

# Blue Cross and Blue Shield of Montana

**Rate Presentation  
July 26, 2016**



**BlueCross BlueShield of Montana**

A Division of Health Care Service Corporation, a Mutual Legal Reserve Company,  
an Independent Licensee of the Blue Cross and Blue Shield Association

# Total Claims by Year (2014 and 2015)



*Medical costs are increasing year to year*

<b>INDIVIDUAL</b>	<b>CY 2014</b>	<b>CY 2015</b>
Total medical services paid by BCBSMT	\$ 168,662,597	\$ 220,582,733
Medical services paid on average per member annually	\$ 4,402	\$ 4,793

  

<b>SMALL GROUP</b>	<b>CY 2014</b>	<b>CY 2015</b>
Total medical services paid by BCBSMT	\$ 113,134,027	\$ 128,173,757
Medical services paid on average per member annually	\$ 3,548	\$ 3,965

CSI: IV (a)

# Incurred Loss Ratio



## Individual:

- For every dollar received in 2014, BCBSMT paid out \$1.23 for medical care (Incurred Loss Ratio of 122.6%)
- For every dollar received in 2015, BCBSMT paid out \$1.26 for medical care (Incurred Loss Ratio of 126.3%)

## Small Group:

- For every dollar received in 2014, BCBSMT paid out \$0.79 for medical care (Incurred Loss Ratio of 79.3%)
- For every dollar received in 2015, BCBSMT paid out \$0.89 for medical care (Incurred Loss Ratio of 89.0%)

CSI: IV (b)



# 2017 Pricing Trend Assumption

*Medical costs are volatile*

2017 Pricing Trend			
	Medical	Pharmacy	Combined
Individual	7.4%	16.8%	8.8%
Small Group	7.4%	16.8%	9.3%

CSI: III (b/c)

# Cost of Doing Business (excluding commission & taxes)



- Administrative costs include the following categories:
  - Sales & marketing
  - Advertising
  - Provider network management & services
  - Medical management
  - Enrollment/membership/billing
  - Customer services
  - Claims adjudication
  - Information systems
  - Finance and accounting
  - Actuarial
  - All other corporate services (Human resources, Legal, Facilities, Audit, Executive, & Governance, and more)

# Reserves/Risk Based Capital (RBC)



*Critical to protect our members now and in the future*

Reserves are critical in ensuring the availability of sufficient capital:

- To ensure the solvency of BCBSMT and protect its members (and health care providers) by ensuring that BCBSMT can pay their medical claims in the event of an unforeseen, catastrophic health crisis or emergency leading to a sharp rise in health care needs and claims, such as a severe pandemic, natural disaster, or new advances in life saving treatments and medications (as they come to the market).
- To provide the flexibility to invest in new technology and insurance solutions and services to meet our customers' needs.
- To help the company weather volatility in new markets, e.g., Affordable Care Act.
- RBC as of 12/31/2013 was 1228.
- RBC as of 12/31/2015 was 766.

**CSI: VI (b)**

(Individual)  
**Claims Cost Per Member Per Month (PMPM)**  
**by Cost Category**



*Medical Costs Increasing and Volatile*

CLAIM CATEGORY	CY 2014 Incurred Claims PMPM	CY 2015 Incurred Claims PMPM	2014 to 2015 Change in PMPM
Inpatient Facility (excl. Mental Health (MH)/Substance Abuse(SA))	\$110.75	\$103.56	-\$7.19
Outpatient Facility- All Other	\$69.33	\$74.93	\$5.59
Outpatient Professional- Specialty Visits	\$42.02	\$43.80	\$1.77
Other Medical	\$21.47	\$37.71	\$16.25
Prescription Drug- Non Specialty	\$25.38	\$30.79	\$5.41
Prescription Drug- Specialty	\$19.59	\$26.99	\$7.40
Outpatient Professional- Primary Care Visits	\$18.25	\$19.69	\$1.44
Outpatient Professional- All Other	\$10.62	\$11.03	\$0.40
Outpatient Facility- Non-High End Radiology	\$11.05	\$10.94	-\$0.11
Outpatient Facility- Emergency Department	\$11.59	\$10.79	-\$0.80
Outpatient Facility- Ambulatory Surgery	\$7.20	\$8.99	\$1.79
Outpatient Facility- Lab/Pathology	\$7.19	\$7.09	-\$0.10
Outpatient Professional-MH/SA Visits	\$4.59	\$5.79	\$1.21
Outpatient Facility- High End Radiology (MRIs, CAT Scans & PET Scans)	\$6.08	\$5.58	-\$0.50
Inpatient Facility & Professional- MH/SA	\$0.95	\$1.05	\$0.10
Inpatient Professional (excl. MH/SA)	\$0.79	\$0.69	-\$0.10
Outpatient Facility- MH/SA	\$0.02	\$0.01	-\$0.01
Capitation & Non-Claims Payments	\$0.00	\$0.00	\$0.00
<b>Total</b>	<b>\$366.85</b>	<b>\$399.42</b>	<b>\$32.57</b>

