To: Vermont School Boards, Local Unions and School Employees
From: Laura Soares, Bobby-Jo Salls & Mark Hage, VEHI Management Team
Date: September 13, 2019
RE: VEHI Premium Rate Filing for Active Employees: FY21 (July 1, 2020 – June 30, 2021)

The Vermont Education Health Initiative (VEHI) filed its proposed <u>FY21 premium rates</u> for both active school employees and retirees in VSTRS with the Vermont Department of Financial Regulation (DFR). Rates were developed in coordination with BCBSVT actuaries. Rates are not final until approved by DFR, typically in mid-January.

This memo will focus exclusively on proposed rates for <u>active employees and their dependents</u>. **VEHI will send out a more detailed explanation of the FY21 rate filing in the near future.**

*The overall rate increase for active employees and, also, the one applied to the **Gold CDHP**, is **12.9 percent.*** That said, FY21 rate increases for active subscribers range from **12.9 percent to 14.7 percent**, depending on the health plan they are enrolled in. (See the filed rates on the next page.)

The 12.9 percent rate increase is driven primarily by costs in these main areas:

(1) Normal factors: Medical inflation, Rx inflation, Utilization Trend, plus routine operational expenses (**6.5 percent**).

There is a lot to "unpack" here, so, as mentioned above, we will provide greater detail in a future communication, with special attention paid to the impact of rising pharmaceutical prices in both the Rx and utilization fields and what VEHI is doing about it.

(2) Pricing Alignment: Revenue to resolve underfunding (**4.4 percent**)

VEHI's new benefit plans, for reasons explained in the past, were <u>underpriced in FY18</u> – meaning, our premiums were set lower than they should have been. One of the actuarial challenges of transitioning to benefit plans with new cost-sharing arrangements is aligning premium needs based on projected utilization trends when there is limited claims data in the early years of the transition and subscribers are still adapting to the plans. FY19 was just the first full year of VEHI's new plans; FY20, which started on July 1, will be the second. Our volume of claims decreased in 2018 from 2017, but not as much as BCBSVT had projected.

Every year since – FY19, FY20 and, now, FY21 – we have been increasing premium rates, with the guidance of actuaries, to **(a)** incrementally reduce the underfunding, with the objective of **(b)** collecting sufficient premium to pay for projected claims and expenses based on longer, more reliable experience trends. The 4.4 percent added to the rates for FY21, we project, will bring VEHI to a "break even" point at the close of that year – in other words, we anticipate taking in enough premium to cover the cost of claims and other expenses.

(3) Rebuilding VEHI's Reserves: Meeting obligations under our Net Position Policy (**2 percent**)

VEHI is adding 2 percent to its FY21 rates to rebuild reserves to a level consistent with its Net Position Policy on file with DFR. Our reserves, measured in dollar terms and as a percentage of total expenses, have been decreasing since FY 17 and they are now expected to decrease again in FY20, even though we set the rates expecting to break even. In FY 19 we used 2 million more than planned from our reserves to pay claims, but, fortunately, this was offset by a more favorable claims experience at the very end of FY 18 (which is paid out by VEHI in early FY 19) and a higher than expected investment return. Just the same, VEHI's reserves need to be more robust to meet current and future expense obligations. Having to set rates two years in advance of their effective date also increases uncertainty and, thus, the need for stronger reserves.

Looking Ahead: Working together to lower costs and improve access to affordable, high-quality care

Double-digit premium increases have been the norm this year across the state, and, regrettably, VEHI could not be the exception. Keep in mind, however, VEHI's premiums for FY 21 remain lower than the premiums of the 2017 health plans, even before adjusting for inflation. VEHI's Board of Directors and management team will be focusing on specific measures in the coming months to respond more effectively to the systemic causes of high medical and Rx prices, to assist those with medication-adherence problems, to address the pronounced lack of cost-and-quality transparency in the health care system, and to provide subscribers with additional educational resources on how to be better informed and engaged patients.

The longer narrative from VEHI in the near future will not only discuss the FY21 rate filing, but will elaborate on steps VEHI will be implementing and investigating in 2020 to bring down costs and improve access to high-quality care.

VEHI Monthly Health Plan Rates FY 21 in effect July 1, 2020 - June 30, 2021, as filed

	Single	Self + Spouse	Parent + Child(ren)	Family	Percent Increase Over FY 20
Platinum	$821.38	$1,642.76	$1,373.47	$2,323.67	13.7%
Gold	$790.20	$1,580.39	$1,322.44	$2,236.84	14.0%
Gold CDHP	$726.60	$1,364.59	$1,123.35	$2,012.69	12.9%
Silver CDHP	$636.61	$1,273.24	$1,073.16	$1,811.60	14.7%