

June 13, 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: June 13, 2016  
DOCUMENT TITLE: Anthem Response to First Information Request of the  
Superintendent  
DOCUMENT TYPE: Discovery response  
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: )  
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 ) ANTHEM RESPONSE TO FIRST  
 ) INFORMATION REQUEST OF THE  
 ) SUPERINTENDENT  
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 ) Docket No. INS-16-1000 )  
 ) JUNE 13, 2016  
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1. Were experience period premiums on worksheet 1 of the URRT adjusted for risk adjustment as required by the instructions? Please explain or correct.

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| Response | Yes. The experience premiums were adjusted by risk adjustment as required by the instructions. ACA and GM premiums were \$75,245,073 and risk adjustment receivables were \$198,275 for a total of \$75,443,348, as shown in cell F14 of Worksheet 1 of the URRT. |
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2. Please provide a quantitative development of the 1.028 morbidity adjustment.

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| Response   | <b>2015 ME Actual (Experience Period)</b> | <b>Members</b> | <b>Risk Score *</b> |
|  | ACA (was GF in 2014)                      | 264            | 1.094               |
|  | ACA (was NGF in 2014)                     | 488            | 0.942               |
|  | ACA (was ACA in 2014)                     | 5,027          | 1.122               |
|  | ACA (New PrIns in 2014)                   | 5,025          | 0.900               |
|  | ACA (New PrUnIns in 2014)                 | 2,724          | 1.199               |
|  | <b>AVG 2015 INDIV ACA RS:</b>             | <b>13,528</b>  | <b>1.048</b>        |
|  | <b>2017 ME Projected (Rating Period)</b>  | <b>Members</b> | <b>Risk Score *</b> |
|  | ACA (was GF in 2015 or 2016)              | 2,356          | 1.241               |
|  | ACA (was NGF in 2015 or 2016)             | 2,427          | 1.044               |
|  | ACA (was ACA in 2015 AND 2016)            | 8,936          | 1.046               |
|  | ACA (New PrIns in 2015 or 2016)           | 8,500          | 1.072               |
|  | ACA (New PrUnIns in 2015 or 2016)         | 164            | 1.200               |
|  | <b>AVG 2017 INDIV ACA RS:</b>             | <b>22,382</b>  | <b>1.077</b>        |
| <b>Morbidity Impact</b>  |   | <b>1.028</b>   |                     |
| <i>* Based on prospective DxCG risk scores normalized for demographics</i> |   |                |                     |

3. Please provide the magnitude and a quantitative development of each adjustment other than morbidity and trend listed in section 7 of the Actuarial Memorandum, and a quantitative development of the 1.099 “Other” adjustment shown in the URRT.

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| Response | Please refer to Anthem Response Q3.xlsx file (Exhibits 1-5 and supporting calculation tabs) for exhibits showing the development of these adjustments. |
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4. Please provide a quantitative development of the estimated \$0 risk adjustment transfer.

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| Response | Anthem has estimated a \$0 risk adjustment transfer for 2017, which will be settled in 2018. It is difficult to predict future risk adjusters due to the annual re-enrollment process. See, e.g., American Academy of Actuaries issue brief, <i>Drivers of 2017 Health Insurance Premium Changes</i> (the “Annual individual market turnover limits the ability to use 2014 and 2015 experience data to project risk profiles in 2017”). That said, we expect to gain market share and |
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|  | <p>have market average risk in 2017, which would result in a \$0 2017 risk adjustment transfer. Even if it turns out that Anthem is a receiver of 2017 risk adjustment dollars (which are paid out in 2018), Anthem may not be able to collect the full amount of any transfer if not all carriers remain in the Maine individual market in 2018. For these reasons Anthem has estimated \$0 for 2017 risk adjustment transfer.</p> |
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5. Plans provide the benefit changes to the plans renewing for 2016 to 2017.

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| Response | <p>Please see attached minor modification exhibit, Anthem Response Q.5 and Q.16.</p> |
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6. What are the additional EHBs mentioned on Exhibit C for \$0.74 PMPM?

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| Response | <p>The additional EHBs are for pediatric dental (\$0.20 PMPM) and pediatric vision (\$0.54 PMPM). Please note that these EHBs are not included in the data used to establish the base medical claims, which explains why we incorporate these as separate factors (<i>i.e.</i>, in addition to base medical claims) when developing total rates.</p> |
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7. What percent impact does the discontinuance of federal reinsurance have on rates?

