provides a general indication of the adequacy of the manual rates. The table below, reproduced from the actuarial memorandum, is illustrative of the disconnect between experience and manual claims. (Note that the January 1, 2019 data point is after our adjustments to the manual rate.)

Effective Date	Ratio of Experience to Manual Claims
1/1/2017	1.10
1/1/2018	1.12
1/1/2019	1.01

While making the change at an earlier date would have increased rates, it would have lowered the requested increase on this filing. The systemic underpricing of the manual rate requires a one-time adjustment, after which point the manual rate will more closely track with experience underlying the large group block.

b. What is BCBSVT's estimate of the extent to which previously experienced losses would have been reduced had this new manual rate methodology been implemented at an earlier point in time?

As described above, BCBSVT and TVHP believe the new methodology will result in manual rates that are closer to experience rates in aggregate. In the 2017 renewals used to calculate an average rate increase for the 3Q 2016 filing (SERFF# BCVT-130453174 & BCVT-130457790), the ratio of experience claims to manual claims was 1.10. Manual claims comprise roughly 50 percent of claims for large groups, so the entire difference between manual and experience rates would not be carried into the rates. Adjusting the manual rates used in those renewals to produce manual claims that equal the experience claims in aggregate would have necessitated a 3.8 percent higher premium. Applying this increase to the earned premium from the underwriting results in section 6 of the actuarial memorandum would have lowered the loss and expense ratio to 1.014.

	Year	Incurred Claims	Administrative Charges	Earned Premium	Gain/(Loss)	Loss & Expense Ratio
From UW Results	2017	86,520,109	10,424,245	92,106,277	-4,838,077	1.053
With Premium Increased 3.8%	2017	86,520,109	10,424,245	95,615,432	-1,328,922	1.014

Please note that this provides a simplistic demonstration of the premium impact in prior years. BCBSVT and TVHP made several judgmental assumptions to the 2019 manual rate, such as excluding one large group atypical to the book, and capping claims from large groups at $280,000, which lowered the filed manual rate. It is possible that similar judgmental assumptions would have been made had the change been made at an earlier date.

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.