GMCB Presentation

BlueCross BlueShield of Vermont

May 11, 2017

Agenda

- About BlueCross BlueShield of Vermont
- Vermont and the ACA
- What drives premium rate increases
- Our commitment to health care reform

We'll see you through.

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ABOUT
BLUE CROSS BLUE SHIELD OF VERMONT

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Who is BlueCross BlueShield of Vermont?

Our Vision

A transformed health care system in which every Vermonter has health care coverage, and receives timely, effective, affordable care.
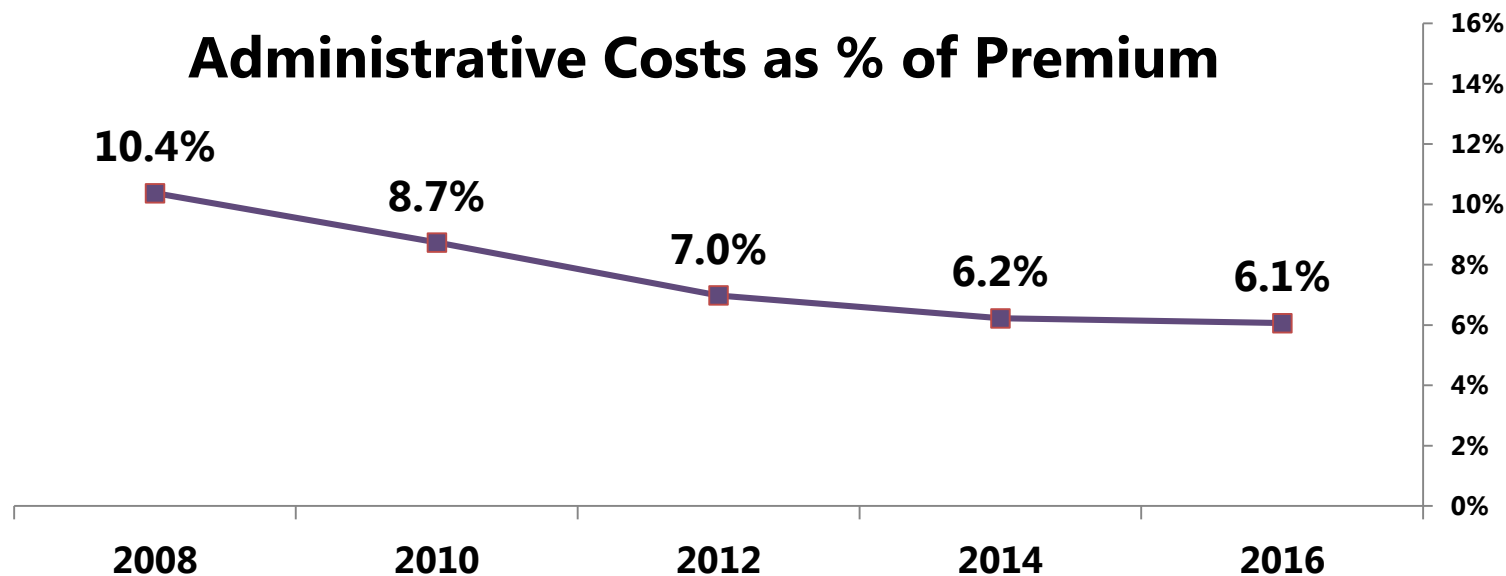
Our Mission

We are committed to the health of Vermonters, outstanding member experiences and responsible cost management for all of the people whose lives we touch.

How are we different?

- Local, non-profit Vermont company
- Vermonters serving Vermonters
  - About 400 of us in Berlin, VT
- Customer and community focused
- Committed to outstanding member experiences
  - World class service & support
- Supporting Vermont's health care reforms
- About main street, not wall street
  - Not beholden to shareholders
  - Board of Directors in Vermont, about Vermont

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BCBSVT's commitment to cost management

Administrative Costs as % of Premium

10.4%
8.7%
7.0%
6.2%
6.1%

2008   2010   2012   2014   2016

16%
14%
12%
10%
8%
6%
4%
2%
0%

- Our members realize the benefit of our operational efficiency in the premium rates they pay
- Administrative costs per member per month are the lowest of health plans in Vermont and compare well to benchmarks

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BCBSVT's administrative costs compare well against the industry

Cost Ratio	Scope	Source
12-14%	US Commercial Health Insurance Industry	Deloitte Consulting Health Insurance Market Overview 2013
11.9% 7% 7%	Private insurers in VT TPA/self-insured SoV & BCBSVT ASO plans	VT Dept of BISHCA; Health Plan Admin. Cost Report 2009
9%	VT Medicaid	"Medicaid Budget" as noted in UMass Financing Report
6.1%	BCBSVT	2015 & 2016 results

Our administrative cost ratio is very low, and we deliver world class customer service

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What is included in our administrative costs?