# Distribution of Members by Total Claim Spend



*More members are high cost claimants*

Distribution of members by total claim spend	2014	2015
\$0	27.08%	26.26%
\$1 - \$500	35.23%	35.37%
\$500 - \$1,000	13.11%	12.70%
<u>\$1,000 - \$5,000</u>	<u>14.96%</u>	<u>15.31%</u>
\$5,000 - \$25,000	6.63%	6.97%
\$25,000 - \$100,000	2.48%	2.82%
\$100,000 - \$500,000	0.50%	0.56%
<u>\$500,000 +</u>	<u>0.02%</u>	<u>0.02%</u>
Total of \$5000 +	9.62%	10.36%

(Individual)

## Distribution of Claim Costs by Total Claim Spend



*High cost claims are increasing each year*

Distribution of claim costs by total claim spend	2014	2015
\$0	0.00%	0.00%
\$1 - \$500	2.03%	1.77%
\$500 - \$1,000	2.70%	2.32%
<u>\$1,000 - \$5,000</u>	<u>9.63%</u>	<u>8.78%</u>
\$5,000 - \$25,000	22.49%	20.76%
\$25,000 - \$100,000	33.88%	34.46%
\$100,000 - \$500,000	25.62%	25.32%
<u>\$500,000 +</u>	<u>3.67%</u>	<u>6.59%</u>
Total of \$5000 +	85.65%	87.13%

# 2012 - 2014 Observed Trend Change 2017 Pricing Trend Assumption



*Medical costs are volatile*

<b>2012 - 2014 observed trend</b>	<b>Individual Medical</b>	<b>Individual Pharmacy</b>	<b>Individual Combined</b>
Minimum yearly change	4.4%	-1.7%	5.8%
Maximum yearly change	10.5%	44.9%	13.9%
Annualized average	6.8%	27.3%	8.9%
<b>2017 Pricing trend</b>	7.4%	16.8%	8.8%



(Individual)

## 2017 Target Claim Ratio - 2017 Federal Medical Loss Ratio

*BCBSMT's cost of doing business is well below the federal limit*

- Expected 2017 Federal Medical Loss Ratio (Individual):  
86.0% (based on Target Claim Ratio of 80.2%)
  - Minimum federal MLR is 80% - BCBSMT expects to spend 6% more on medical care than required.
- Expected 2017 Administrative Costs (Individual): 14%
  - Maximum administrative costs allowed are 20% - BCBSMT expects to spend 6% less on administrative costs than permitted.

CSI: IV (b)

(Individual)

## Administrative Charge Trend



*Administrative charge percentage decreases from 2016 to 2017*

Individual	2016	2017
Administrative Charge*	9.0%	6.9%
Commissions	2.9%	1.9%
Exchange Fees	1.8%	1.8%
<b>Total</b>	<b>13.7%</b>	<b>10.6%</b>

\*Administrative costs include the following categories: sales & expenses, advertising, provider network management & services, medical management, enrollment/membership/billing, customer services, claims adjudication, information systems, claims adjudication, information systems, finance and accounting, actuarial, executive compensation, human resources, legal, facilities, audit, governance, compliance, and more.

