ROACH|HEWITT|RUPRECHT
SANCHEZ & BISCHOFF PC

Christopher T. Roach

66 Pearl Street, Suite 200
Portland, ME 04101

207-747-4875 voice
croach@roachhewitt.com

July 28, 2016

Eric Cioppa, Superintendent
Attn: Elena Crowley
Docket No. INS-16-1000
Bureau of Insurance
Maine Department of Professional and Financial Regulation
34 State House Station
Augusta, Maine 04333-0034

Re: Anthem Blue Cross and Blue Shield 2017 Individual Rate Filing

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY:	Christopher T. Roach
DATE:	July 28, 2016
DOCUMENT TITLE:	Anthem Closing
DOCUMENT TYPE:	Closing
CONFIDENTIAL:	**NO**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Attached service list

NON-CONFIDENTIAL

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE

IN RE: ANTHEM BLUE CROSS AND BLUE SHIELD 2017 INDIVIDUAL RATE FILING Docket No. INS-16-1000	ANTHEM'S CLOSING STATEMENT JULY 28, 2016

NON-CONFIDENTIAL

As directed by the Superintendent at the close of the hearing, Anthem Health Plans of Maine, Inc. d/b/a Anthem Blue Cross and Blue Shield ("Anthem") hereby submits its closing statement.

There are two fundamental ways in which to assess whether Anthem's proposed rates are excessive, inadequate or unfairly discriminatory: (1) review of Anthem's aggregate rates and composition of such in a total market context; and (2) analysis of the combination of the individual assumptions in the rate development. Either way, Anthem's proposed 19.4% average increase in current rates is supported by the evidence in the record.

I. Anthem's overall rates, developed in the context of a competitive market, are not excessive, inadequate or unfairly discriminatory and should be approved as filed.

As reflected in the prefiled testimony of William Whitmore ("Whitmore prefiled") and by the Anthem panel at the hearing, the presence of a competitive individual marketplace in Maine in which consumers have choices among carriers and carriers are competing for membership changes the type of regulatory oversight that is most needed. Carriers that do not offer competitive rates will lose (and not gain) membership because price comparisons are readily available to consumers during the annual re-enrollment process. The risk of not being competitively priced, and the resulting loss of market share, act as a natural constraint on the market.

Here, moreover, it is undisputed that if all of the revised rate filings are approved as filed, Anthem's rates will be among the lowest of the four carriers, its administrative expenses will be the lowest, and its projected medical loss ratio (87.4%) will be the highest. Because the benefits in all ACA plans are relatively similar for the different ACA plan categories, this fact alone demonstrates that Anthem's proposed rates are not excessive. To conclude otherwise would mean that a carrier with lower per member per month administrative expenses than its competitors would be penalized for efficiently administering the business, a result that is contrary to the Affordable Care Act and general ratemaking principles.

There is another reason that countenances against the Superintendent modifying Anthem's proposed rates. While Anthem competes, and does not collaborate, with the other competitive insurance carriers in the Maine individual market, the Superintendent stands in the unique position of being able to examine the rate relativities among the four carriers. This allows the Superintendent to guard against the type of imbalance that exists today in which an underpriced carrier (CHO) obtained upwards of 80% of the market only to face financial catastrophe when that underpricing turned out to be inadequate to cover the costs of providing the insurance in 2015 and 2016. If the rates across all carriers are approved as filed, it is likely that some material number of CHO members will transition to Anthem, Harvard Pilgrim and Aetna, creating more balance in the marketplace, ensuring on-going (appropriate) competition, and reducing the risk to CHO members that their carrier of choice will fail and/or become unable to pay the members' claims. That would be a positive result for the health of the Maine individual ACA market.

If instead the Superintendent disturbs the rate relativities that have been brought about by the competitive market (or Bureau oversight in the case of CHO), that may well create an unnatural shift of enrollment to one carrier or another and the problem of market imbalance will persist. That would undermine the stability that the Superintendent and carriers should be striving for in the market.