Total

1¢

6.1 ¢

2.5 ¢

2.2 ¢

1.4 ¢

Direct member support
(service, pay claims, care management, enrollment, billing)

Technology& Processes
(infrastructure maintenance & development)

Corporate Services
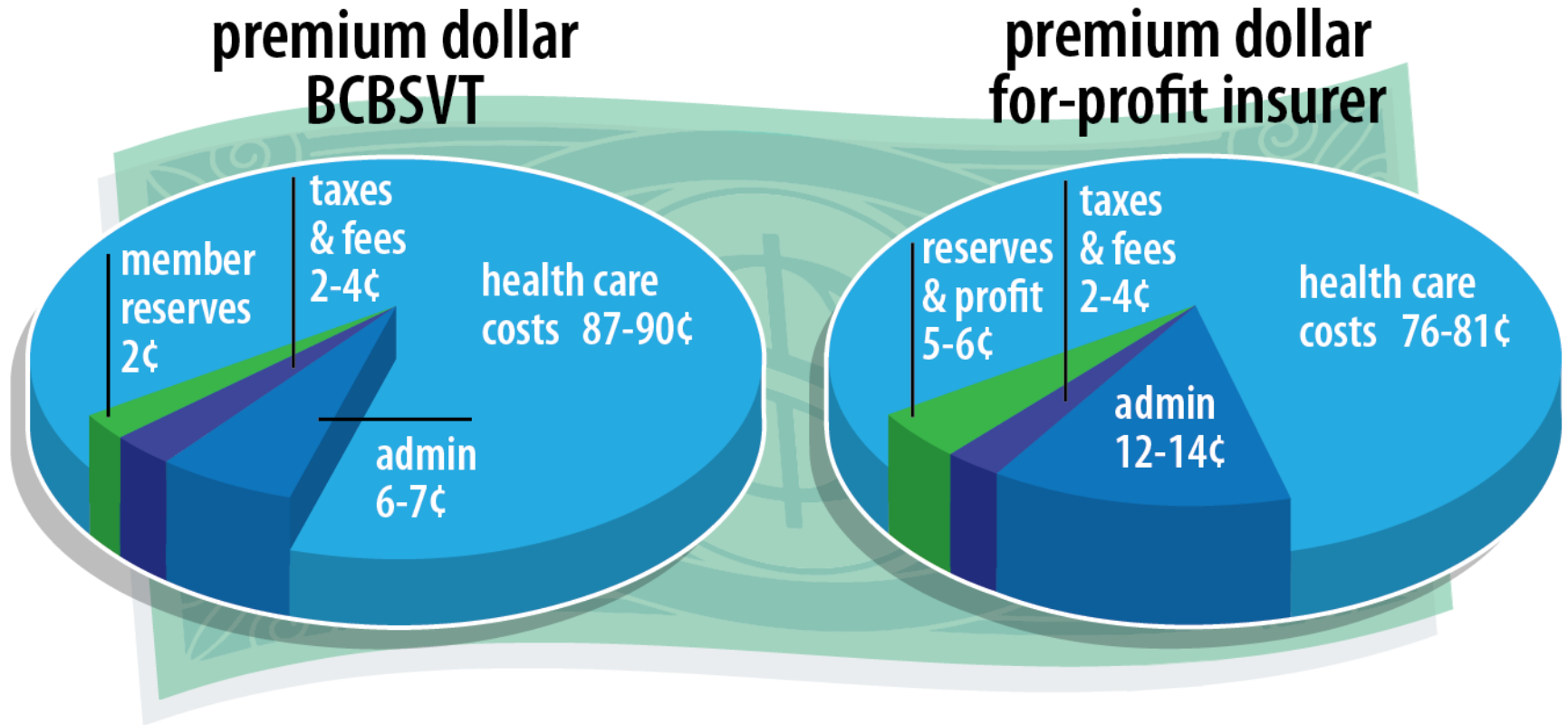(governance, legal, HR, finance)

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What makes up health premiums?

premium dollar
BCBSVT

member reserves 2¢

taxes & fees 2-4¢

health care costs 87-90¢

admin 6-7¢

premium dollar
for-profit insurer

reserves & profit 5-6¢

taxes & fees 2-4¢

health care costs 76-81¢

admin 12-14¢

BCBSVT's non-profit status and operating efficiency means 9-11 cents more of every dollar of premium goes to paying health care costs

