STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re:	Blue Cross and Blue Shield of Vermont Third Quarter 2015 Large Group Rating Program Rate Filing	))))	GMCB-003-15rr SERFF No.: BCVT-129910512
In re:	The Vermont Health Plan Third Quarter 2015 Large Group Rating Program Rate Filing	)))))	GMCB-004-15rr SERFF No.: BCVT-129912021

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 4, 2015, Blue Cross and Blue Shield of Vermont (BCBSVT) submitted its Third Quarter 2015 (3Q15) Large Group Rating Program Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). http://ratereview.vermont.gov/sites/dfr/files/GMCB_003_15rr_SERFF_3_13_15.pdf. On February 5, 2014, The Vermont Health Plan (TVHP), a for-profit subsidiary of Blue Cross and Blue Shield of Vermont (BCBSVT), submitted its Third Quarter 2015 Large Group Rating Program Rate Filing to the Board via the System for Electronic Rate and Form Filing (SERFF). http://ratereview.vermont.gov/sites/dfr/files/GMCB_004_15rr_SERFF_3_23_15.pdf. The filings incorporate the factor and rate development from combined BCBSVT and TVHP experience; 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, has 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."

On April 5, 2015, the Board posted to the web an actuarial memorandum provided by its contract actuaries, Lewis & Ellis (L&E), and the Vermont Department of Financial Regulation's (Department) analysis and opinion regarding the impact of the proposed filing on the insurer's solvency in the BCBSVT filing. *See* http://ratereview.vermont.gov/sites/dfr/files/GMCB_003_15rr_ActuarialAnalysis.pdf (L&E Memo); http://ratereview.vermont.gov/sites/dfr/files/GMCB_003_15rr_SolvencyAnalysis.pdf (Solvency Analysis). The following day, the Board posted the same documentation for the TVHP filing. *See* http://ratereview.vermont.gov/sites/dfr/files/GMCB_004_15rr_ActuarialAnalysis.pdf; http://ratereview.vermont.gov/sites/dfr/files/GMCB_004_15rr_SolvencyAnalysis.pdf. 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 each has filed memoranda in lieu of hearing. BCBSVT has also filed a reply memorandum for each filing.

Findings of Fact

Nature of the Filing

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

2. This filing establishes the formula, manual rate and accompanying factors that will be used to establish premiums as members renew their coverage. It combines 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. There are 61 groups, 13,100 subscribers and 26,900 covered lives in the BCBSVT insured and Cost Plus large groups affected by the filing. For TVHP, there are 37 fully insured groups, approximately 3,980 subscribers and 7,670 covered lives affected by its filing.

Summary of the Data and Analysis

4. 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 December 1, 2010 to September 30, 2014, and paid through November 30, 2014.

5. BCBSVT projected adjusted claims forward using a 6.6% annual allowed medical trend based on 0.0% utilization – despite experiencing negative utilization since 2011 – and a 6.6% unit cost assumption. BCBSVT explained that it chose to assume the 0.0% utilization

because (a) historical negative utilization is partially a result of a reduction in induced utilization; (b) inpatient utilization is unduly influenced by an unexplained decrease in 2014; and (c) it does not believe that the negative utilization trend reasonably represents the longer-term outlook on use of services.

6. Projecting a generic dispensing ratio (GDR) of 86.3% and taking into account the impact of high-cost specialty drugs, BCBSVT calculated an overall allowed pharmacy trend of 10.0%.

7. BCBSVT trended administrative costs forward by 2.5% over actual administrative costs for the year ending November 2014. The carrier based the cost trend on the assumption that wages and benefits will increase at 3.0%, and operating costs and membership will remain level.

8. BCBSVT requests a 2.0% contribution to reserve (CTR). The request includes 1.3% to maintain risk based capital at the current levels due to the impact of the 7.2% total allowed trend, plus a margin to keep pace with trend and ensure stability should a significant adverse event create a shock to capital.

9. During the course of its review, L&E examined confidential information provided by the carrier and the historic negative utilization. As a result, L&E estimates -0.3% medical trend utilization, rather than the proposed 0.0%.