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| Response | <p>We anticipate that the loss of federal reinsurance will have a 4.6% effect on rates, which equates to the amount by which financials were positively affected with the reinsurance reimbursements actually received by Anthem for 2015.</p> <p>Consistent with historical observations, in our proposed rates, Anthem has estimated that the discontinuance of federal reinsurance will have a 4.6% impact on rates, which is at the very low end of the range projected by the American Academy. <i>See American Academy of Actuaries issue brief, Drivers of 2017 Health Insurance Premium Changes</i> (estimating that the discontinuance of federal reinsurance will have an impact on 2017 rates of 4-7%).</p> |
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8. What is the reason for adjusting the area factors? Please provide a detailed description of area factor development changes.

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| Response | <p>Anthem is adjusting its area factors to reflect estimated changes to hospital, professional, and ancillary unit price relativity among the different areas for 2017. The resulting impact to the 2017 area factors is that Area 1 is nearly 2% higher, Area 3 is nearly 2% lower, and Area 2 and 4 remain unchanged relative to 2016.</p> |
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9. Are any Gold plans offered by Anthem on the exchange other than the multi-state plans?

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| Response | No. |
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10. Are the plans used to migrate the legacy policyholders available off-exchange for new sales?

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| Response | Yes, while not actively marketed, the plans to which the legacy policyholders are migrated will be available off-exchange in compliance with guarantee issue and renewal requirements. |
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11. Which plans were offered in 2016 and are renewing for 2017 but have no enrollment? Are there policyholders that will be mapped to those plans?

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| Response | There are none. All plans offered in 2016 renewing into 2017 have membership. |
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12. What profit margins did Anthem earn in 2014 and 2015 for this block of business?

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| Response | <p>The after tax profit margin for Anthem’s Individual ACA business was 5.01% for 2014 and 4.80% for 2015. The actual profit margins were higher than expected because enrollment in both 2014 and 2015 was lower than expected and reinsurance reimbursement was higher than projected. For several reasons, the level of uncertainty in the ACA marketplace is increasing and we do not expect that the higher than assumed profit margins will persist in 2017.</p> <p>First, and most obviously, a primary driver of the higher returns and rate stability (federal reinsurance) is no longer available. Second, the Individual ACA market in Maine has become somewhat destabilized as not all carriers remain authorized to enroll new business during the special enrollment period. The carrier with the largest share of the Maine individual market (Community Health Options) experienced significant losses in 2015 to the point that the Superintendent ordered CHO to suspend enrolling new members last December. This is to some degree consistent with national emerging experience as carriers experienced multi-billion dollar losses, with one of the largest carriers exiting the ACA market altogether. Given CHO’s financial status and request for an average increase of over 22% in its rates, Anthem expects a significant number of current CHO enrollees will choose to enroll in Anthem’s ACA plans in 2017, which will increase Anthem’s overall ACA risk profile. As the American Academy of Actuaries noted, the ACA individual market is exhibiting greater uncertainty and “greater levels of uncertainty typically result in higher risk margins and higher premiums”. Anthem has accounted for this increasing risk with a modest increase to the risk and profit charge of .56%, which provides only a 2.24% buffer to account for risk and provide a reasonable return.</p> <p>In summary, the phrase “past experience is no indication of future results” could not be more true than in the changing Maine individual market as it relates to Anthem. Starting in 2017, the stabilization from federal reinsurance</p> |
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|  | <p>will be gone and there will likely be a material shift in enrollment: with CHO no longer underpricing the other competitors and with the need for regulatory oversight to ensure its ongoing viability, a significant number of the very enrollees that produced the losses for CHO likely will enroll with Anthem. Maintaining a stagnant risk/profit buffer in light of this increasing risk increases the likelihood of losses in 2017 and, correspondingly, the need for higher rate increases in future years. A modest increase in the risk buffer now does not yield excessive rates (compare, for example, Anthem's 2017 proposed rates with those of the other carriers in the market) and will also assist in muting future rate increases, in the absence of which the gap between existing and adequate rates grows and the market begins the tailspin that plagued the legacy individual block for more than a decade.</p> |
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13. What quality improvement expenses are included in the \$6.89 in Exhibit E?