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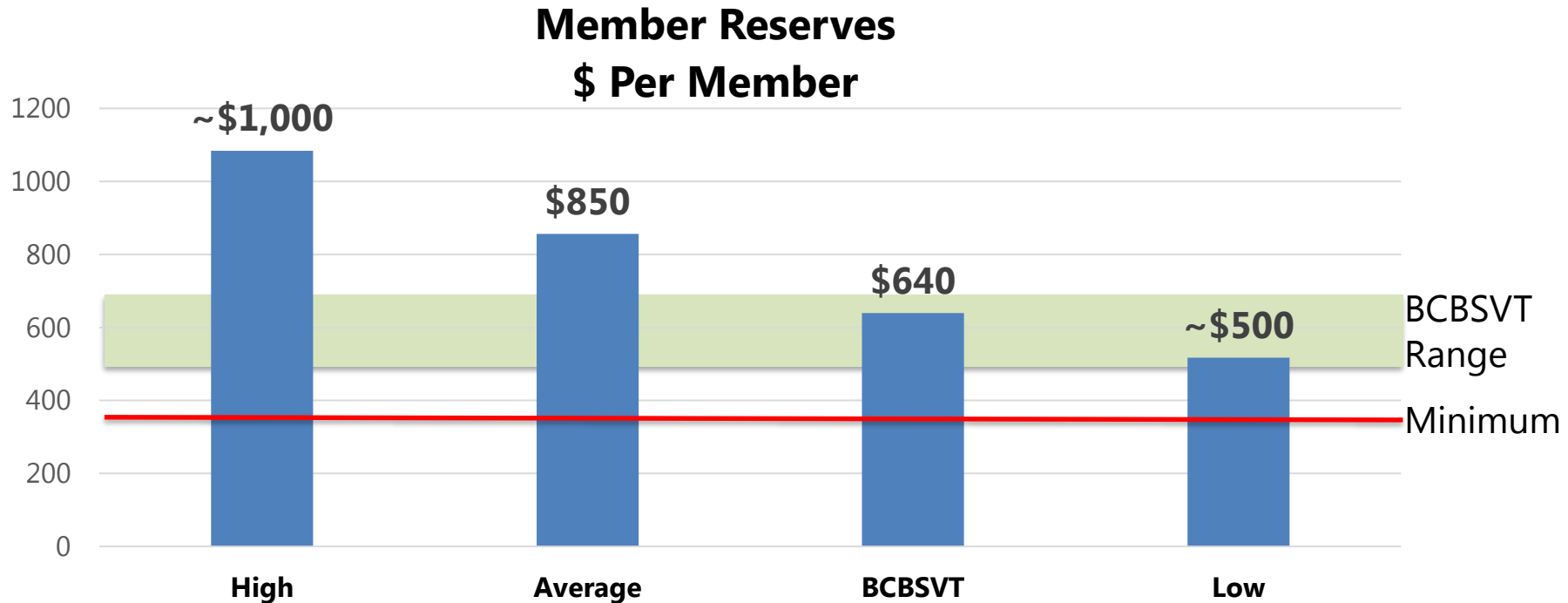
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Why are BCBSVT member reserves critical to consumers and providers?

- Member reserves are required because BCBSVT pays for health services needed by Vermonters, no matter what
  - Current reserve is approximately $640 for each member which equates to one ER visit
- 2 cents of each new premium dollar sustains member reserves as medical and pharmacy costs increase
- As a local, non-profit Vermont company, member reserves are not directed out of state or distributed to shareholders
- Ultimately, BCBSVT must remain financially sound in order to serve Vermonters

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How do BCBSVT's reserves compare to other insurers?

Member Reserves
$ Per Member

Chart showing Member Reserves $ Per Member:
- High: ~$1,000
- Average: $850
- BCBSVT: $640
- Low: ~$500

BCBSVT Range (green band approximately 500–680)
Minimum (red line at approximately 350)

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How does BCBSVT determine premiums?

1) Start with actual healthcare experience from prior year

2) Adjust for inflation and add fixed costs to determine expected costs this year

3) This year's premium = last year's actual claims cost + inflation + fixed costs

Prior Year Actual Health Care Cost

Trend

+

Premium

Inflation

This Year's Expected Health Care Cost

Admin, Stoploss, Reserves

Admin, Stoploss, Reserves

- Premium methodology estimates amount **needed to cover costs of healthcare and administering plans**
- Goal is to avoid excesses and shortages
- Each year's total premium is developed by trending the actual experience
- No cross-subsidization -- each client or population pays its own way
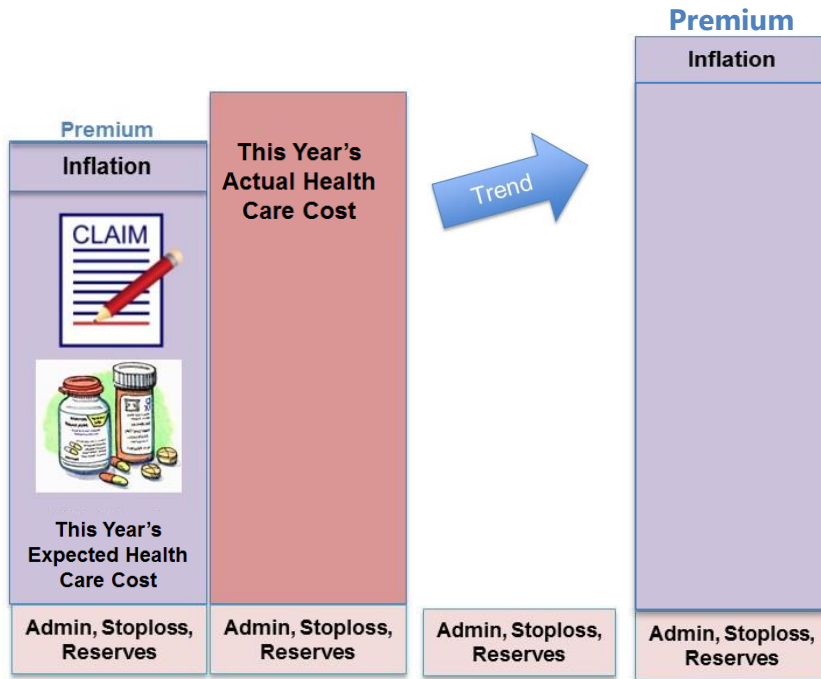
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What if health care costs are more than expected?