10. While preparing responses to questions posed by L&E, the carrier discovered it had miscalculated the projected unit cost trend, and as a result revised downward its projection of allowed medical trend from 6.6% to 5.8% (a 6.5% paid trend).[2] L&E finds the revised trend is reasonable, falling within a 3.4% to 7.6% estimated range of allowed medical trend, but slightly above its best estimate of 5.4% to 5.6%.

11. If the medical trend was recalculated utilizing the -0.3% utilization trend recommended by L&E and the revised unit cost trend of 5.8%, the total allowed medical trend would decrease to 5.5%.

12. On review of the proposed pharmacy trend, L&E determined that the carrier's estimated cost for hepatitis C treatment should be reduced due to a change in formulary, resulting in a reduction in overall allowed pharmacy trend from 10.0% to 8.8%. The recalculated trend falls within L&E's estimated range of 7.1% to 10.5%.

[2] Allowed cost trends are based on charges that reflect the total amount of claims paid by both the carrier and the policyholder. Paid trends reflect the actual claim payment made by the carrier only.

13. Using the revised combined trend (6.4% allowed trend, 7.2% paid trend), the carrier requires a CTR of 1.1% to maintain its risk based capital level. L&E opines that the carrier's proposed 2.0% CTR allows for a margin to protect against adverse events and is reasonable, but defers to the Department for review of the carrier's current level of reserves.

14. The Department reviewed the filing in light of BCBSVT's financial status, and states that the "rates as filed likely will have the impact of sustaining the current level of solvency, which DFR has determined to be appropriate and necessary."

15. The HCA requests that the Board reduce the allowed medical trend to estimate of 5.5%, consistent with L&E's best estimate, reduce the allowed pharmacy trend to 8.8% to account for the lower cost of hepatitis C treatment, and reduce the carrier's CTR to 1.1%. BCBSVT opposes further downward modification of the medical trend and reduction of the CTR, arguing that both are inconsistent with L&E's analysis and recommendations.

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)(2); GMCB Rule 2.000, *Rate Review*, §§ 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).

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)(2), (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. First, we accept our actuary's recommendation, based upon its independent calculation, that BCBSVT lower its medical utilization factor from 0.0% to -0.3%. The carrier has not proven in light of historic trend data that its utilization and intensity will not remain negative, even when offset by the impact of a reduction in induced utilization.

2. We therefore also reduce the proposed allowed medical trend to 5.5% consistent with L&E's best estimate. The 5.5% trend is in the center of the reasonable range of medical trend and therefore the most likely ratio to occur, and produces lower rates for Vermonter policyholders.

3. Next, as recommended by our actuary and as recalculated by the carrier, we reduce the allowed pharmacy trend to 8.8% to reflect the decreased cost of treating hepatitis C.

4. Last, we reduce the CTR for fully insured groups to 1.1% – the amount required by BCBSVT to retain its risk based capital assuming a 7.2% combined trend[3] – which is consistent with the Department's concern that the carrier "sustain its current solvency level." Although this is less than requested, the carrier has not provided sufficient, specific support that an adverse event is likely to occur during the projection period. We proportionately reduce the CTR for Cost Plus Groups from 0.5% to 0.28%.

Order

For the reasons discussed above, the Board modifies the filing by reducing the medical utilization factor from 0.0% to -0.3% and overall medical trend to 5.5%, reducing the allowed pharmacy trend to 8.8%, reducing the CTR for insured groups to 1.1% and Cost Plus Groups to 0.28%, and thereafter approves the filing.

So ordered.

Dated: May 5, 2015 at Montpelier, Vermont

s/ Alfred Gobeille)
)
s/ Cornelius Hogan) GREEN MOUNTAIN
) CARE BOARD
s/ Jessica Holmes) OF VERMONT
)
s/ Allan Ramsay)
)
s/ Betty Rambur)

[3] We note that the 1.1% CTR was calculated using a slightly higher combined trend than we approve here because we approve a 5.5%, rather than 5.8%, medical trend.

Filed: May 5, 2015

Attest: s/ Janet Richard
Green Mountain Care Board, Administrative Services Coordinator

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: Janet.Richard@state.vt.us).
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.