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March 21, 2016

Eric Cioppa, Superintendent
Attn: Elena Crowley
Docket No. INS-15-802
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 Request to Discontinue Individual Health Plans

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach
DATE: March 21, 2016
DOCUMENT TITLE: Prefiled Testimony of Dee Clamp and Zach Fohl
DOCUMENT TYPE: Prefiled testimony
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:) **EXHIBIT 2**
)
)
ANTHEM BLUE CROSS AND BLUE) PREFILED TESTIMONY OF DEE
SHIELD'S REQUEST TO DISCONTINUE) CLAMP AND ZACH FOHL
AND REPLACE LEGACY INDIVIDUAL)
HEALTH PLANS EFFECTIVE JANUARY 1,)
2017) MARCH 21, 2016
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Docket No. INS-15-802)
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1 **Q. Starting first with you, Mr. Clamp, please state your name and your position with**
2 **Anthem Blue Cross and Blue Shield (“Anthem”).**

3 A. My name is Dee Clamp, and I am the Staff Vice President Actuary III for Anthem’s
4 Commercial and Specialty Business Division. In that role, I oversee the team responsible for
5 commercial pricing across Maine, New Hampshire, Connecticut, Virginia, Georgia and New
6 York, including but not limited to Individual lines of business.

7

8 **Q. Please describe any relevant education or experience that qualifies you as a witness**
9 **today.**

10 I am a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries. I
11 have held a variety of actuarial roles within the Anthem organization over the last 13 years,
12 including pricing, reserving, trend development, forecasting, advanced analytics and management.
13 Prior to my work at Anthem, I spent 7 years at Milliman USA. There, my work included a wide
14 range of health actuarial consulting for a broad spectrum of clients, including insurance carriers,
15 providers and government agencies.

16

17 **Q. Turning next to you, Mr. Fohl, please state your name and your position with**
18 **Anthem.**

19 A. My name is Zach Fohl, and I am an Actuarial Director, working with a team responsible
20 for commercial pricing for Maine, including but not limited to Individual lines of business.

21

22 **Q. Please describe any relevant education or experience that qualifies you as a witness**
23 **today.**

24 A. I am a Fellow of the Society of Actuaries and Member of the American Academy of
25 Actuaries. I have held a variety of actuarial roles within the Anthem organization over the last 7
26 years, most recently including (i) Actuarial Healthcare Reform Analyst, (ii) Assistant Pricing
27 Director for Georgia, and (iii) currently, Maine Actuarial Pricing Director. Prior roles at Anthem
28 also involved focused experience working on forecasts and valuation.

29

1 **Q. Gentlemen, please state your reasons for testifying at this hearing.**

2 A. We are testifying in support of Anthem's proposal to discontinue and replace current
3 legacy policies with ACA-compliant plans, effective January 1, 2017. Because grandmothered
4 plans will not be renewed after December 31, 2016, our testimony will focus on why it is in the
5 best interests of the grandfathered policyholders to transition them to ACA-compliant plans at
6 the same time. Our testimony will describe

- 7 • the current state of Anthem's legacy block of business,
- 8 • the death spiral that generally occurs in closed blocks like this,
- 9 • the acceleration in rate increases for the grandfathered policyholders that will stem from
10 the loss of the grandmothered members if Anthem's proposed migration is denied,
- 11 • preliminary analysis of anticipated rate differentials between ACA and legacy products
12 going forward, and
- 13 • why it is the best interests of the grandfathered policyholders to make that transition
14 effective January 1, 2017 coincident with the transition of GM members.

