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October 12, 2007

Eric A. Cioppa, Acting Superintendent
c/o Vanessa Leon
Docket No. INS-07-1000
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

*Re: Anthem BCBS 2008 HealthChoice Individual Rate Filing
Filing coversheet*

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach
DATE: October 12, 2007
DOCUMENT TITLE: Anthem BCBS Response to Third Information Requests of
Attorney General
DOCUMENT TYPE: Response to Information Requests
CONFIDENTIAL: **No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire
Christina M. Moylan, Esquire
Judith M. Shaw, Deputy Superintendent
James Bowie, Esquire

NON-CONFIDENTIAL

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

In re: ANTHEM BLUE CROSS AND)
BLUE SHIELD 2008 INDIVIDUAL)
RATE FILING FOR) APPLICANT'S RESPONSE TO THIRD
HEALTHCHOICE, HEALTHCHOICE) INFORMATION REQUEST OF THE
STANDARD AND BASIC) ATTORNEY GENERAL
PRODUCTS)
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Docket No. INS-07-1000) **October 12, 2007**
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NON-CONFIDENTIAL

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

IN RE:)	
)	
ANTHEM BLUE CROSS AND BLUE)	
SHIELD 2008 INDIVIDUAL RATE)	APPLICANTS' RESPONSE TO
FILING FOR HEALTHCHOICE,)	THIRD INFORMATION REQUEST
HEALTHCHOICE STANDARD AND)	OF THE ATTORNEY GENERAL
BASIC PRODUCTS)	
)	
Docket No. INS-07-1000)	October 12, 2007

Applicant Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield (“Anthem BCBS”) hereby responds to the First Information Request of the Superintendent dated October 5, 2007 as follows:

1. For each non-claim expense item listed in Exhibit IX (administration, commissions, premium tax, savings offset payment and investment income), please provide the percentage of the expense item that is fixed (i.e., those expenses that do not vary directly with the number of members, (for example corporate overhead) and the percentage that is variable (i.e., those expenses that vary directly with enrollment such as member billing). Please provide these percentages for calendar year 2002, 2003, 2004, 2005 and 2006.

Response: Administrative Expenses: In order to provide a meaningful response to this question, it is first important to understand the context in which fixed expenses are allocated within the allocation system. The vast majority of cost centers that directly support HealthChoice, also support other products within the company. These functions are centralized, operating at a state, regional, or corporate level to optimize efficiencies. Although at a high level an expense might be characterized as a “fixed” expense, PMPMs for HealthChoice may not be impacted as membership declines due to the variable allocation methodologies utilized. More specifically, our allocation system assigns costs based on the relative membership for all of the product lines that are supported by the cost center. Thus, if this pool of members decreases in total, then the PMPMs will increase. If HealthChoice membership decreases, but the other products remain static, however, then HealthChoice PMPMs will not be materially impacted.

Thus, in order to determine whether a specific expense that, at a high level, is “fixed” truly results in an increase in PMPM for HealthChoice when HealthChoice enrollment declines, we would have to analyze each expense as it relates to membership levels in each of the business lines served by the cost center from which the expense was generated. This analysis would be extremely burdensome and produce no value.

Commissions: Commissions are paid based on new contracts enrolled with the total cost socialized across all subscribers due to community rating laws. Since commissions are directly based on enrollment 100% of these costs are variable as they depend directly on enrollment.

Premium Tax: Premium tax is paid at a rate of 2% of premium. Total premium tax dollars paid will vary based on the number of subscribers so 100% of these costs are variable with enrollment.

Savings Offset Payment: Savings Offset Payment is paid at a rate determined by the Dirigo Health Agency and is a percentage of applicable claims (generally defined as claims incurred by Maine residents with Maine healthcare providers). Total Savings Offset Payment dollars paid will vary based on the amount of paid claims, which will vary based on the number of subscribers so 100% of these costs are variable with enrollment.

Investment Income: Investment income is credited at a rate determined in the filing and is a percentage of premium. Total investment income dollars credited will vary based on the number of subscribers so 100% of these costs are variable with enrollment.

2. Please provide the derivation of the 102.7% projected loss ratio for the second half of 2007, shown in Exhibit IX of the filing. Please include your work papers that illustrate the calculation in your response. Is this methodology the same as was used in the past?

Response: Please see Anthem BCBS’s response to question three of the Superintendent’s Second Information Request.

3. Please explain why the projected loss ratio of 102.7% for the second half of 2007 shown in Exhibit IX which generates a difference of 27.9% between the first half and second half of

the year loss ratio (as referenced in question 11 of the Superintendent’s First Information Request) is greater than the historical values cited in your response, showing differences in the range of 18.3% to 24%.

Response: Please see the response to question number two above and Anthem BCBS’s response to question five of the Superintendent’s Second Information Request.

4. Please provide the underlying claims pmpm for 2004, 2005, 2006 and 2007 for the first half of each year and the second half of each year separately. These should be the claims pmpm used to generate the ratios shown in Question 11 of the Superintendent’s First Information Request. Also, please provide the premium pmpm used in the derivation of the differences in the loss ratio in your response to this question.

