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April 23, 2010

Mila Kofman, Superintendent
c/o Sarah Hewitt
Docket No. INS-10-1000
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Re: Anthem BCBS 2010 HealthChoice Individual Rate Filing
Filing coversheet

Dear Superintendent Kofman:

Enclosed for filing please find the following:

SUBMITTED BY:	Christopher T. Roach
DATE:	April 23, 2010
DOCUMENT TITLE:	Anthem BCBS Response to Maine Rate Hearing Follow-up Requests
DOCUMENT TYPE:	Response to Information Requests
CONFIDENTIAL:	**No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire
Christina M. Moylan, Esquire

NON-CONFIDENTIAL

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

IN RE:	)	
	)	
ANTHEM BLUE CROSS AND BLUE	)	
SHIELD 2010 INDIVIDUAL RATE	)	APPLICANT'S RESPONSE TO
FILING FOR HEALTHCHOICE,	)	MAINE RATE HEARING
HEALTHCHOICE STANDARD AND	)	FOLLOW-UP REQUESTS
BASIC AND LUMENOS CONSUMER	)	
DIRECTED HEALTH PLAN	)	
PRODUCTS	)	April 23, 2010
	)	
Docket No. INS-10-1000	)	

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PRODUCTS	)	April 23, 2010
	)	
Docket No. INS-10-1000	)	

Applicant Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield ("Anthem") hereby responds to the Maine Rate Hearing Follow-up Requests as follows:

1. Please produce the contracts for the closed HealthChoice products.

Response: Please see attached zip file "HealthChoiceClosedContracts.zip."

2. Please provide the operating gain for the HealthChoice and Lumenos products over the period 2000-2009.

Response: Please see the attached file "Item2_ExhibitIXCalculations.xls."

The after-tax operating gain from 2000-2009 is $6.2 million which is 1.0% as a percentage of premium. For the period 2005-2009 when 3% before-tax operating margin was allowed for in the HealthChoice and Lumenos rates, the operating *loss* after-tax was $7.5 million or -2.2% as a percentage of premium. In both instances, 2000-2009 and 2005-2009, Anthem has earned significantly less than the contemplated 3% before-tax or 2% after-tax operating margin included in the approved rates. The undisputed evidence at hearing reflects that Anthem will lose an additional $3.5 million in 2010, and that loss is predicated on the Superintendent approving the 22.9% average rate increase precisely as proposed by Anthem. If the Superintendent denies the request and approves a lower increase, Anthem's 2010 losses will be even greater.

As was noted during the direct examination from Ms. Casaday, as well as acknowledged by Ms. Fritchen on cross examination, the membership population in these products has changed dramatically from 2000 to the present to the point that results from the early years are not meaningful – at all – for predicting future results.

3. Please provide the High-Cost Claimants enrollment by deductible level and compared to the enrollment by deductible level for the total population. Provide this same analysis for the 4% of members who are responsible for 80% of the claims.

Response: Please see attached file "Item3_Enrollment_Distribution.xls." The period October 2008 to September 2009, paid thru February 2010, was used to create this exhibit.

"High-Cost Claimants" are defined as members who incur more than $100,000 in claims in a 12-month period.

"Top 4% Members" is that subset of members (4%) that generate 80% of the cost in a 12-month period.

4. Please comment on Anthem's mental health rider rate factors in light of Superintendent's Exhibit #1 (Mental Health Rider rate factors).

Response: Considering that many of the carriers included in the package provided have less similar experience with a large and persisting book of business in the Maine individual market, Anthem focused our analysis on the Harvard Pilgrim mental health premium rates for the Standard and Basic HealthChoice products. Harvard Pilgrim charges 27.7% additional premium for the mental health rider buy-up. Anthem believes that our population of members has greater ability to utilize the mental health benefit due to the chronic population we have in the HealthChoice and Lumenos book of business, so we have added an additional 10% for the mental health buy-up. Our proposed factors are shown below:

Proposed	All Contract Types
Proposed (total) Rating Factor	1.377
Proposed Rider Rating Factor	0.377

The current rating factors are as follows:

	one adult	two adults	two adults and child(ren)	one or more children	one adult and child(ren)
Current Rating Factor	7.966	4.483	3.679	11.717	5.222
Rider Rating Factor	6.966	3.483	2.679	10.717	4.222

5. Please confirm whether subrogation savings are reflected in the base claims, and if not, please provide updated claims data that removes actual recoveries and Anthem's best estimate of anticipated recoveries.