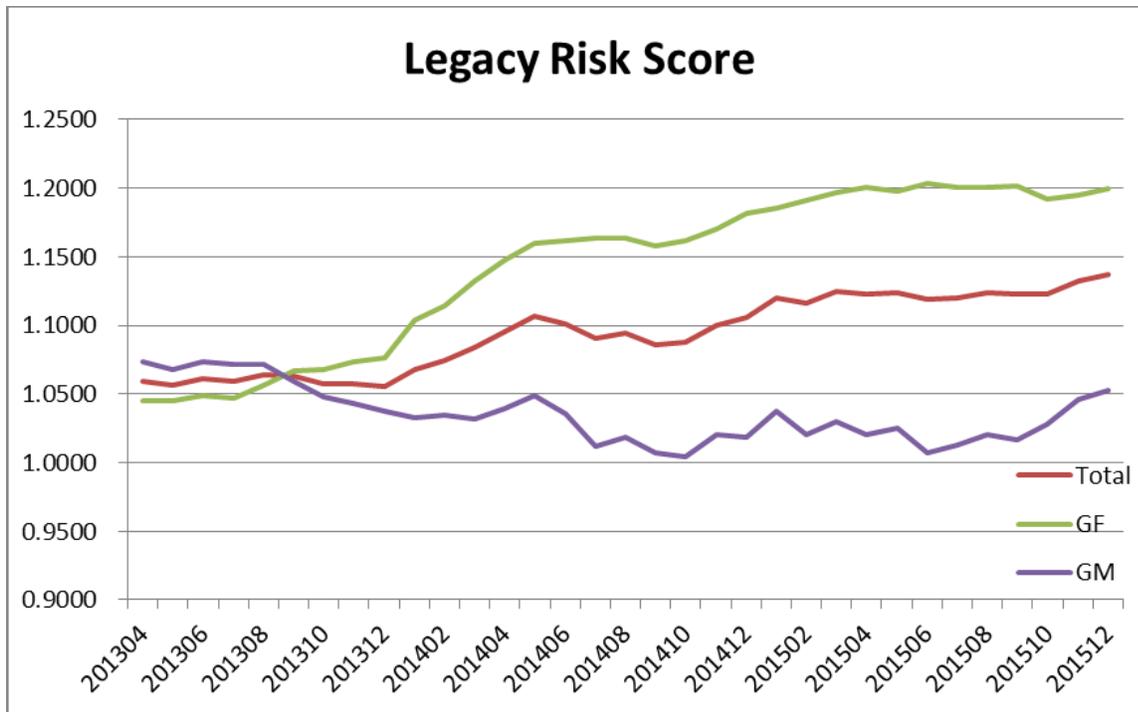
15 **Q. Before going into the details of your testimony, please explain how the analysis you**
16 **prepared for this proceeding differs from that which you prepare for a rate filing.**

17 A. In a rate filing, we analyze claims during a specified experience period and apply trend,
18 enrollment and morbidity assumptions to derive necessary rates for a one-year rating period.
19 Because it was far too early when we made the filing, we did not attempt to perform a rate
20 development for the legacy and ACA products for 2017 as a part of the demonstration included
21 in this filing. We instead started with the 2016 rate increase differential between legacy and
22 ACA rates and made reasonable, simplifying adjustments to approximate the rate differentials
23 going forward. Specifically, because we know that all grandmothered members will no longer
24 be part of the legacy block effective January 1, 2017, we made two adjustments to the approved
25 2016 rate increase: (1) increased the necessary rate increase to reflect the difference in the
26 relative health of the grandfathered versus grandmothered population; and (2) increased the
27 administrative expense charge per member per month to reflect that, upon the loss of
28 approximately 50% of the legacy block, the fixed administrative expenses will be spread across a
29 smaller block.

30

1 **Q. What is the basis for the adjustment based on the relative health of the**
2 **grandmothered and grandfathered members?**

3 A. As set out in our initial filing, the grandfathered members in the legacy block are
4 materially less healthy than the grandmothered members. This is evident when reviewing the
5 difference in risk scores between these two cohorts of legacy members:
6



7
8 As it stands now, with the legacy block including grandfathered and grandmothered members,
9 the combined legacy risk score is reflected by the red line (approximately 1.12 as of the time the
10 Superintendent approved the 18.28% increase for 2016 rates). Once the grandmothered
11 members migrate effective January 1, 2017, the remaining block will consist solely of
12 grandfathered members, with a risk score that is represented above by the green line (1.20). This
13 disparity is also noted in the relative GF and GM loss ratios.