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| Response | <p>Quality Improvement Expenses can be categorized into two components:</p> <p>The first is Quality Improvement Initiatives. These initiatives include programs such as Improve Health Outcomes, Activities to Prevent Hospital Readmissions, Improve Patient Safety and Reduce Medical Errors, Wellness and Health Promotion Activities, and Health Information Technology Expenses for Health Care Quality Improvements. The expense assumptions are based on historical expense level adjusted for cost inflation and anticipated changes in the programs. This category makes up approximately 52% of the total Quality Improvement Expense, or \$3.58 PMPM.</p> <p>The second is for expenses incurred for Anthem's partnership with a health care technology company that helps support our members who have purchased health care plans, On and Off the Exchange, get their diagnoses confirmed, corrected, and updated annually. This mechanism increases condition awareness/management and care continuity and reduces potential care gaps. To accomplish this goal, this outside vendor contacts Anthem's network providers asking them to perform patient outreach. This category makes up approximately 48% of the total Quality Improvement Expense, or \$3.31 PMPM.</p> |
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14. Please explain the difference between the 87.3% MLR on Exhibit F and the 86.67% from the Part II rate justification.

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| Response | <p>The MLR on Exhibit F is 87.03%. With that understanding, the 87.03% MLR on Exhibit F is correct and Part II rate justification has been corrected.</p> |
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15. Please provide annual or year to date earned premium and incurred claims experience and loss ratio for 2014, 2015 and the first quarter of 2016.

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| Response | <b>Before 5R Adjustments</b>   | <b>2014</b>      | <b>2015</b>      | <b>1Q 2016</b>   |  |
|          | Premium  | \$ 30,936,109.60 | \$ 59,650,757.08 | \$ 16,754,583.14 |  |
|          | Claims   | \$ 29,785,854.17 | \$ 54,674,226.95 | \$ 12,911,429.95 |  |
|          | Loss Ratio   | 96%              | 92%              | 77%              |  |
|          | <b>After 5R Adjustments</b>  | <b>2014</b>      | <b>2015</b>      | <b>1Q 2016</b>   |  |
|          | Premium  | \$ 30,936,109.60 | \$ 59,622,013.08 | \$ 16,754,583.14 |  |
|          | Claims   | \$ 22,121,602.21 | \$ 43,479,626.12 | \$ 10,866,484.28 |  |
|          | Loss Ratio   | 72%              | 73%              | 65%              |  |
|          | <p>The 5Rs are Reinsurance, Risk Adjusters, Risk Corridor, CSR, and MLR</p> <p>Please note that the 2015 receivables from the federal programs (i.e., the “Rs”) are estimated and we will not receive final 2015 Risk Adjuster and Reinsurance data until June 30, 2016. In addition, the first quarter 2016 results reported above are heavily influenced by completion factor estimates and projections of estimated receivables from the federal programs. Thus, while we are providing the requested 2016 data, it is still very preliminary and should not be heavily relied upon at this time.</p> |                  |                  |                  |  |

16. Please demonstrate that the changes to renewing plans meet the minor modification requirement in 24-A M.R.S. § 2850-B.

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| Response | <p>Please see attached minor modification exhibit, Anthem Response Q.5 and Q.16. Please note that, in addition to changes that are within the 5% bandwidth authorized by 24-A M.R.S. § 2850-B and thus qualify as minor modifications, the attached exhibit also includes changes that are required by law (including to comply with AV requirements), which are deemed by law to be minor modifications. See 24-A M.R.S. § 2850-B(3)(I)(3).</p> |
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**STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION  
BUREAU OF INSURANCE**

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| 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 First Information Request of the Superintendent on the persons and at the addresses indicated below.

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| Thomas C. Sturtevant, Jr.,<br>Assistant Attorney General<br>6 State House Station<br>Augusta, Maine 04333-0006<br><a href="mailto:Thomas.C.Sturtevant@maine.gov">Thomas.C.Sturtevant@maine.gov</a> | Elena Crowley<br>Bureau of Insurance<br>Maine Department of Professional and<br>Financial Regulation<br>34 State House Station<br>Augusta, Maine 04333-0034 |
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DATED: June 13, 2016

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