

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 Response to Hearing Requests  
DOCUMENT TYPE: Response to Hearing Requests  
CONFIDENTIAL: **NO**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Attached service list

# NON-CONFIDENTIAL

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

IN RE: )  
)  
) ANTHEM RESPONSE TO HEARING  
ANTHEM BLUE CROSS AND BLUE ) REQUESTS OF THE  
SHIELD 2017 INDIVIDUAL RATE FILING ) SUPERINTENDENT  
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Docket No. INS-16-1000 )  
) JULY 28, 2016  
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1. Please provide the amounts that Anthem has paid for reinsurance for all lines and for the individual line separately.

Response	ACA Reinsurance Fee	Individual BCBSME	Small Group BCBSME	Large Group BCBSME	Maine Local Business (Total)
	2015	\$474,717.93	\$812,885.84	\$3,678,023.32	\$4,965,627.09
	2016 YTD	\$112,115.52	\$225,046.92	\$1,157,345.40	\$1,494,507.84

As reflected in the filing, the loss of reinsurance results in a 4.6% increase in the 2017 rates. This is a product of two factors. First, there is an adjustment to claims of 5.2% to reflect the claims that would otherwise be reinsured. Second, there is a reduction of 0.6% to reflect the fact that Anthem will not pay for reinsurance in 2017. The net impact of these two factors results in an increase in Anthem's rates of 4.6%, which is what is reflected in Anthem's 2017 ACA filing.

2. Please provide the amount that is used in the rate development to adjust for the impact of the ACA grace period.

Response	The factor of 1.0066 is included in Exhibit C of the Actuarial Memorandum under other cost of care impacts. This grace period adjustment (1.0066) is combined with an adjustment for induced demand for CSR (1.0039) for a total adjustment of 1.0105. Please note that this assumption restated favorably from the initial filing and was taken into account when developing Anthem's final 2017 ACA filing with an average increase of 19.4%.
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3. Please provide a cross-walk of administrative expenses between those included in 2016 rates versus those included in the proposed rates for 2017. Include in your response (a) an explanation of the extent to which Anthem quantifies quality improvement programs both prior to implementing a quality improvement program and in monitoring its actual effects, and (b) the reasons for the reduction in the selling expense line item.

Response	Below is a table reflecting the 2014 and 2015 actual expenses, the expenses assumed in last year's filing (the "2016 Filing") and the expenses included in proposed rates for 2017, based on 2016 expectations (the "2017 Filing"):																																								
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	<p>As you can see from the table above, 2014 administrative expenses included significant start up expenses (reflected as misc. admin) but Individual Local Business, Shared Services, and Operation and Sales Support has been relatively stable in 2014 and 2015. With two full years of ACA experience and relatively stable administrative expenses in during that time, Anthem expects these categories to continue at similar levels in 2017.</p> <p>The reduction in the Selling Expense line is a reflection that a larger percentage of the individual market is purchasing plans from the Exchange or directly from Anthem than what was initially estimated. As stated in our hearing, Anthem is not lowering the commissions that are paid to brokers when a payment is appropriate.</p> <p>Before investing in a quality improvement program, Anthem develops an anticipated return on investment to ensure that the QI program is estimated to be cost-justified. As discussed at the hearing by Mr. Clamp, Anthem does not have a practical way in which to assess quantitatively the efficacy of any QI initiative as segregating the effects of a QI program from other effects is difficult if not impossible.</p> <p>As reflected in the table, we had assumed in our 2016 rate filing that the local business and operation and sales expenses would moderate. As Mr. Whitmore testified, however, the local business costs surrounding product development, CSR, and risk adjuster analyses are significant and ongoing. Similarly, the number and complexity of customer service costs have not moderated, nor do we expect they will in 2017 given the annual open enrollment and SEP process.</p> <p>Overall, Anthem continues to do a very good job controlling costs to the extent possible. While Anthem's G&amp;A has increased relative to our 2016 filing it is still below what all of the other competitors are requesting in their 2017 Individual ACA filings on both a PMPM and percent of premium basis. For comparison purposes, Anthem's 2017 administrative expense is \$36.70 and only 7.7% of premium, while other carriers administrative expenses range from \$40.74 to \$58.48 on a PMPM basis and 9.57% to 12.21% as a percent of premium.</p>
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4. Please quantify the volatility component of Anthem's trend assumption.