14
15 To determine the level of rate increase that would have been necessary in the absence of the GM
16 members, we took the 2015 GF loss ratio (106.7%), divided by the 2016 legacy rate filing
17 experience period loss ratio for the entire legacy block (98.6%), which resulted in an
18 approximately 8% loss ratio differential with the decline in the relative health of the block.

1 Based on these data points, we applied an adjustment of 8% to the modeled rate increase from
2 our 18.28% starting point from the 2016 approved increase.

3

4 **Q. Did you assume the same level of relative health adjustment beyond 2017?**

5 A. No. If the legacy (*i.e.* at that point grandfathered-only) block still exists in 2018, the base
6 claims experience at that time would reflect the fact that only grandfathered members would
7 remain in the legacy block, so it would be inappropriate to include the full 8-point differential in
8 those rates. On the other hand, we also know that as closed blocks decline in size, the average
9 member is typically less healthy and the average claims per member increases, so it would not be
10 appropriate to assume that the legacy-to-ACA rate differential would return to its 2016 level. To
11 account for these two factors, our preliminary estimates for 2018 and beyond assume the rate
12 differential between legacy and ACA rates will be between the current 2016 differential and the
13 2017 differential. This simplifying assumption underscores that our analysis relies on best
14 estimates as we are too far out in time to develop precise rate calculations for the future. That
15 said, we are confident that, if after January 1, 2017 the legacy block remains as a stand-alone
16 grandfathered members only block, legacy rates will rise sharply.

17

18 **Q. What is the basis for your adjustment to the administrative expense charge?**

19 A. As explained above, when the grandmothered members migrate effective January 1,
20 2017, the legacy block will be cut in half, leaving fewer than 4,000 members as of that date:



1
 2 As enrollment declines, the administrative expenses in total dollars decline, but the costs per
 3 member increase because certain of the expenses of the block are fixed. While a higher per
 4 member adjustment could be justified, we have assumed for rate differential projection purposes
 5 an increase of 2% of average premium in the administrative expense charge for 2017. The
 6 projections also do not include any future escalation of those legacy costs.

7
 8 **Q. Why didn't you wait until Anthem had more complete data to make this filing?**
 9 A. We need to know relatively early in the year whether the current legacy members will be
 10 migrated to ACA plans so that we can file rates for the expanded ACA block, or instead, make a
 11 filing to modify legacy rates effective January 1, 2017. Put differently, the timing would never
 12 work to wait to file for discontinuance and replacement until we have more complete claims
 13 information because we need to know early in the year whether the grandfathered members will
 14 (1) transition to ACA plans and how ACA rates are impacted accordingly, or (2) instead remain
 15 on legacy plans, which informs us whether we need to make a rate filing for the legacy plans. It
 16 is worth noting that this timing challenge would be present no matter when the discontinuance
 17 and replacement filing is made: in order to get an answer early enough in the year to make a rate
 18 filing, we have to proceed with less than complete claims information for the filing year.

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Q. Given that you are projecting rate differentials for future years, how confident are you that your projections paint an accurate picture of the future for the GF policyholders?

A. While actual results will vary, we are very confident that the GF policyholders will face significant rate increases going forward and that rates for the ACA plans will be comparatively stable.

Legacy rates will rise significantly because:

- Legacy member claims are not eligible for reinsurance;
- The legacy block historically has been subjected to double-digit rate increases in the absence of reinsurance;
- The legacy block is closed to new entrants, which in and of itself typically leads to a death spiral; and
- The legacy block will lose its healthiest 50% of members (the GM members) no later than January 1, 2017, which will accelerate the death spiral.

By contrast, ACA plan rates are more likely to be stable because:

- The ACA block is open to new enrollees and will likely grow as the ACA penalty for failure to enroll increases;
- ACA plans provide subsidies for eligible enrollees;
- ACA plan member claims are currently eligible for reinsurance and rates are stabilized with risk adjusters; and
- The ACA block is healthier.

When we look broadly at the two blocks (ACA and legacy), there is no comparison.

