

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

IN RE:)	
)	
ANTHEM BLUE CROSS AND BLUE SHIELD)	
2005 INDIVIDUAL RATE FILING FOR)	
COMPANION PLAN PRODUCTS)	DECISION AND ORDER
)	
Docket No. INS-04-620)	
)	
)	

Alessandro A. Iuppa, Superintendent of the Maine Bureau of Insurance, issues this Decision and Order in the above-captioned proceeding.

I. THE RATE FILING

On September 22, 2004, Anthem Blue Cross and Blue Shield (Anthem BCBS) filed with the Superintendent proposed rate increases to be effective January 1, 2005, for its Individual Companion Plan Products, which are Medicare supplement insurance policies. Specifically, Anthem BCBS requests rate increases ranging from 4.3% to 6.6%, depending on the benefit design of the different plans offered. The weighted average proposed rate increase is 5.8%.

II. PROCEDURAL HISTORY

The Superintendent determined that it would be in the best interest of the public to hold a hearing, and pursuant to his Notice of Pending Proceeding and Hearing dated October 5, 2004, ordered that a hearing be held at 1:00 p.m. on November 4, 2004, in the Kennebec Room of the Maine Department of Professional and Financial Regulation Building, 124 Northern Avenue, Gardiner, Maine. This Notice of Pending Proceeding and Hearing provided a process by which interested persons could intervene as parties to the proceeding. No one applied to become an intervenor.

Pursuant to a motion by Anthem BCBS, the Superintendent issued a protective order dated October 28, 2004, granting confidential treatment to specific parts of the September 22 filing. In addition to its filing of September 22, 2004, Anthem BCBS responded to the Superintendent's discovery request in a submission dated November 2, 2004.

The hearing was held as scheduled on November 4, 2004, before the Superintendent. He was assisted by Richard Diamond, Life and Health Actuary Maine Bureau of Insurance, William Bremer, Assistant Actuary Maine Bureau of Insurance, and the Superintendent's legal counsel, Andrew Black, Assistant Attorney General. In support of its filing, Anthem BCBS provided oral testimony by James Parker, General Manager, James Buccheri, Vice President and General

Manager Regional Accounts, Daniel Andersen, Director Actuarial Services, Eric Spiegel, Actuary, and Sharon Roberts, Director of Stakeholder Relations. John Carr, President, Maine Council of Senior Citizens testified as a member of the public.

Pursuant to requests by the Superintendent, Anthem BCBS made post hearing submissions dated November 8, November 15, and December 6, 2004.

III. LEGAL STANDARD

Anthem BCBS is required by 24-A M.R.S.A. § 2736(1) and Maine Bureau of Insurance Regulation chapter 275 § 14(C) to file with the Superintendent proposed policy rates for its Medicare supplement insurance products. Anthem BCBS bears the burden of proving by a preponderance of the evidence that the proposed rates are not inadequate, excessive, or unfairly discriminatory. In addition, Anthem BCBS is required pursuant to 24-A M.R.S.A. § 5004, 24-A M.R.S.A. § 2413(1)(F), and Maine Bureau of Insurance Regulation chapter 275 § 14(A)(1)(a)(ii) to show that in accordance with accepted actuarial principles and practices its proposed rates should yield a loss ratio of at least 65%.

IV. FINDINGS AND CONCLUSIONS

A. The Proposed Rates. The current 2004 monthly rates, proposed 2005 monthly rates, and percentage changes in the rates of the individually billed plans that Anthem BCBS offers in Maine are as follows:

Plan Option	Current Monthly Rate	Proposed Monthly Rate	Proposed Rate Change
CP a	\$ 42.67	\$ 45.47	+6.6%
Plan A	\$ 87.06	\$ 92.63	+6.4%
Plan B	\$ 111.80	\$ 117.64	+5.2%
Plan C	\$135.86	\$ 143.70	+5.8%
Plan D	\$126.04	\$ 132.78	+5.3%
Plan E	\$129.01	\$ 134.59	+4.3%
Plan F	\$136.91	\$ 144.58	+5.6%
Plan HF	\$51.63	\$ 54.51	+5.6%
Plan G	\$126.88	\$ 133.49	+5.2%
Plan H	\$196.04	\$ 208.28	+6.2%
Plan I	\$197.10	\$ 209.16	+6.1%
Plan J	\$244.92	\$ 259.64	+6.0%
Plan HJ	\$157.73	\$ 168.41	+6.8%
Average			+5.8%

Mr. Spiegel certified that the filing was prepared in accordance with accepted actuarial practices and that the proposed rates are reasonable relative to the benefits provided.

B. Part B Hospital Coinsurance. Anthem BCBS based its trend projection for the Part B Hospital Coinsurance on a combination of its own experience and CMS

estimates, as summarized in the following table. The Anthem trends for 2002 and 2003 are actual trends, while those for 2004 and 2005 are projected.

	2002	2003	2004	2005
CMS	2.3%	6.2%	4.5%	6.6%
Anthem	1.0% ¹	2.1%	3.0%	5.0%

¹ The actuarial memorandum stated that the 2002 trend was 1.6%, but the data in Exhibit V shows that it was actually 1.0%.