If actual costs exceed estimated premium, BCBSVT loses money, but no "catchup" is added to the next premium

- When costs are higher than premiums, BCBSVT's reserves cover the loss
- The next rate increase is still developed by trending the actual costs
- Even though no "catch-up" is added, the new premium is higher because the old premium was unintentionally too low

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What if health care costs are less than expected?

If actual costs are lower than premium, BCBSVT adds to reserves, but no "give-back" is added to the next premium
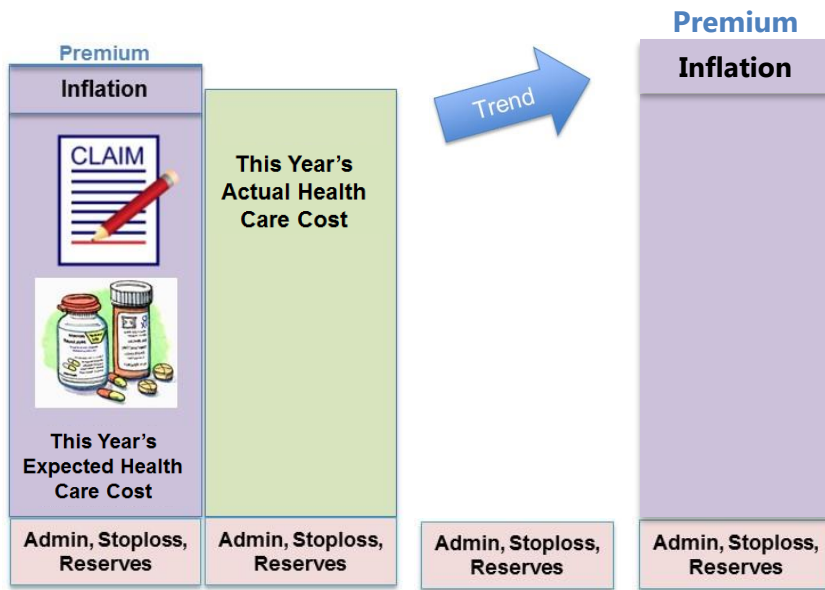
- When costs are lower than premiums, the surplus is added to BCBSVT's reserves
- The next rate increase is still developed by trending the actual costs
- Even though no "give-back" is added, the new premium increase will be lower because the old premium was unintentionally too high

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VERMONT AND THE ACA

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How did the ACA impact VT health plans?

| Before ACA	After ACA
Guaranteed issue Community rating Comprehensive network requirements	Added: Minimum essential benefits Maximum out of pocket limits No lifetime benefit limits No cost share for preventative
Many premium rating groups	Combined small group & individual rating group
State fees & subsidies	State and Federal fees & subsidies Federal mandate

- The ACA increased and standardized the quality of health plans which added to premium costs
- Federal and state subsidies available to many lower income Vermonters are funded through State and Federal fees, which also increase premiums

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ACA/ Vermont Premium Rating Impact

Before ACA: Fragmented

- Rates tended to be volatile
- Market prone to adverse selection and manipulation
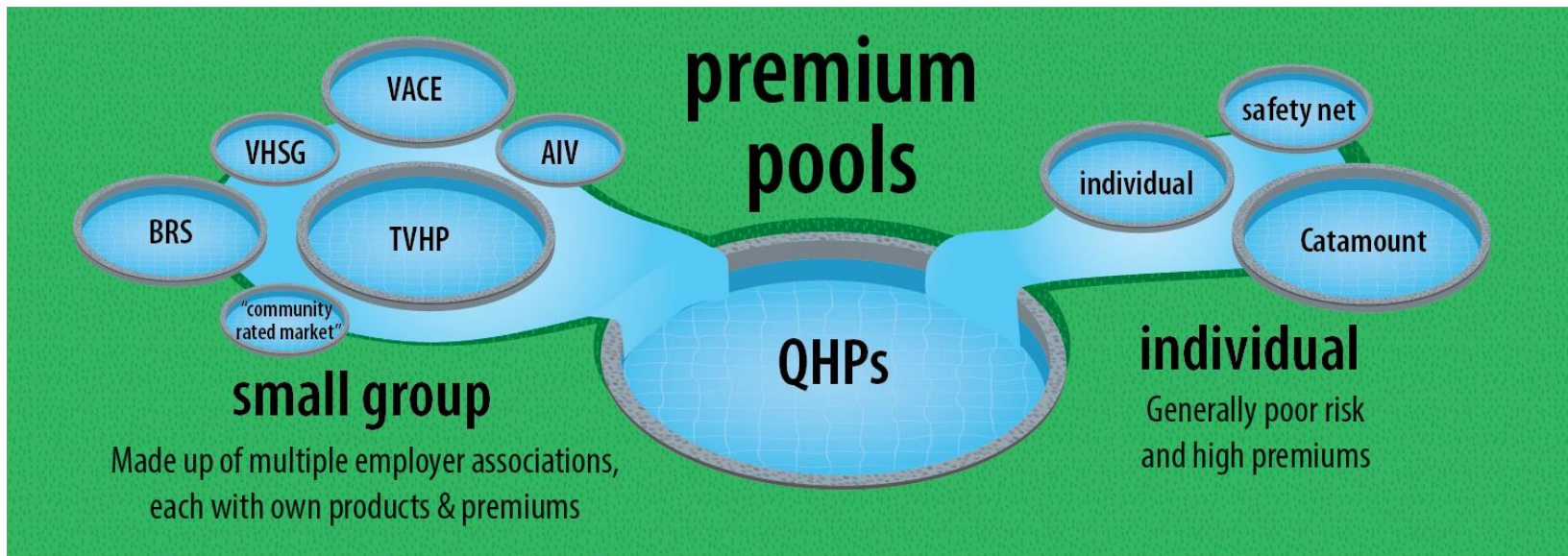
After ACA: One Integrated Pool
Qualified Health Plans