Q. Please describe the relevant historical background of the individual health insurance market in Maine.

A. For much of the period from Anthem’s acquisition of the former Blue Cross Blue Shield of Maine through the effective date of the Maine Guaranteed Access Reinsurance Association (“MGARA”), premiums in the Maine individual insurance market were subject to double digit premium increases annually as increasing claim costs and a shrinking population combined to

1 drive up per-policyholder costs. For example, the average approved rate increase from 2005-
2 2010 was 12.4%, even when including the anomalously low 1.3% increase in 2007. *See* Initial
3 Filing Exhibit 4 reflecting the average rate increases since inception of the legacy block business.
4 Excluding 2007, the average increase approved by the Superintendent during that period was
5 14.5%. During that same period of time (2005-2010), Anthem lost \$3.38 million on the legacy
6 business. With perfect hindsight, the actual increases over that time needed to be approximately
7 \$16.5 million higher to cover the claims expense and earn a 3% profit margin.

8
9 With the loss of a reinsurance mechanism and a closed block with dwindling membership, there
10 are fewer and fewer enrollees to cover claims that previously were reinsured. The unsurprising
11 result is that the legacy block is starting to perform as it did historically: accelerating per-enrollee
12 costs means large, double-digit annual rate increases. With this block not allowing new entrants,
13 increases have increased each year resulting in an approved 2016 rate increase of 18.28%.

14

15 **Q. Has Anthem observed additional lapsation during the most recent open enrollment**
16 **period?**

17 A. Yes. While the full effect of the 2015/2016 open enrollment period is not yet known, our
18 most recent data reflects that GF policyholders continue to lapse. As of January 1, 2016, there
19 are only 1,801 GF policyholders remaining in the legacy block. Again, we would expect that
20 number to continue to decline as the full effect of the 2015/2016 ACA open enrollment period is
21 reflected in our data. It is noteworthy that, at only 3,321 GF members in total as of January 1,
22 2016, the GF portion of the legacy block is already well below the approximately 4,000 members
23 that Anthem predicted would be in the block as of January 1, 2017. If Anthem's proposed
24 discontinuance is denied, the GF policyholders would be subject to another rate increase to be
25 effective January 1, 2017 and would go through another ACA open enrollment period in late
26 2016 into early 2017, resulting in an even smaller GF-only legacy block for 2017 than we
27 originally predicted.

28

29 **Q. Will the loss of the GM members exacerbate the legacy block death spiral?**

30 A. Yes, for two reasons. First, the loss of approximately 50% of the legacy block will lead
31 to higher premium rates. The smaller the block, the smaller the number of policyholders

1 available to cover the population's claims, which leads to higher per-enrollee premium rates.
2 Second, the transitioning 50% (*i.e.*, the GM members) are healthier than the GF members.
3 Currently, the GM members are contributing both numbers and health to the legacy block. In
4 fact, the GM policyholders are providing a significant subsidy to help cover the higher GF
5 member claim costs. When the GM members transition to an ACA-compliant product, GF
6 policyholders will have to cover 100% of the GF member costs, which likely will accelerate the
7 legacy block death spiral.

8

9 **Q. Will GF policyholders as a group benefit from the proposed discontinuance and**
10 **replacement of their legacy plans?**

11 A. Yes. Because of the disparity between premium increases for ACA versus legacy
12 products, the gap between legacy and ACA rates has narrowed considerably and, in many cases,
13 been eliminated altogether.

14

15 If the migration is denied, Anthem will need to file for a rate increase for the legacy plans
16 effective January 1, 2017. As explained above, for 2017 premiums, Anthem compared the
17 approved 2016 ACA rate increase (4.8%) to the legacy rate increase approved for 2016
18 (18.28%), adjusted solely to reflect (1) the effect of the loss of all of the healthier GM members;
19 and (2) an increase in the administrative expenses to reflect the fact that the fixed expenses of the
20 legacy block would be absorbed by approximately 50% fewer policyholders.¹ Anthem applied
21 that historical rate increase to the actual GF membership.