**CSI: V (d)**

(Individual)



## Percentage of Premium Contributed to Reserves

*Reserves are critical for future sustainability*

- The individual pre-tax margin changed from 1% in 2016 to 6% in 2017, yielding a post-tax margin from 0.8% in 2016 to 4.9% in 2017.
  - Necessary to cover market volatility
  - Necessary to cover unexpected risk
  - Expiration (12/31/2016) of federal reinsurance programs (Transitional Reinsurance Program and Risk Corridors Program)

(Individual)

## 2017 BCBSMT Individual Product Portfolio\*



### Continuing commitment to Montanans

- BCBSMT currently plans to continue to offer Blue Preferred PPO statewide and Blue Focus HMO (Missoula and Billings) networks, as it did in 2016.
- BCBSMT currently plans to offer all plans in 2017 as it did in 2016.
  - Blue Preferred PPO plans: 4 Bronze, 3 Silver, 2 Gold, 1 Catastrophic plan
  - Blue Focus HMO plans: 1 Bronze, 2 Silver, 1 Gold
- BCBSMT will offer two new plans on Blue Preferred PPO network in 2017: one Gold, one Silver
- BCBSMT will make certain changes to plan design features between 2016 and 2017 in order to maintain actuarial value metal status.

**CSI: I (a)**

\*BCBSMT will notify CSI of any changes in its product portfolio by 8/1/2016.

(Individual)

## 2017 Increases by Metallic Level, Rating Area and Network



Metallic Level		Rating Area		Network	
Catastrophic	103.9%	1: Billings	48.6%	Blue Preferred	66.2%
Bronze	71.4%	2: Great Falls	67.9%	Blue Focus	51.8%
Silver	59.7%	3: Missoula	76.7%		
Gold	52.0%	4: Non MSA	62.2%		



(Individual)  
**Impact of Portfolio Changes**

*No significant impact*

Minimal impact of portfolio changes on rates:

Less than 0.25%

(Individual)

## Exhibit D – Montana Rate Template



Components of Average Rate Change	Proposed Annual Rate Change
Population Risk Morbidity	34.1%
Over/Understatement of Prior Rates	9.1%
Other	7.4%
Contribution to Surplus/Profit/Reserve	5.6%
Utilization (including mix)	4.4%
Unit Cost	4.3%
All Other Retention Components (not included above)	1.2%
Change in benefits required by law	0.2%
Exchange User Fee	0.1%
Change in cost sharing	0.0%
Change in benefits NOT required by law	0.0%
Changes in provider network	0.0%
PCORI Fee	0.0%
Risk Adjustment User Fee	0.0%
ACA Insurer Fee	-2.3%
Risk Adjustment Receipts/Payments	-9.6%
<b>Total</b>	<b>62.0%</b>

CSI: II (a)

(Individual)

# Impact of Montana Health and Economic Livelihood Partnership (HELP) Act



## *HELP Act benefits rates*

- Medicaid expansion reduces individual rates by 6.7%.

(Individual)

## Impact of the Loss of the Federal ACA Programs



*The loss of the Transitional Reinsurance Program increases rates*

- The loss of the Transitional Reinsurance Program increases individual rates by 3.0%.
- The loss of the Risk Corridors Program does not impact individual rates.



(Individual)  
**Membership Projections**

- Average of 53,700 individual members in 2016
- Change in membership difficult to project
  - Currently unknown how changes to all insurers' rates for 2017 will affect consumer migration

# Small Group Health Insurance

Average Rate Increases



**BlueCross BlueShield of Montana**

A Division of Health Care Service Corporation, a Mutual Legal Reserve Company,  
an Independent Licensee of the Blue Cross and Blue Shield Association

(Small Group)