As the Anthem panel testified, Anthem developed its rates to price to the 2017 market risk, which Anthem assumed would remain static. There are two problems with this approach if the Superintendent reduces Anthem's rates. First, the morbidity of the Maine individual ACA block is not likely to remain static, but instead is likely to deteriorate in 2017 if for no other reason than that some number of healthier members will drop coverage rather than pay the increased premium. Indeed, the one CHO member who spoke first at the CHO hearing testified that he could not afford to pay any additional premium and he had not used his policy at all. That is just the type of member who will strongly consider dropping coverage because they are better off financially paying the penalty than paying the increased premium. When (not if) the healthiest members of the individual block consider whether to pay the higher premiums or the penalty, some number will lapse and the morbidity of the overall block will deteriorate. Anthem's rates do not include what we now recognize as a likely increase in morbidity from the base period to the rating period.

The second problem that arises if Anthem's rates are reduced is that significantly greater numbers of CHO members may transition to Anthem plans for 2017. In its rate development, Anthem anticipated an influx of approximately 8,500 members from the existing market. The combination of the payments that CHO received for risk adjusters and reinsurance reflect that CHO has a greater than average number of high-cost claimants. Going forward, high cost claims will not be reinsured and the risk adjuster mechanism adjusts risk only to the average risk for each illness; to the extent claims for a particular diagnosis exceed the average, the excess portion of the claim is not accounted for in the risk adjustment calculation. This means the carrier takes on that excess risk, and without any reinsurance to offset those claims.

The rates proposed by all carriers have emanated from a fully competitive market. Anthem's rates are among the lowest, provide the greatest return to members for every premium dollar, and should be approved as filed.

II. Viewed together, the assumptions in Anthem's rate development yield rates that are not excessive, inadequate or unfairly discriminatory.

For the reasons articulated in Section I, the record reflects that Anthem's rates in the aggregate are not excessive, inadequate or unfairly discriminatory. That said, a brief discussion of the evidence in the record on each primary rate assumption follows.

A. Anthem's ratemaking methodology is reasonable, but likely understates morbidity.

Upon receipt of the 2015 risk adjuster assessment from CMS in the amount of $3.9 million, Anthem included that amount in its 2015 base claims to price to the average market risk. While this methodology is reasonable and eliminates the need to estimate how Anthem's enrollment risk may differ from the market, as noted above, Anthem's assumption of static morbidity through the rating period is likely understated. The methodology also relies upon only a reasonable number of CHO members transitioning to Anthem, the increased risk for which would be reconciled through the risk adjuster process. This assumption would be unreasonable if Anthem's rates are reduced and a significant (unnatural) number of CHO members transition to Anthem the risk for whom would not be offset by reinsurance, the risk adjuster process or Anthem's rate development.

B. Anthem's 4.6% adjustment for the absence of reinsurance is reasonable.

As explained in Anthem's response to the hearing requests, reinsurance for the last full calendar year (2015) represented 5.2% and Anthem paid the equivalent of 0.6% in reinsurance premium. The net effect of reinsurance for 2015 was 4.6%, the amount that Anthem has included in the proposed 2017 rates. While this is reasonable, as noted at the hearing, it is far less risky to have reinsurance available than to price for its absence. Anthem did not include any adjustment to this rate assumption to account for this additional risk.

C. Anthem's 9.6% paid claims trend is reasonable.

Anthem's trend is increasing based in large part on pharmacy claims and increased utilization. While one would not expect trends among all carries to be identical, the trends are similar; all significantly higher than last year. Anthem's trend is based on the same methodology as in prior years and uses small group data and a regression analysis to smooth out the volatility that would be typical in a start-up block. At the hearing, the Superintendent's panel asked what amount in the trend is attributable to a volatility adjustment. As explained in Anthem's hearing responses, the 9.6% trend is a p-60 value, meaning that there is a 60% confidence level that claims will trend at 9.6% from the base period to the rating period. The "value" of that p-60 confidence level is 0.9%.

The Bureau did not inquire of Aetna whether they included any volatility adjustment in trend. Harvard Pilgrim testified that they included an adjustment for volatility. The actuary for Community Health Options testified that, while they include no explicit margin for volatility, they select a trend that is in the middle, which suggests they develop a range of possible trends and pick neither the high nor the low point. That is precisely the purpose of establishing confidence levels: to determine the statistical likelihood of achieving a particular claims trend. CHO's trend (7.2%) also does not include cost-sharing leveraging whereas Anthem's trend (9.6%) is a paid claims trend, which includes leveraging and is virtually identical to Harvard Pilgrim's trend estimate (9.5%). To the extent the Superintendent is assessing the reasonableness of the trend assumptions from the multiple carriers in the market, it is also noteworthy that CHO's trend projections resulted in losses that will approach $75 million over a two-year period ($31 million in 2015 and projected $43+ million for 2016).