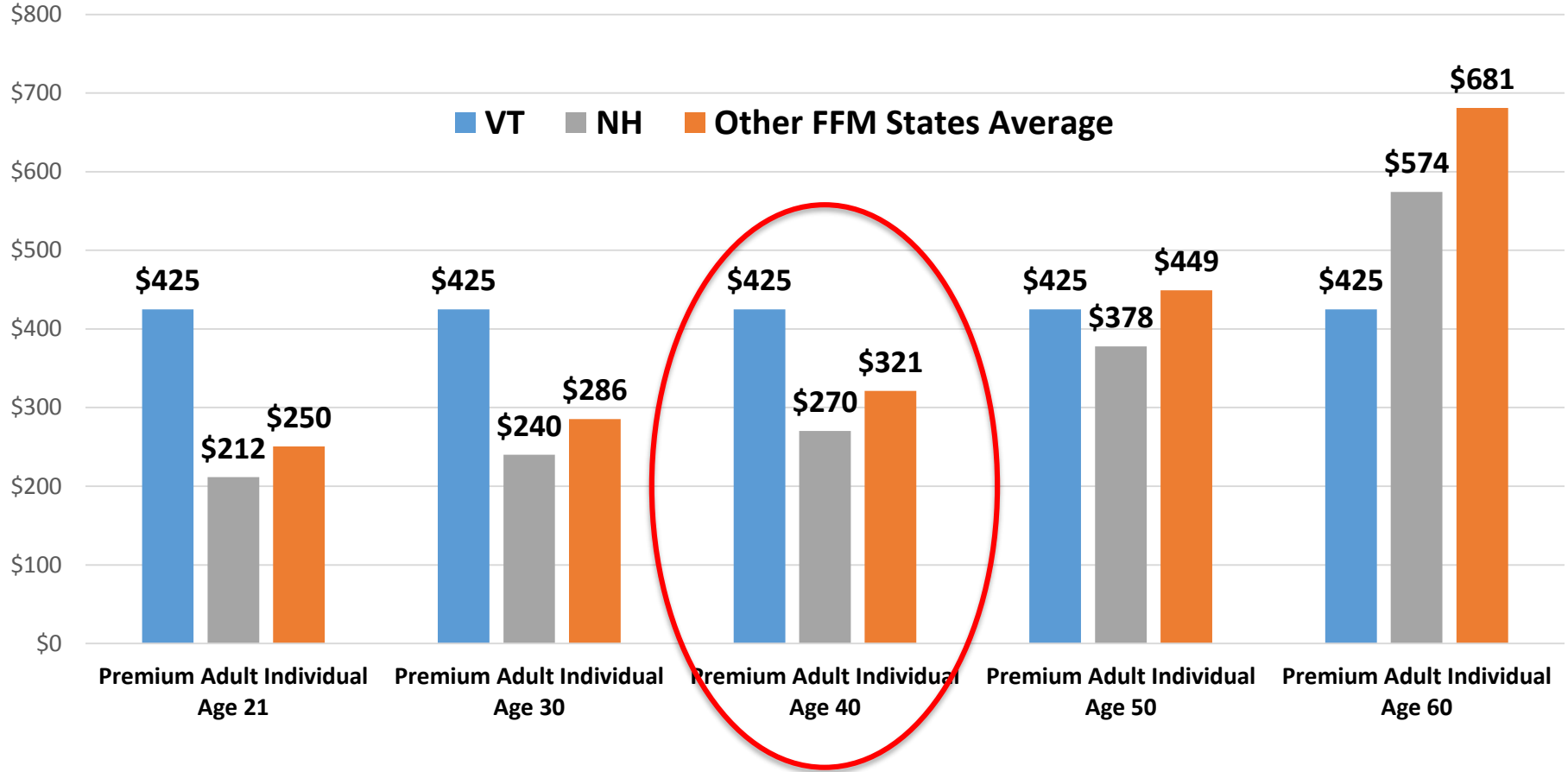- More rate stability when adequately funded

Why are premiums higher in Vermont than other states?