# Claims Cost Per Member Per Month (PMPM) by Category

	CY 2014 Incurred Claims PMPM	CY 2015 Incurred Claims PMPM	2014 to 2015 PMPM Change
Inpatient Facility (excl. Mental Health (MH)/Substance Abuse (SA))	\$68.88	\$84.91	\$16.03
Outpatient Facility- All Other	\$55.24	\$64.49	\$9.26
Outpatient Professional- Specialty Visits	\$34.98	\$38.65	\$3.68
Prescription Drug- Non Specialty	\$23.68	\$27.04	\$3.36
Prescription Drug- Specialty	\$20.33	\$24.10	\$3.78
Outpatient Professional- Primary Care Visits	\$16.74	\$19.24	\$2.50
Other Medical	\$18.62	\$17.39	-\$1.23
Outpatient Facility- Emergency Department	\$11.96	\$12.28	\$0.33
Outpatient Professional- All Other	\$14.38	\$9.65	-\$4.74
Outpatient Facility- Ambulatory Surgery	\$6.45	\$8.06	\$1.61
Outpatient Facility- Lab/Pathology	\$6.23	\$6.74	\$0.51
Outpatient Facility- Non-High End Radiology	\$6.07	\$5.97	-\$0.10
Outpatient Facility- High End Radiology (MRI's, CAT Scans & PET Scans)	\$5.02	\$5.35	\$0.33
Outpatient Professional-MH/SA Visits	\$4.34	\$5.05	\$0.71
Inpatient Facility & Professional- MH/SA	\$0.96	\$0.88	-\$0.09
Inpatient Professional (excl. MH/SA)	\$1.74	\$0.57	-\$1.17
Outpatient Facility- MH/SA	\$0.03	\$0.01	-\$0.01
<b>Total</b>	<b>\$295.64</b>	<b>\$330.39</b>	<b>\$34.75</b>

(Small Group)

## Distribution of Members by Total Claim Spend



*More members are high cost claimants*

Distribution of members by total claim spend	2014	2015
\$0	29.15%	27.03%
\$1 - \$500	35.73%	34.81%
\$500 - \$1,000	11.22%	11.75%
<u>\$1,000 - \$5,000</u>	<u>15.72%</u>	<u>16.62%</u>
\$5,000 - \$25,000	6.29%	7.23%
\$25,000 - \$100,000	1.66%	2.25%
\$100,000 - \$500,000	0.22%	0.30%
<u>\$500,000 +</u>	<u>0.02%</u>	<u>0.02%</u>
Total of \$5000 +	8.18%	9.80%

(Small Group)



## Distribution of Claim Costs by Total Claim Spend

*High cost claims are increasing each year*

Distribution of claim costs by total claim spend	2014	2015
\$0	0.00%	0.00%
\$1 - \$500	2.63%	2.09%
\$500 - \$1,000	3.22%	2.65%
<u>\$1,000 - \$5,000</u>	<u>14.17%</u>	<u>11.71%</u>
\$5,000 - \$25,000	28.57%	25.72%
\$25,000 - \$100,000	31.10%	32.86%
\$100,000 - \$500,000	14.57%	16.64%
<u>\$500,000 +</u>	<u>5.73%</u>	<u>8.34%</u>
Total of \$5000 +	79.97%	83.56%

# 2012 - 2014 Observed Trend Change 2017 Pricing Trend Assumption



*Medical costs are volatile*

2012 - 2014 observed trend	Small Group Medical	Small Group Pharmacy	Small Group Combined
Minimum yearly change	7.0%	9.1%	7.2%
Maximum yearly change	9.7%	8.9%	9.1%
Annualized average	8.3%	7.6%	8.2%
<b>2017 Pricing trend</b>	7.4%	16.8%	9.3%



(Small Group)

## 2017 Target Claim Ratio - 2017 Federal Medical Loss Ratio

*BCBSMT's cost of doing business is well below the federal limit*

- Expected 2017 Federal Medical Loss Ratio (Small Group): 88.2% (based on Target Claim Ratio of 84.1%)
  - Minimum Federal MLR is 80% - BCBSMT expects to spend 8% more on medical care than required.
- Expected 2017 Administrative Costs (Small Group): 11.8%
  - Maximum administrative costs allowed are 20% - BCBSMT expects to spend 8.2% less on administrative costs than permitted.