The evidence in the record demonstrates that Anthem's paid claims trend is reasonable.

D. Anthem's administrative expenses are materially lower than any other carrier and are in any event reasonable.

The $37.60 PMPM included in rates for administrative expenses reflects only 7.7% of premium and is based on the costs that Anthem is observing in 2016 for the individual ACA block. As reflected in Anthem's hearing responses, this level of expense is also consistent with the expenses Anthem observed in 2015. As Mr. Whitmore testified, administering the ACA block of business takes significantly more time and resources than were required to administer the individual legacy business. The annual enrollment process and complexities of products and subsidies results in higher numbers of calls and of much longer duration. The Anthem team also spends considerable time on product development, modifications based on changing CMS requirements, and the risk adjuster process. Despite those challenges, Anthem's administrative expenses ($37.60 and 7.7% of premium) compare very favorably to the other competitors in the market, which range from $40.74 to $58.48 on a PMPM basis and 9.57% to 12.21% as a percent of premium.

The evidence in the record demonstrates that Anthem's administrative expenses are reasonable.

E. Anthem's 2.24% profit and risk charge is reasonable.

As set out in its actuarial memorandum, CHO's after-tax profit and risk charge is 4.0%, which is more than 40% higher than Anthem's 2.24% after-tax charge. We understand that CHO's financial status warrants a healthy margin for risk, but that is already accounted for in the differential between CHO (4.0%) and Anthem (2.24%). As Mr. Whitmore testified, in light of the considerable risks of the individual ACA market, Anthem's margin is at the very lowest end of a reasonable range.

Anthem earned more than projected in 2014 simply because fewer people enrolled in the ACA than expected so the dollars available for reinsurance on a per member basis were considerably higher than anticipated. In 2015 – despite reinsurance for high cost claimants – Anthem's 1.68% after-tax margin covered only risk, resulting in essentially $0 in profit for taking on the risk of $45 million in claims that year. The risks of this business are evident in Maine with CHO's losses, which echo the national losses that many carriers and co-ops have suffered over the last two years. Those risks are going to grow in 2017. Morbidity will almost certainly increase, there will be no reinsurance to cover high-cost claims and the carrier with the largest enrollment (CHO) is in jeopardy of failing as the vast majority of co-ops have already done. Worse still is the prospect that CHO could fail mid-year, with all of its attendant consequences, detailed in the Whitmore prefiled.

There may come a point in time when the ACA individual market in Maine is stable and the risks subside, but that time has not yet come.

The evidence in the record reflects that the 2.24% after-tax profit and risk charge is reasonable.

* * *

For all of the reasons set forth above, in the prefiled testimonies submitted by Anthem, the testimony adduced at the hearing, and Anthem's post-hearing responses, Anthem's proposed rates for 2017 are not excessive, inadequate or unfairly discriminatory. As noted above, the proposed rates for each carrier are the product of a competitive market and create rate relativities that should result in an individual market that is far more balanced and healthy going forward. Anthem strongly encourages the Superintendent to maintain that market-driven balance and approve the proposed rates as filed.

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DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
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IN RE: ANTHEM BLUE CROSS AND BLUE SHIELD 2017 INDIVIDUAL RATE FILING Docket No. INS-16-1000	)))))))))	CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that on this date I caused to be mailed by electronic mail, copies of Anthem's Closing on the persons and at the addresses indicated below.

Thomas C. Sturtevant, Jr., Assistant Attorney General 6 State House Station Augusta, Maine 04333-0006 Thomas.C.Sturtevant@maine.gov	Elena Crowley Bureau of Insurance Maine Department of Professional and Financial Regulation 34 State House Station Augusta, Maine 04333-0034

DATED: July 28, 2016

/s/ Christopher T. Roach
Christopher T. Roach
Roach Hewitt Ruprecht Sanchez & Bischoff PC
66 Pearl Street, Suite 200
Portland, Maine 04101
Tel. (207) 747-4875

Attorney for Applicant