- A cornerstone of early Vermont Health Care Reform success was guaranteed issue and "pure" community rating

- Community rating for VT Qualified Health Plans includes all individuals and small groups
  - there is no difference in premium rates by age

- ACA regulations allows for 3:1 age rating factors
  - i.e. highest age group premium cannot be more than 3 times the lowest premium rate for the same benefits

- The result of "pure" (1:1) age rating in Vermont is very high relative premium rates for Vermonters aged 40 and under when compared to other states' ACA rates

Vermont's Age Rating (1:1) vs. Typical ACA Plan (3:1)
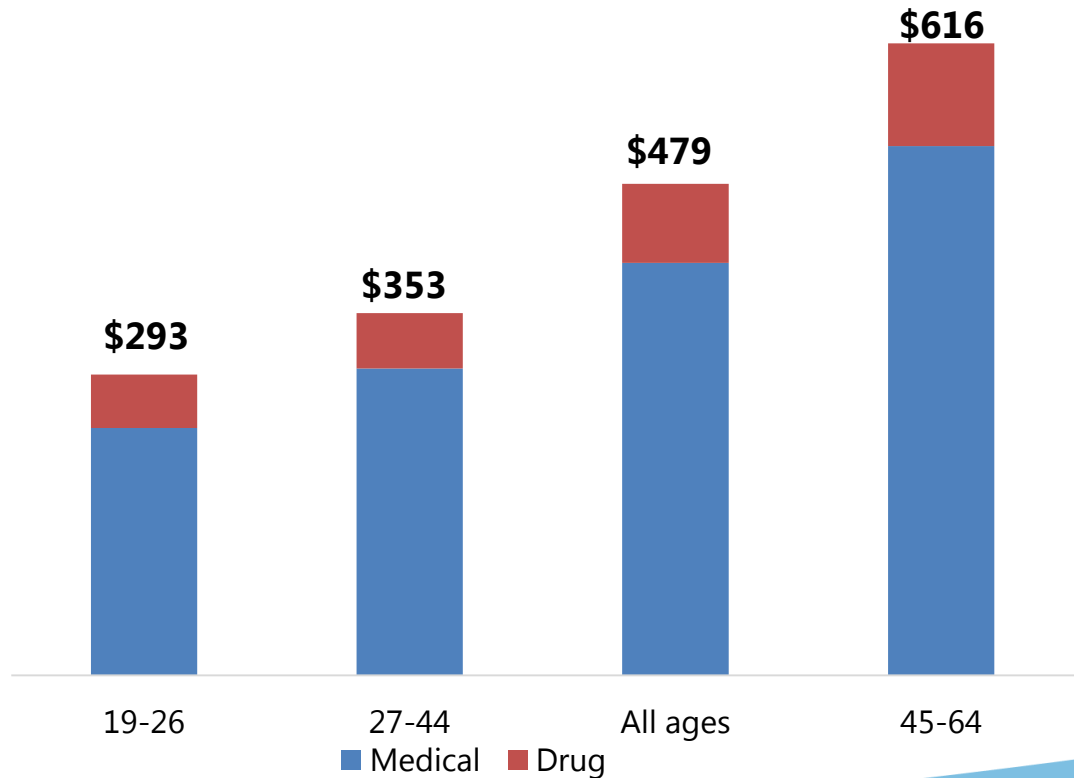
Benchmark Silver Plan

Legend: VT (blue), NH (gray), Other FFM States Average (orange)

Premium Adult Individual	VT	NH	Other FFM States Average
Age 21	$425	$212	$250
Age 30	$425	$240	$286
Age 40	$425	$270	$321
Age 50	$425	$378	$449
Age 60	$425	$574	$681

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Monthly claims costs vary significantly by age

**Claims Cost $ Per Member Per Month
by Age Grouping
(All Groups & Individuals in Qualified Health Plans)**

Age Demographics		
Age Group	**50+**	**<50**
Vermont	51%	49%
New Hampshire	48%	52%
National	46%	54%

$293 — 19-26
$353 — 27-44
$479 — All ages
$616 — 45-64

■ Medical ■ Drug

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WHAT DRIVES PREMIUM INCREASES?

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Why do premium rates continue to rise?
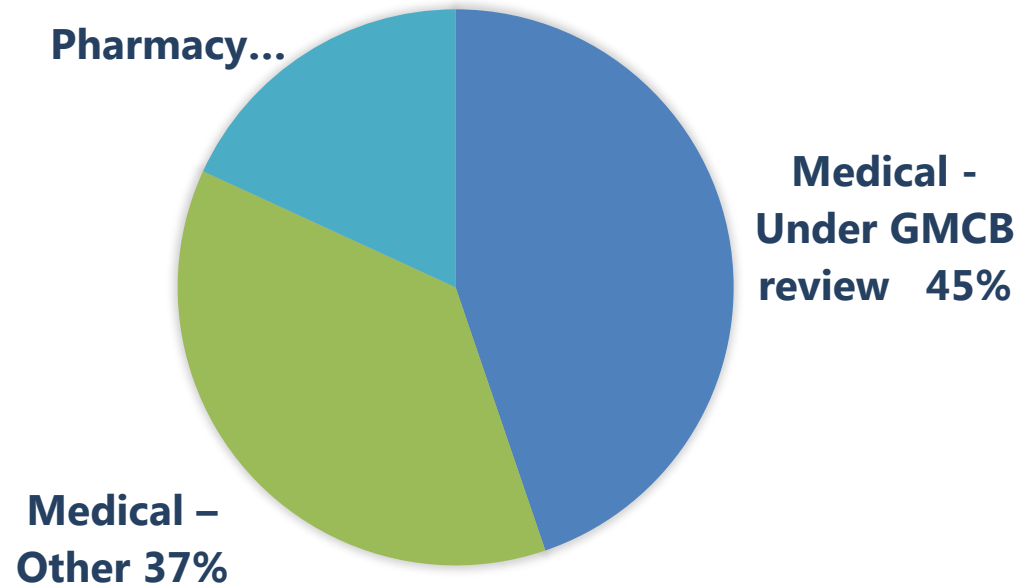
Non-Health Care Cost Drivers

