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October 11, 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 11, 2007
DOCUMENT TITLE: Anthem BCBS Response to Second Information Requests
of Superintendent
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
HEALTHCHOICE, HEALTHCHOICE) SECOND INFORMATION REQUEST
STANDARD AND BASIC) OF THE SUPERINTENDENT
PRODUCTS)
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Docket No. INS-07-1000) **October 11, 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,)	SECOND INFORMATION
HEALTHCHOICE STANDARD AND)	REQUEST OF THE
BASIC PRODUCTS)	SUPERINTENDENT
)	
Docket No. INS-07-1000)	October 11, 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 4, 2007 as follows:

The Superintendent’s Second Requests instruct that “[i]n producing the requested information, Anthem shall furnish all information regardless of whether it is in the possession of Anthem or any subsidiary, affiliate, or parent of Anthem.” For clarity, Anthem BCBS notes that the information typically sought in these proceedings resides with Anthem BCBS, that there are numerous subsidiaries and affiliates of Anthem BCBS, and that Anthem BCBS’s ultimate parent company is WellPoint, Inc. It would not be possible to inquire of all subsidiaries, affiliates and parents whether they have responsive information and still produce responses within the four business days required by the Procedural Order. Accordingly, Anthem BCBS has gathered responsive information that is in the possession of Anthem BCBS and responds below, accordingly.

1. Please provide the number of new contracts issued and the number of new members in 2003, 2004, 2005, 2006, and the first half of 2007 for each of the products listed in Anthem’s response to Question 1 of the Superintendent’s First Information Request.

Response:

		2003	2004	2005	2006	2007 YTD
Health Choice	New Members	14,033	12,481	9,055	5,826	2,495
	New Contracts	7,388	6,920	5,413	3,191	1,223
Dirigo	New Members	0	0	4,701	8,080	3,641
	New Contracts	0	0	2,914	5,200	2,267
Lumenos CDHP	New Members	0	0	0	0	408
	New Contracts	0	0	0	0	251
Anthem by Design HSA	New Members	0	0	720	1,229	156
	New Contracts	0	0	427	703	85
Individual HMO	New Members	54	30	47	10	6
	New Contracts	32	19	27	8	2
Retiree "a"	New Members	0	0	0	0	0
	New Contracts	0	0	0	0	0
Total	New Members	14,087	12,511	14,523	15,145	6,706
	New Contracts	7,420	6,939	8,781	9,102	3,828

2. Do the enrollment projections in Exhibit III of the filing reflect anticipated shifts from one adult contracts to one adult with children contracts and from two adult contracts to two adult with children contracts as a result of the continuation of coverage for dependent children up to age 25? If so, what assumptions were used?

Response: No such assumptions were made in Exhibit III.

3. Anthem's response to Question 7 of the Superintendent's First Information Request states with respect to comparisons between 2007 and 2008 projections:

In this filing we are proposing rate changes based on projections from observed periods, not projecting from projections. When comparing loss ratios, annual claim trends, and average rate increases it is more reasonable to compare loss ratios from the base observed period and the projected rating period.

Are the 2007 projections based on different assumptions than the 2008 projections? If so, please explain the differences and why they are appropriate. If not, please explain why it is not reasonable to compare projections for two consecutive years that are based on consistent assumptions.

Response: The projection of the last six months of 2007 included in Exhibit IX is not consistent with projections for 2008, which are determined in Exhibit I. An explanation of all projected items in Exhibit IX follows.

1. Total revenue for July through December was determined by calculating the per member per month (“pmpm”) premium for January through June of 2007, increasing this value by the 1.3% Savings Offset Payment (“SOP”) increase implemented in July, and then multiplying by projected member months for July through December. The resulting revenue reflects a 16.4% pmpm increase for 2007 over 2006. The average rate increase approved for January of 2007 was 16.7% with an additional 1.3% for the SOP in July. Based on past approved average rate increases compared to actual observed revenue the 16.4% pmpm increase reflected in Exhibit IX may overestimate revenue for the year. In both 2005 and 2006 actual revenue on a pmpm basis increased approximately 3% to 3.5% less than the approved average rate increase.

Total revenue for 2008 is determined in the calculation in Exhibit I. The resulting revenue reflects a 12.8% pmpm increase for 2008 over 2007. The pmpm revenue does not increase at the same level as the average rate increase due to the projected movement to lower cost benefit options.

2. Total claims for July through December were determined by projecting total claims for all of 2007 and then subtracting claims for January through July. Total claims for all of 2007 was determined by multiplying the claim pmpm for 2006 by the projected claim trend in the filing (15.2%), reducing this pmpm by the estimated impact in the change in enrollment distribution by benefit option, and then multiplying by projected member months for 2007. The resulting claims reflect an 8.9% pmpm increase for 2007 over 2006.