Response:		<u>2004</u>	<u>2005</u>	<u>2006</u>
	premium pmpm	\$162.72	\$180.63	\$204.33
	claim pmpm	\$132.83	\$160.80	\$190.10
	claim ratio 2H/1H	1.323	1.312	1.219
	1H claim pmpm	\$114.36	\$139.10	\$171.34
	2H claim pmpm	\$151.30	\$182.50	\$208.86
	LR 1H	70.3%	77.0%	83.9%
	LR 2H	93.0%	101.0%	102.2%
	difference	22.7%	24.0%	18.3%

The ratios for claims between the first and second half of the year were calculated in lag triangles and then applied to the claim pmpms in Exhibit IX. No ratio was provided for 2007 in response to Question number eleven of the Superintendent’s First Information Request

5. Please provide the corresponding claims pmpm ratio between the first half and second half of the year for calendar year 2007 and the loss ratio difference for 2007 using the same formula used in your response to Question 11 of the Superintendents First Information Request.

Response: These values are readily obtained from Exhibit IX. The pmpm claim ratio between the first and second half of 2007 based on values

presented in Exhibit IX is 1.397. The difference in the loss ratio between the first and second half of the year is 27.9%. A specific rate increase was enacted for the inclusion of the Savings Offset Payment in July of 2007 so there is no assumption of consistent premium throughout the year in 2007.

6. What is the loss ratio of the HealthChoice business for the period of July 2006 through June 2007?

Response: The loss ratio for the period of July 2006 through June 2007 is 89.3%.

7. Please provide the percentage of members that meet/exceed the deductible by benefit plan. Please provide this separately for each benefit plan available to HealthChoice members for calendar years 2005 and 2006.

Please also provide the average dollars paid per member for claims subject to the deductible for 2005 and 2006. Please provide this information separately for each plan.

Response:	<u>Benefit Plan</u>	Percent met/exceeded deductible		Average paid per member	
		<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
	\$150/\$1,000	92.8%	92.2%	\$9,815	\$8,979
	\$300/\$1,000	93.5%	90.6%	\$6,022	\$7,586
	\$500/\$1,000	79.3%	79.6%	\$10,020	\$4,615
	\$750/\$1,000	84.0%	90.0%	\$10,130	\$8,000
	\$1000/\$1,000	72.7%	63.8%	\$4,481	\$4,611
	\$2,000/\$1,000	50.0%	51.9%	\$2,730	\$2,627
	\$4,000/\$1,000	34.4%	40.9%	\$2,420	\$5,115
	\$150/\$1,000, \$10,000 MAX	66.7%	70.6%	\$1,810	\$3,131
	\$150/\$1,000, \$20,000 MAX	92.9%	92.3%	\$4,369	\$4,153
	\$2,250	54.7%	56.9%	\$5,206	\$6,039
	\$5,000	34.2%	36.0%	\$1,278	\$1,548
	\$10,000	24.7%	26.8%	\$285	\$278
	\$15,000	20.3%	24.0%	\$297	\$422
	Basic: \$250/\$1,000	73.2%	72.1%	\$3,166	\$3,387
	Basic: \$500/\$1,000	68.4%	94.1%	\$2,313	\$6,342
	Basic: \$1,000/\$1,000	70.0%	85.7%	\$1,461	\$7,661
	Basic: \$1,500/\$1,000	81.3%	77.8%	\$4,791	\$4,625
	Standard: \$250/\$1,000	75.3%	79.1%	\$4,805	\$4,267
	Standard: \$500/\$1,000	65.9%	59.5%	\$4,175	\$3,889

Standard: \$1,000/\$1,000	65.1%	71.1%	\$5,408	\$3,336
Standard: \$1,500/\$1,000	42.0%	57.5%	\$2,003	\$1,208

In the table Anthem BCBS has provided the percentage of members that met or exceeded the deductible by benefit plan for calendar years 2005 and 2006 determined by identifying members for whom claims were paid. Anthem BCBS has also provided the average dollars paid per member for calendar years 2005 and 2006 which includes all members regardless of how many months they were in force during the year. Anthem BCBS is not able to provide “average dollars paid per member for claims subject to the deductible” as this portion of any claim is not Anthem BCBS’s liability.

DATED: October 12, 2007

/s/ Christopher T. Roach
Christopher T. Roach, Esq.

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Attorney for Applicant

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 12, 2007, a copy of the Non-Confidential Version of Applicant's Response to the Third Information Request of the Attorney General was served in the manner indicated on each of the persons listed below:

Thomas C. Sturtevant, Esq. (via electronic mail and U.S. Mail)
State of Maine
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(Counsel to the Superintendent)

Christina Moylan, Esq. (via electronic mail and U.S. Mail)
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(Counsel to the Advocacy Panel)

DATED October 12, 2007

/s/ Christopher T. Roach
Christopher T. Roach, Esq.

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