- 3% federal insurance tax mandated by ACA
- 2% cost of underfunding of Medicaid and Medicare shifted to privately insured ("The Cost Shift")
- 1% due to our aging and needing more services and more intense services
- The premium must reflect these factors adding up to an increase of 6% before we reflect health care cost drivers

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Why do premium rates continue to rise?

Health Care Cost Drivers

- Pharmacy and medical cost increases
- Utilization of services ➜ increasing recently
- New specialty drug costs & utilization

- Other factors
  - Prevalence of healthy buyers contributing to the "community QHP pool"
  - Changes in family composition

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Health Care Cost Drivers

Pharmacy...

Medical -
Under GMCB
review   45%

Medical –
Other 37%

- VT hospitals regulated by GMCB account for about 45% of total health care costs
- "Medical – Other" includes out of state providers, community physicians, durable medical equipment, ambulance services, etc.

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What is BCBSVT doing to control health care premium increases?

- **Prescription Drug Management Program**
  - Pharmacy step therapy, quantity limits and prior authorizations
  - RationalMed pharmacy safety program integrates medical and pharmacy claim data to provide drug interaction warning to pharmacists
- **Case Management Program**
  - Certified case management nurses provide member guidance and support
- **Chronic Condition Management Program**
  - Disease management for common conditions such as diabetes and asthma
- **Vermont Collaborative Care**
  - Whole person integrated medical and mental health substance abuse
- **Radiology utilization management program.**
- **Better Beginnings perinatal support and care management program**
- **End of Life care management program**
  - For patients receiving palliative or hospice care

OUR COMMITMENT TO REFORM

Accountable Blue
A Unique Customized Health and Wellness Product

WORKPLACE POPULATION HEALTH MANAGEMENT

Creating healthy organizations through primary prevention

FLEXIBLE BENEFIT DESIGN

A customized benefit design to support health and wellness goals

CONSUMER INCENTIVES

Incentives to encourage and reward healthy behaviors

80 Accountable Groups

↓

71,697 Members
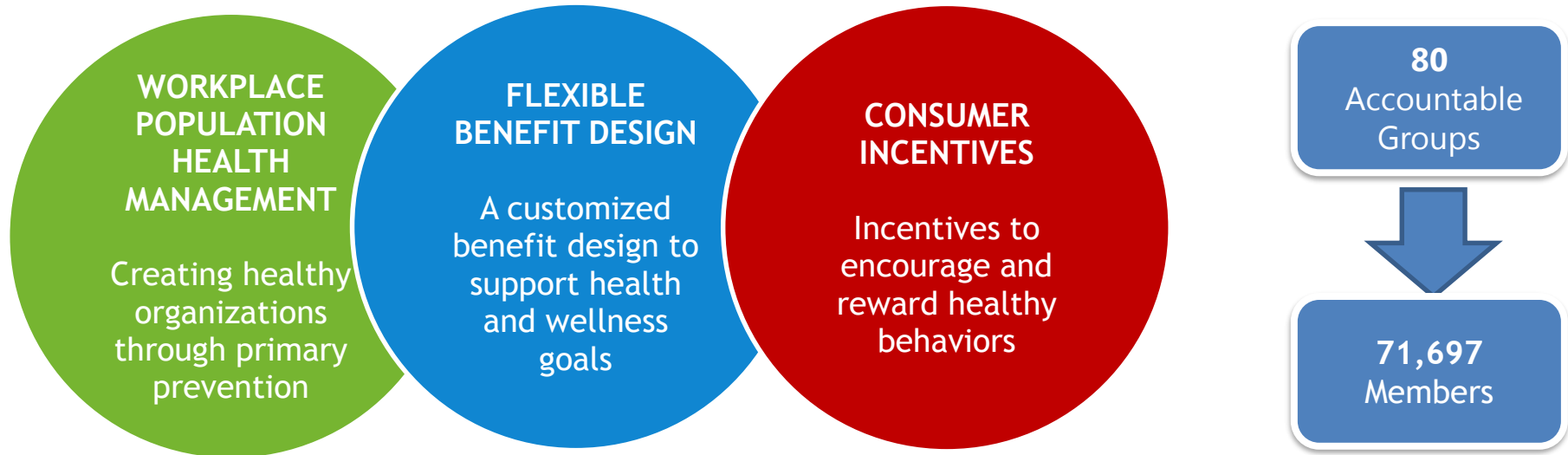
A health and wellness plan with shared incentives and focus on engagement of all stakeholders