Response: Anthem confirmed that once the subrogation process is finalized, the savings from subrogation is applied to the individual claims that were part of the subrogation file. As such, all subrogation savings are reflected in Anthem's base claim experience.

6. Please provide (a) the minimum RBC level required by BCBS Association, (b) the current RBC level for WellPoint, and (c) the current RBC level for Anthem Health Plans of Maine.

Response: (a) Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield is licensed by BlueCross Blue Shield Association (BCBSA) as a Small Controlled Affiliate, since it represents less than fifteen percent (15%) of the total membership enrollment of WellPoint, Inc.'s total enterprise Blue Branded business. BCBSA's minimum Statutory Reserve (or equivalent net worth) requirement for a Small Controlled Affiliate is one hundred percent (100%) of Health Risk Based Capital (HRBC) Authorized Control Level (ACL) after co-variance as defined by the NAIC. Notwithstanding a Controlled Affiliate's HRBC level, a Controlled Affiliate shall maintain its Statutory Reserve (or equivalent net worth) at or above the minimum reserve (or net worth level) established by each state in which it is domiciled and/or operates or if there is no state minimum, $3.0 million.

(b) RBC levels are not applicable to WellPoint, Inc., since it is a holding company and not an insurance company.

(c) As of December 31, 2009 Anthem Health Plans of Maine, d/b/a Anthem Blue Cross and Blue Shield was at 687.4 percent of the authorized control level. Anthem's current RBC level has resulted from the conditions on Anthem's acquisition of the former Blue Cross and Blue Shield of Maine. More specifically, condition 13 of the Superintendent's Decision and Order dated May 25, 2000 concerning

Anthem's purchase of Blue Cross and Blue Shield of Maine provides as follows: "AHPM shall not declare any dividend during the five (5) years following the closing without first obtaining prior written approval from the Superintendent. Any such dividends will be considered extraordinary dividends subject to the provisions of 24-A M.R.S.A. § 222(11-A)."

7. Please explain the difference in the data on Anthem Exhibits 4b and 4c.

Response: Part of the variation between the referenced exhibits is based on the underlying completion factors applied. Ms. Fritchen's analysis used completion factors developed by Oliver Wyman as part of the independent review. As stated in her pre-filed testimony, she did not calculate materially different completion factors than those submitted by Anthem in our filing. The numbers in Exhibit 4b and 4c then are similar but not identical because Anthem used its own completion factors (from Exhibit V in the filing) when re-calculating the regression model.

An attempt at reconciliation was made in the attached file "Item7and8_RegressionResults.xls" on the "Data-Claims" tab. Backing the completion factors out of the total and excess amounts shown in the data file that was part of Ms. Fritchen's pre-filed testimony did not yield the claims data that was provided as part of the Attorney General's third information request. This indicates that either the completion factors provided by Ms. Fritchen were not the ones utilized in the analysis or that the analysis was not based on the claims data that Anthem provided. It is not entirely clear what data was used in her analysis, but it appears to be a blend of HealthChoice data paid thru February and Lumenos data paid thru December. In either event, the data utilized in the analysis appears to be flawed and results in an underestimation of trend. Using the actual data provided in the AG's third information request and Anthem's completion factors results in a trend that is 0.4% higher (reference Version 1 on the tab excluding High-Cost Claimants in the exhibit below).

8. Provide updated calculations of claim cost trend using additional data points and adjusted for seasonality. Calculate appropriate seasonal adjustments or consider rolling 12-month averages when providing this update.

Response: Please see the attached file "Item7and8_RegressionResults.xls"

There are 16 versions of the regression analysis in the attached file for both sets of claims data; 8 versions of the analysis with - and 8 versions without-

high cost claimants in excess of $100,000. Exhibit A is a chart showing claims with and without adjustment for seasonality and with a multiple trend fits from Exhibit C mapped to the data. Exhibit B (the second tab in the worksheet) reflects regression analysis on multiple periods of data with claims excluding the excess high-cost claimants (over $100,000) claims in order to replicate Ms. Fritchen's analysis with corrected data. Exhibit C (third tab) includes all claims in order to reflect the experience of our entire book of business which includes our high-cost members. Exhibit D (fourth tab) reflects regression on the excess claims only indicating that the trend on the high-cost claimants is higher than the claims removing the excess. Exhibit E details the calculation of seasonality. The seasonality adjustments were calculated using the monthly allowed PMPMs for 2007-2009 and smoothing for work-days (days that claims processing and payment occur). The monthly values were then averaged over the three years, adjusted to remove trend, and calibrated such that the seasonal factors sum to 12.