While it is generally commendable to consider external sources in the trend-setting process rather than simply projecting continuation of past trends, in this case the methodology appears flawed. The 2002 and 2003 data show no clear relationship between the CMS estimates and Anthem's experience. This is not surprising because the CMS figures reflect increases in total spending, which to some extent is a reflection of the increases in the population covered by Medicare, while the Anthem trends are on a per member basis. In this case, it would be more appropriate to project trends based solely on Anthem's experience. The average annual trend for the claim cost over the period 2000-2003 was 0.6% $[(26.49/26.00)^{1/3}-1]$. Using this trend of 0.6% as opposed to 4.0% results in a 2005 pure premium of \$26.81 rather than \$28.65.

C. Skilled Nursing Coinsurance: Anthem BCBS used an 8% annual utilization trend resulting in a pure premium of \$12.26, citing calendar year 2002 and 2003 trends of 9.0% and 8.3% respectively. However, those trends appear unusually high compared to the 2001 trend of 1.5% and the negative trend of -4.8% for the most recent period (year ending March 2004). A more appropriate trend would be the average annual trend over the period 2000-2003, which is 6.2%, resulting in a 2005 pure premium of \$11.85.

D. Hospital Coinsurance – Days 61-90. Anthem BCBS used the average utilization for 2002-2004, citing the fact that the trends have varied from large positives to large negatives. However, the long-term trend has clearly been downward. While it is not reasonable to assume that utilization will continue to decrease indefinitely, it is overly conservative to assume, as Anthem has, that utilization will bounce back to more than double the most recent 12-month value. A more reasonable assumption would be that utilization will remain at the calendar year 2003 value, resulting in a 2005 pure premium of \$0.61 as opposed to Anthem BCBS's proposed \$1.04.

E. 365 Lifetime Reserve Days. Anthem BCBS used a pure premium of \$0.35, approximating the average of the monthly values for the last three calendar years, as the assumed claim cost for 2005. This methodology ignores what appears to be a downward trend. Although it is difficult to distinguish real trends in this benefit from random fluctuations, when taken together with the downward trend in hospital coinsurance for days 61-90, the long-term trend toward shorter hospital stays has continued. Therefore, a pure premium

somewhat lower than the historical average would be more appropriate. A more appropriate pure premium would be \$0.20.

F. 60 Lifetime Reserve Days. Similar to the 365 Lifetime Reserve Days, Anthem BCBS based its projected utilization of this benefit on an average of the last three years. Here again, there is an overall downward trend that taken together with the downward trend in hospital coinsurance for days 61-90, points to a long-term trend toward shorter hospital stays. The projected 2005 utilization level should be equal to the 2003 level, resulting in a 2005 pure premium of \$0.16 as opposed to Anthem BCBS's proposed \$0.25.

G. High Deductible Plans. As noted at the hearing, the pure premium for foreign travel emergency and for drugs in the high-deductible plans should have been multiplied by 0.36. This should be corrected.

H. Profit and Risk Margin. The record indicates that the Companion Plan line has contributed substantially to the increase of Anthem BCBS's surplus in recent years. Exhibit VI shows that for the period 2000-2003, the Companion Plan net operating gain was equal to 6.1% of revenue. Other factors to consider in determining an appropriate margin are the degree of uncertainty in the projections of claims and administrative expenses and the need to keep premiums as affordable as possible. After weighing these factors, the appropriate combined margin for profit and risk in this filing is 3% before federal income tax.

I. Conclusion. Based on the deficiencies noted above, the Superintendent concludes that Anthem BCBS has failed to prove by a preponderance of the evidence that its proposed rates are not excessive. Were these deficiencies corrected, the resulting rates would produce total revenues of approximately 0.1% less than if the current rates remained in place. The rates for each plan would be within 2% of the current rate. Consequently, the present record does not support any modification to the current rates.

V. ORDER

Pursuant to 24-A M.R.S.A. §§ 2736 and 2736-B, the Superintendent hereby ORDERS:

Approval for filed 2005 rates for Anthem BCBS's Individual Companion Plan Products is DENIED. The filed rates shall not take effect as proposed on January 1, 2005. Based on the record before the Superintendent, the Superintendent will approve only those rates that are currently in effect.

VI. NOTICE OF APPEAL RIGHTS

This Decision and Order is a final agency action of the Superintendent of Insurance within the meaning of the Maine Administrative procedure Act. It may be appealed to the Superior Court in the manner provided in 24-A M.R.S.A. § 236, 5 M.R.S.A. § 11001-11007, and M.R.Civ.P. 80C. Any party to the

proceeding may initiate an appeal within thirty (30) days after receiving this notice. Any aggrieved non-party whose interests may be substantially and directly affected by this Decision may initiate an appeal within forty (40) days of the date of this Decision. There is no automatic stay pending appeal; application for stay may be made in the manner provided in 5 M.R.S.A. § 11004.

PER ORDER OF THE SUPERINTENDENT

DATED: December 22, 2004

ALESSANDRO A. IUPPA
Superintendent