22

23 The data and graph below reflect that many legacy policyholders immediately benefit from
24 transitioning to ACA plans and it is just a matter of time before all of the policyholders would
25 pay less in premium for an ACA plan than their existing legacy plan (the blue line). When
26 considering deductible differentials, the percentage of policyholders who benefit from the
27 proposed migration increases significantly (the red line). Neither analysis takes into account the
28 increased likelihood that, once transitioned to an ACA plan, the existing policyholders are more

¹ As explained above, for years beyond 2017, legacy rates are assumed to increase by the average of the 2016 approved increase and the assumed 2017 increase.

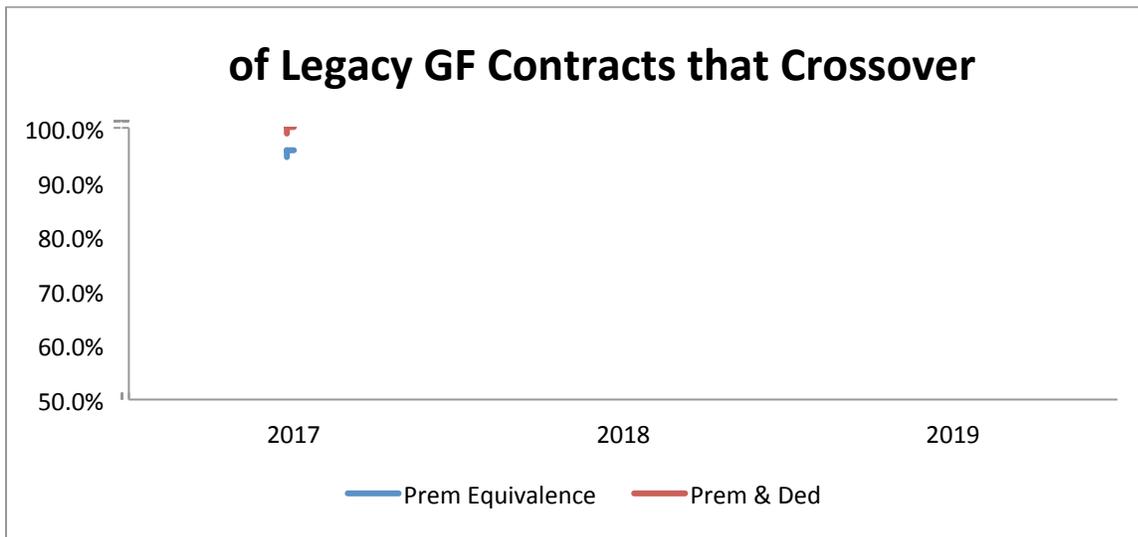
1 likely to seek out (and many will find) a subsidy or that some existing GF members would
2 qualify for a catastrophic ACA plan:

3

% of Legacy GF Contracts that Crossover

	Prem Equivalence	Prem & Ded
2017	72.7%	93.1%
2018	87.1%	96.8%
2019	94.6%	98.9%

4



5

6 *GF policyholder premiums within 5% of ACA premiums were included as having crossed over
7 (*i.e.*, the ACA plan was deemed financially advantageous relative to the legacy plan).²

8

9 The blue line above compares legacy versus ACA premiums alone, demonstrating that a majority
10 of the legacy policyholders would pay less in premium for an ACA plan right away and
11 approximately 95% would pay less in pure premium by 2019. Denial of the transition to ACA
12 plans should not be premised on the fact that some GF policyholders would pay marginally
13 lower premiums over a very short period of time. Put another way, to deny replacement on this
14 basis, the Superintendent would have to find that rates for the closed GF block will not rise
15 significantly following the loss of half of its enrollment when that half (the GM members) is
16 healthier. Even if actuarial principles would support such a conclusion about a hypothetical

² We believe that a 5% bandwidth is a modest differential for migrating from a closed, death-spiraling block with high deductibles and no possibility of subsidies, to a growing block with stable premiums, richer benefits and the ability to apply for a premium subsidy.

1 block of individual health insurance business (which they do not), the history of the actual legacy
2 block at issue here would not. Premiums will indeed rise significantly.