The following are comments on the 8 versions applied to claims with and 8 versions without high-cost claimants excess of $100,000 as shown in Exhibits B and C:

- Version 1 is a replica of Ms. Fritchen's analysis using Anthem's completion factors. It understates trend because it applies the regression to data ending in September 2009 (33 months of data) and doesn't attempt to adjust for seasonality. Adding the excess claims back in results in a trend that is materially higher (+1.1%).
- Version 2 uses 36 months of data thru December without adjustment for seasonality to estimate the trend.
- Version 3 uses 36 months of data ending in September 2009 and adjusts for seasonality, but it still results in significantly understated trends because the end point (September) forces the regression to be fit to a historically low point. Version 3 similarly to version 1 results in a materially higher trend when analyzing the total claim cost versus the claims with the excess excluded.
- Versions 4 thru 6 are similar to version 3 and demonstrate the impact of rolling the 36-month experience period forward has on the regression analysis. Each additional month added to the analysis increases the resulting trend in both with and without excess claims analysis. For example, Version 3 thru September 2009 results in a 7.3% trend, Version 4 thru October results in 7.7%, Version 5 thru November results in 8.1% and Version 6 thru December results in 8.1%.
- Versions 7 and 8 perform the regression on rolling 12-month
- PMPMs to smooth out the impact of seasonality. Version 7 uses data thru December 2009 and version 8 uses data thru September 2009. Again, the analysis of total claims results in a materially

higher trend than the one without excess claims. Of note, the analysis of the rolling 12-month trends thru September 2009 versus December 2009 results in a materially similar trend when considering the total claim cost (8.5% in both instances).

Comparing Exhibit B and C and reviewing the analysis in Exhibit D makes it clear that excluding the excess claims of high cost claimants consistently underestimates the trend. Exhibit D shows the regression analysis applied to rolling 12-month claim costs for the excess of $100,000 claims only. A 12-month period is utilized because the excess above $100,000 as a monthly PMPM is less stable. It is clear from the analysis that the higher trend on the excess claims needs to be accounted for, either by adding an additional impact for the excess or basing the estimate on total claims.

A review of the different versions of the regression model makes it clear that:

- Higher average deductible levels have lead to steeper seasonality over time making the application of a regression model even to seasonally adjusted data more difficult.
- Rolling 12-month values must be considered when determining an appropriate trend assumption because the regression results are significantly more stable.
- Version 1 and 2 can not be relied on because they under- and over-state trends without a seasonal adjustment. It is clear that versions of the regression that do not adjust for seasonality can not be utilized to analyze trends.
- Versions 3 thru 6 rely on seasonally adjusted claims data for 36-month periods in each case but ending in four different incurred dates. The data thru December 2009 utilized in Version 6 is the most meaningful because it considers the impact of the steeper seasonality Anthem has experienced in 2009 based on the continued movement of members to higher deductible levels. Further, 2 months run-out on claims is sufficient for an analysis of total allowed claim cost as restatement for the total December 2009 claims should be small.
- As noted above, Version 7 and 8 both rely on rolling 12-month claim cost data when applying the regression models. The regression model exhibits the most stability when applied to rolling 12-month averages.

Version 6, 7 and 8 clearly converge on a trend of **8.4% to 8.5%** for the HealthChoice and Lumenos book of business including the impact of provider contracting. These three regression models result in the most stable and consistent trend results and are the most appropriate for

application to this book of business.

	Claim Cost Trend Resulting From Regression Version							
Claims	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Excluding Excess	6.6%	9.5%	6.0%	6.2%	7.5%	8.7%	7.4%	7.0%
Total Allowed Claims	7.7%	9.2%	7.3%	7.7%	8.1%	**8.4%**	**8.5%**	**8.5%**
Version Details						*Versions Converge*		
Claims incurred thru	Sept.	Dec.	Sept.	Oct.	Nov.	Dec.	Dec.	Sept.
Seasonally Adjusted	N	N	Y	Y	Y	Y	Y	Y
Trend on Excess								
Excess Claims only							13.8%	14.9%

DATED: April 23, 2010

/s/ Christopher T. Roach
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Attorney for Applicant

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PRODUCTS	)	
	)	
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The undersigned counsel hereby certifies that on this date I caused to be mailed by electronic mail or United States first class mail, postage prepaid, as indicated, copies of the Applicant's Response to Maine Rate Hearing Follow-up Requests, upon the persons and at the addresses indicated below.

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DATED: April 23, 2010

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