CSI: IV (b)



(Small Group)

## Percentage of Premium Contributed to Reserves

Reserves are critical for future sustainability

- The small group pre-tax margin in the filing changed from 1% in 2016 to 5% in 2017, yielding a post-tax margin from 0.8% in 2016 to 4% in 2017 to cover market volatility.
  - Necessary to cover market volatility
  - Necessary to cover unexpected risk
  - Expiration (12/31/2016) of federal reinsurance programs (Transitional Reinsurance Program and Risk Corridors Program)

(Small Group)

## Administrative Charge Trend



*Administrative charge percentage decreases from 2016 to 2017*

Small Group	2016	2017
Administrative Charge*	8.8%	4.6%
Commissions	4.2%	3.2%
Exchange Fees	0.1%	0.1%
<b>Total</b>	<b>13.0%</b>	<b>7.9%</b>

\*Administrative costs include the following categories: sales & expenses, advertising, provider network management & services, medical management, enrollment/membership/billing, customer services, claims adjudication, information systems, claims adjudication, information systems, finance and accounting, actuarial, executive compensation, human resources, legal, facilities, audit, governance, compliance, and more.

(Small Group)

# 2017 BCBSMT Small Group Product Portfolio\*



## *Continuing commitment to Montanans*

- BCBSMT currently plans to offer eighteen (18) plans for renewal in 2017 in all four rating areas, as it did in 2016.
- BCBSMT currently plans to offer at least two plans for each metallic level in 2017, as it did in 2016.
- BCBSMT currently plans to offer its Blue Preferred PPO network in 2017, as it did in 2016.
- BCBSMT will terminate one silver and one gold plan in 2017.
- BCBSMT will make changes to cost sharing to certain plans to allow them to maintain their metallic status.

\*BCBSMT will notify CSI of any changes in its product portfolio by 8/1/2016.

**CSI: I (a)**

(Small Group)



## 2017 Increases by Metallic Level, Rating Area and Network

Metallic Level	Q1	Q2	Q3	Q4
Bronze	61%	64%	67%	70%
Silver	34%	36%	39%	41%
Gold	25%	27%	29%	32%
Platinum	21%	23%	25%	27%

Rating Area	Q1	Q2	Q3	Q4
1: Billings	21%	23%	25%	28%
2: Great Falls	34%	36%	38%	41%
3: Missoula	38%	40%	43%	45%
4: Non MSA	31%	33%	36%	38%

Network	Q1	Q2	Q3	Q4
Blue Preferred	32%	34%	37%	39%

\*

CSI: I

\*Increase means % increase from QTR in 2016 to comparable QTR in 2017.



(Small Group)

## Impact of Portfolio Changes

*No significant impact*

- Minimal impact of portfolio changes on small group rates:  
a net decrease of less than 0.50%

CSI: I (b)

(Small Group)

## Exhibit D – Montana Rate Template



Components of Average Rate Change	Proposed Annual Rate Change
Over/Understatement of Prior Rates	16.3%
Unit Cost	4.8%
Contribution to Surplus/Profit/Reserve	4.4%
Utilization (including mix)	3.6%
Other	2.9%
Risk Adjustment Receipts/Payments	2.7%
Change in benefits required by law	0.3%
Change in cost sharing	0.0%
Change in benefits NOT required by law	0.0%
Changes in provider network	0.0%
PCORI Fee	0.0%
Exchange User Fee	0.0%
Risk Adjustment User Fee	0.0%
Population Risk Morbidity	-0.5%
ACA Insurer Fee	-2.1%
All Other Retention Components (not included above)	-2.8%
<b>Total</b>	<b>32.3%</b>

CSI: II (a)

(Small Group)

# Impact of Montana Health and Economic Livelihood Partnership (HELP) Act



- No impact on small group rates

CSI: II (b)

(Small Group)

# Impact of the Loss of the Federal ACA Programs



- Minimal impact of loss of the Transitional Reinsurance Program on Small Group Rates: -0.5%
- No impact of loss of Risk Corridors Program on Small Group Rates

CSI: II (c)

(Small Group)

## Membership Projections



- Average of 38,500 small group members in 2016
- Changes in membership difficult to project
  - Currently unknown how changes to all insurers' rates for 2017 will affect consumer migration