3
4 The red line takes into account the differential in the legacy members' current deductible versus
5 the deductible in the applicable ACA plan. It shows that 93% of legacy members are better off
6 immediately (*i.e.*, in 2017) with the proposed migration. Thus, even if one were to restrict
7 consideration of Anthem's proposal to current premiums, the differential resulting from the
8 discontinuance and replacement would be justified based on the benefit differentials between the
9 types of plans being compared. Some may argue that in some years, when the policyholder and
10 his/her family are healthy, they do not reach even the lower-deductible ACA product level,
11 which means the out of pocket maximum – to that policyholder and in that year – is financially
12 irrelevant. That may be true, but those same policyholders obviously want to cover the risk that
13 they may need the coverage at some point during that plan year, otherwise, they would not
14 purchase the insurance in the first place (and they certainly would not be a GF policyholder who
15 of necessity has had their policy in place for approximately six years, *i.e.*, since at least March
16 23, 2010.)

17
18 One relatively small claim can exceed even the \$6,850 maximum out-of-pocket on an ACA plan,
19 at which point the differential in out of pocket maximums between the highest deductible legacy
20 and ACA plans is either paid by the carrier (with an ACA plan) or paid by the policyholder (with
21 the high deductible legacy plan). It is certainly the case that those who purchase high deductible
22 plans do not anticipate having significant claims, otherwise they would purchase a lower-
23 deductible plan. Every year, however, a not insignificant number of high-deductible legacy
24 policyholders have claims that would exceed the highest ACA out-of-pocket maximum (\$6,850).
25 For example, in the 21-months ended September 30, 2015, nearly 600 high-deductible legacy
26 members had claims that exceeded \$6,850 and, for that group, the average claim was over
27 \$30,000. With an out of pocket maximum differential of over \$8,000 (*i.e.*, \$15,000 legacy
28 versus \$6,850 ACA), most (if not all) of these members would have benefited significantly from
29 being insured via an ACA product.

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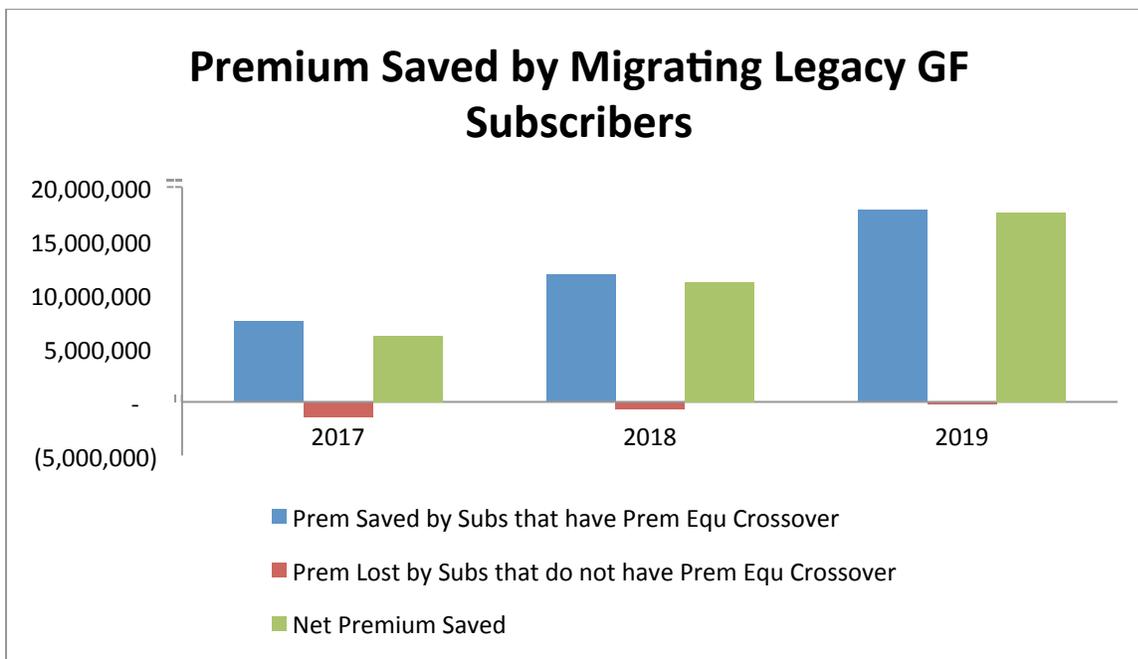
1 **Q. What is the net premium effect of the proposed migration on grandfathered**
 2 **policyholders?**