An alternative method for determining claim costs for the latter half of 2007 would be to apply a seasonality factor to the pmpm claim cost for the first half of 2007 based on past ratios observed. This methodology was utilized in last year’s HealthChoice filing. Using the average ratio over the past three years would result in the application of a factor of 1.285 to the claim pmpm for January through June in order to determine the claim pmpm for July through December. The resulting claims based on this methodology would reflect a 4.0% pmpm claim

increase for 2007 over 2006 which was considered to be unreasonably low based on historical claim trend observations.

Total claims for 2008 are determined in the calculation in Exhibit I. The resulting claims reflect an 11.7% pmpm increase for 2008 over 2007. The pmpm claims do not increase at the same level as the underlying projected claim trend due to the projected movement to lower cost benefit options.

3. Since pmpm administrative expenses for 2008 are projected to be the same as the 2007 pmpm expenses, total administrative expenses for 2007 were determined by multiplying the expected 2008 expenses pmpm by the projected enrollment for 2007.
4. Commissions for July through December were determined by multiplying the commission pmpm amount for January through June of 2007 by the projected member months for July through December.
5. Premium tax for July through December was determined by taking 2.0% of the projected revenue for July through December.
6. The Savings Offset Payment for July through December was determined by multiplying the SOP percentage by the 2006 claim pmpm, multiplying by the projected claim trend in the filing and the estimated impact of the enrollment distribution by benefit option, and then multiplying by the projected member months for 2007.
7. Investment income for July through December was determined by taking -0.54% of the projected revenue for July through December.

4. Anthem's response to Question 7 of the Superintendent's First Information Request states:

Because the actual loss ratio for the base observed period is higher than the projected loss ratio for 2008, coupled with the many other variables impacting this calculation, it is reasonable to expect the average rate increase to be higher than the annual claim trend.

Please provide a list of the "other variables impacting this calculation" and to the extent possible an analysis of the impact of each on the calculation, including the impact of rate increases implemented during and after the observed period.

Response: First, the inclusion of the expansion of the dependent age benefit to the 25th birthday and the hearing aid mandate have an impact on the rate increase estimated to be approximately 0.5%.

Second, the inclusion of the SOP in the numerator of the loss ratio calculation results in a varying level of impact between the projected 2007 loss ratio and the projected 2008 loss ratio since there was no SOP assessment in the first six months of 2007. Inclusion of the SOP in the loss ratio calculation removes approximately a 0.6% lowering of the loss ratio which would be expected from projected 2007 to projected 2008 results.

Third, as explained in response to number three above, the method of projecting premium for the period July through December 2007 may be overstated. An overstatement of premium would result in an understatement of the loss ratio. A 2% overstatement of premium for 2007 would result in the loss ratio for 2007 being approximately 1.8% lower absent the overstatement.

Rate increases implemented during the observed period are reflected in observed data as presented. The rate increase approved for July of 2007 for the SOP is included as a 1.3% impact on pmpm premium for July through December 2007 as noted in response to number three above.

All of the above mentioned items contribute to expected differences between observed loss ratios and the projected loss ratio for 2008. Additionally, the observed loss ratio for the twelve months ending June 30, 2007 is 89.3%. The projected loss ratio for 2008 of 87.4% is an approximate 2% improvement over this observed period. This 2% improvement, a 15.2% claim trend, and the differences noted above all combine to make the average proposed increase of 18.6% a reasonable expectation.

5. Regarding Anthem's response to Question 11 of the Superintendent's First Information Request, why is the ratio of claims on a per member per month basis for the latter half of the year compared to the first half of the year for 2007 greater than those in 2004, 2005, and 2006?

Response: As noted in response to number three above, using a claim ratio for the latter half of the year compared to the first half of the year in the range

of those seen for 2004, 2005, and 2006 results in a claim trend which Anthem BCBS believed was unreasonably low.

6. Anthem's response to Question 12 of the Superintendent's First Information Request describes the methodology used to project the numbers of members and contracts and states that it is consistent with last year's filing. Last year this methodology projected a slower decrease in members than contracts, resulting in a higher ratio of members to contracts in 2007. This year the methodology projects a similar change in 2008. Why does Anthem consider this methodology reliable in light of the fact that the projected change in 2007 did not occur?

Response: The projection of a member per contract ratio is not independent of the projection of contracts for each benefit option. Anthem BCBS has projected a significant increase in the proportion of contracts in the \$15,000 deductible benefit option which is responsible in part for the increase in the member per contract ratio. The projection of this increased proportion of enrollment in the \$15,000 deductible benefit option has a significant favorable impact on the projection of claims, and thus a favorable impact on the required revenue increase as well, as this benefit option has a much lower pmpm claim level than any of the marketed options.

DATED: October 11, 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 11, 2007, a copy of the Non-Confidential Version of Applicant's Response to the Second Information Request of the Superintendent was served in the manner indicated on each of the persons listed below:

Thomas C. Sturtevant, Esq. (via electronic mail and U.S. Mail)
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DATED October 11, 2007

/s/ Christopher T. Roach
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