Response	We developed the trend for the proposed 2017 rates using the same methodology as in our prior Individual ACA filings, including a factor for trend volatility. This is consistent with Actuarial Standards of Practice, which
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provide in pertinent part that “[t]he actuary should consider whether the aggregate provisions for adverse deviation are sufficient to cover anticipated costs under moderately adverse experience.” That is exactly how we developed the trend here.

To determine the appropriate trend volatility adjustment, Anthem develops confidence intervals for the projected normalized trends using Monte Carlo simulation. The historical variance of the normalized claims over the base period is calculated and that is used to produce 10,000 simulations of monthly PMPMs for the projection period. These 10,000 simulations produce a range of trends from which we calculate confidence intervals. Based on these analyses, we have included a volatility component of 0.9%, which correlates to a 60% confidence interval. Even with this adjustment, there is a 40% chance that the actual trend will exceed our pricing trend.

It is important to note that this volatility is developed from Small Group experience and likely understates the volatility within our Individual block. As stated in prior testimony, however, we chose to start with small group trends for our rate development to escape some of this volatility inherent to our Individual block. Given the significant volatility of claims experience in the ACA markets, it is appropriate to include a provision for claims volatility as described in ASOP 8. Our own experience, and that of the other carriers in the Maine individual market, bear that out: even with reinsurance, 2015 claims experience after risk adjusters eliminated any profit for Anthem and resulted in tens of millions in losses for Community Health Options.

The Bureau did not inquire of Aetna whether they included any volatility adjustment. Harvard Pilgrim testified that they include 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. To the extent the Superintendent engages in comparisons of trend development, 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).

As distinct from the profit and risk charge, the volatility component of trend is to provide slight protection against adverse deviation of the trend components – quantified through statistical analysis of prior volatility observed in our Small Group block. By contrast, and as noted in our prefiled testimony, the profit and risk charge helps to protect the carrier from the significant risks in the ACA individual market in Maine. Some examples of those market risks are:

- Selective Lapsation/Enrollment (because of the large increases younger healthier members lapse while sicker members enroll creating a sicker

population)

- Lack of “Teeth” in the penalty for the individual mandate
- Carrier financial/solvency issues (both locally and nationally)
- Transitional Reinsurance going away and the significant difference in risk between having reinsurance available and attempting to price for the absence of that financial safety net
- Risk Corridor not being implemented as planned
- Risk Adjuster volatility
- CSR payments
- Regulatory Risk (there have been delays and modifications made to the ACA every year that are unexpected and there will be a presidential election in November that could cause unforeseen changes)

As noted by Mr. Whitmore at the hearing, given the very significant risks of the Maine individual ACA market, the proposed 2.24% post-tax profit and risk charge is at the very lowest end of a reasonable range and certainly does not render Anthem’s rates excessive. We note that, while CHO’s risk charge is 4.0%, it is on an after-tax basis, which is greater than Anthem’s 2.24% after-tax margin. If all of the revised filings are approved as proposed, Anthem’s prices in 2017 will be among the lowest in the Maine individual market. Given that there are four insurers in that marketplace competing for membership, this alone demonstrates that Anthem’s rates are not excessive and it is likewise undisputed that the remainder of the statutory requirements have been satisfied.

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

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

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

Thomas C. Sturtevant, Jr., Assistant Attorney General 6 State House Station Augusta, Maine 04333-0006 <a href="mailto:Thomas.C.Sturtevant@maine.gov">Thomas.C.Sturtevant@maine.gov</a>	Elena Crowley Bureau of Insurance Maine Department of Professional and Financial Regulation 34 State House Station Augusta, Maine 04333-0034
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DATED: July 28, 2016

/s/ Christopher T. Roach  
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*Attorney for Applicant*