3 A. The net premium impact on the grandfathered policyholders as a group is very favorable.
 4 The GF policyholders who would benefit by the proposed transition would benefit to a much
 5 larger extent than the increased amount paid by those who would pay more for an ACA plan:

Premium Saved by Migrating Legacy GF Subscribers

	Prem Saved by Subs that have Prem Equ Crossover	Prem Lost by Subs that do not have Prem Equ Crossover	Net Premium Saved
2017	7,533,289	(1,371,248)	6,162,041
2018	11,877,599	(673,310)	11,204,289
2019	17,892,010	(250,011)	17,641,999

6



7

8

9 As these data and graphs reflect, the GF policyholders achieve a net benefit of over \$6 million if
 10 transitioned in 2017. The corollary is that the GF policyholders – as a group – would lose \$6
 11 million in 2017 alone if the proposed migration is delayed. The detriment to the GF
 12 policyholders grows to over \$17 million if the migration is delayed beyond 2019.³

13

³ Some may argue that allowing this to happen will result in GF policyholders making the choice to purchase ACA plans and, so it goes, individual preference should rule the day. That inaction, however, would ignore Section 2850-B, which requires the Superintendent to approve a discontinuance and replacement if it is in the best interests of the policyholders.

1 The “premiums lost” category includes a number of high-deductible policyholders in Region 4
2 that have not crossed over due in large part to the presence of geo rating of ACA plans, and the
3 absence of geographic rating for legacy plans. This is noteworthy because the absence of
4 geographic rating means that the legacy policyholders in Region 4 have been subsidized by the
5 policyholders in Regions 1 and 2. Fundamental fairness would thus suggest that the
6 policyholders in Regions 1 and 2 should not have to forego the significant migration benefit so
7 that their subsidization of Region 4 may continue.⁴

8
9 These data points demonstrate that it is in the best interests of the GF policyholders to transition
10 them to ACA plans coincident with the GM members, effective January 1, 2017.

11
12 **Q. Based on your background and experience, is the proposed discontinuance and -**
13 **replacement with ACA-compliant policies in the best interests of Anthem’s legacy**
14 **subscribers?**

15 A. Yes. GM policyholders will transition as of January 1, 2017 and the need to transition
16 GF policyholders to ACA-compliant plans is only a matter of time. The legacy block is
17 declining, becoming less healthy and is in a death spiral. By contrast, Anthem’s ACA block is
18 growing, healthier members are enrolling and, as a result, premiums are more stable. While the
19 ACA benefits are richer, the premium differential between ACA and legacy products has all but
20 disappeared. This means the GF policyholders can either remain in their spiraling block or
21 transition to the growing ACA block and enjoy richer plans with more stable premiums. In our
22 view, transitioning now in coordination with the GM members is in the best interests of GF
23 policyholders.

24
25 **Q. Does this conclude your testimony?**

26 A. Yes.

⁴ We recognize that the policyholders in Regions 1 and 2 could make the financially-rational decision to purchase an ACA plan. History suggests, however, that for any number of reasons, policyholders maintain plans well beyond the time when it would make financial sense to transition to another plan. That is the very premise of the statute authorizing discontinuance and replacement when it is in the best interests of the policyholder group to do so.

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
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IN RE:)
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PLANS EFFECTIVE JANUARY 1, 2017)
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The undersigned counsel hereby certifies that on this date I caused to be mailed by electronic mail, copies of the Prefiled Testimony of Dee Clamp and Zach Fohl on the persons and at the addresses indicated below.

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DATED: March 21, 2016

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