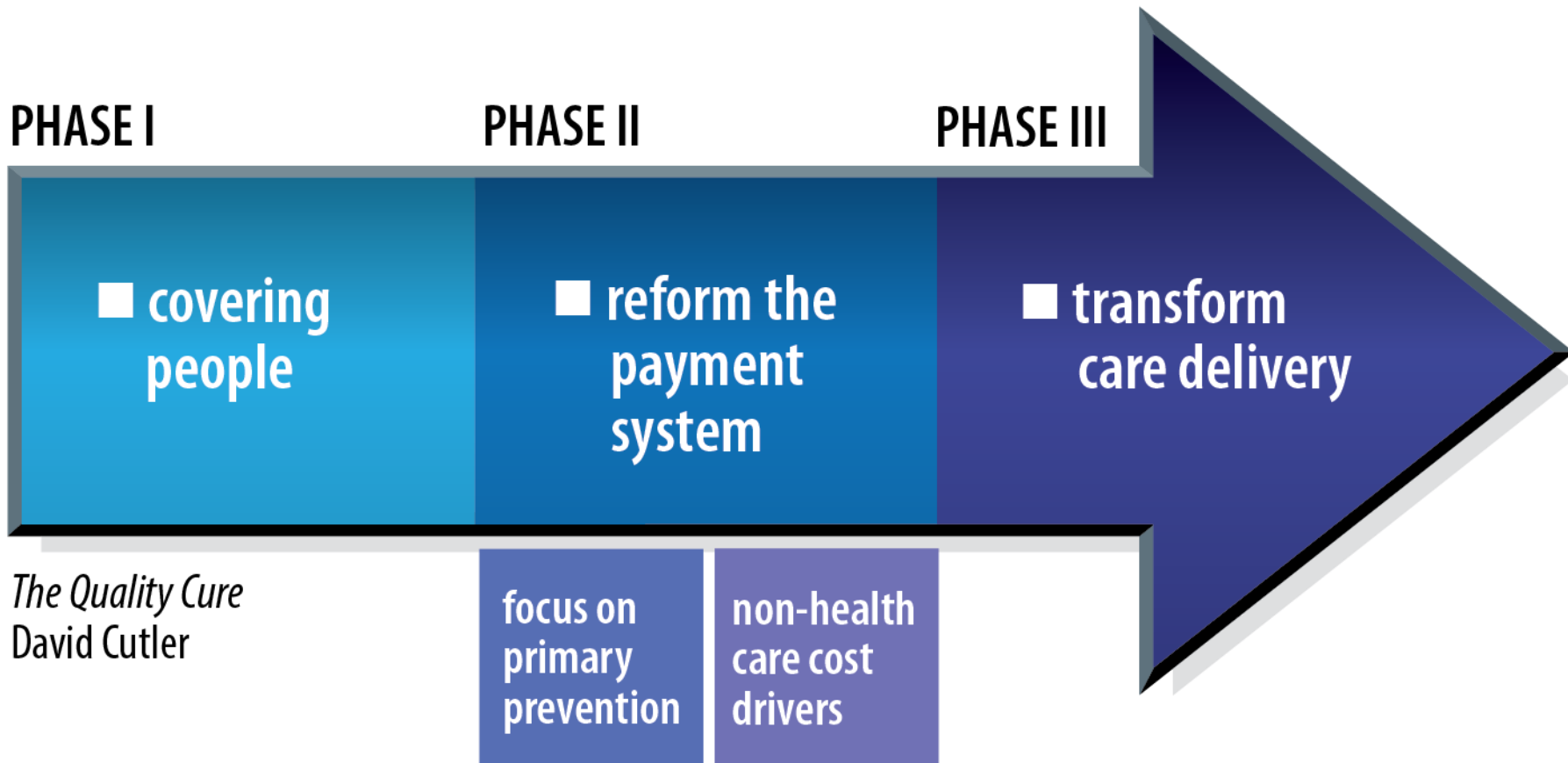**HEALTH PLAN + EMPLOYER + MEMBER + PROVIDER + COMMUNITY**

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We Are Committed to All Phases of Reform

PHASE I

PHASE II

PHASE III

- covering people

- reform the payment system

- transform care delivery

The Quality Cure
David Cutler

focus on primary prevention

non-health care cost drivers

Moving Forward

- Important to maintain both physical health of Vermonters and fiscal health of our health care system
- BCBSVT, elected officials, provider partners and regulators along with state and federal governments must all work together because each has something to contribute

Health Care Cost Drivers	Non-Health Care Cost Drivers
• Vermont ACOs and BCBSVT partner on payment reform and clinical transformation • Primary prevention in schools, workplaces and communities receives structure, funding and focus • Continued partnership among BCBSVT and Vermont's pharmacist and physicians to combat rising drug costs • Federal legislation to control drug manufacturers skyrocketing drug increases	• Broaden funding source for Federal health care reform • Confront and constrain the cost shift • Support our Legislature and Governor to grow Vermont's workforce

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Questions?

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