

September 4, 2009

Commissioner Christopher F. Koller
Office of the Health Insurance Commissioner
1511 Pontiac Avenue, Bldg. 69-1
Cranston, RI 02920

Subject: Filing of Non-Group Subscription Rates for Plan 65 Medigap Plans A, B, C,
and N and Plan 65 Select Plans B, C, L, and N

Dear Commissioner Koller:

This letter and the enclosed documents comprise a filing by Blue Cross & Blue Shield of Rhode Island ("BCBSRI") of new non-group subscription rates for the Corporation's Plan 65 Medigap and Select Plans. The enclosed documents include detailed actuarial schedules, a summary of the actuarial steps and assumptions, and information pertaining to the budget utilized for this Plan 65 filing. These new rates have been calculated to be applicable to billing cycle rate years commencing February 1, 2010, March 1, 2010 and April 1, 2010. The Office of the Health Commissioner approved the current Plan 65 Medigap and Plan 65 Select rates on October 16, 2008 for billing cycle rate years commencing February 1, 2009, March 1, 2009, and April 1, 2009. As of July 31, 2009, there were approximately 18,800 subscribers enrolled in these non-group plans.

Plan 65 Medicare Supplemental Programs

Medicare supplemental programs (Plan 65 Medigap and Plan 65 Select) for non-group subscribers under the Plan 65 class of business are made available by BCBSRI in accordance with the Office of the Health Insurance Commissioner (OHIC) Regulation 8, as amended effective August 5, 2009.

As defined in Regulation 8, non-group Medicare supplemental programs (Medigap and Medigap Select) are designed to supplement or fill specific gaps in Medicare benefits. Benefits available through BCBSRI as part of the standardized Medicare supplement offerings are as follows:

- *Part A Deductible:* Includes coverage of the Medicare hospital deductible per inpatient hospital stay.
- *Part A Co-payment:* Includes coverage for the Medicare hospital co-payments for the 61st through 90th days of an inpatient hospital stay and the additional 60 Medicare non-renewable lifetime reserve days.
- *365 Additional Days:* Includes 100% coverage of Medicare-allowed charges after Medicare benefits are exhausted for an additional 365 days.
- *Skilled Nursing Facility Co-payment:* Includes coverage of the Medicare co-

payment for an inpatient stay of 21 through 100 days at a Medicare-approved skilled nursing facility after a minimum of three days in a hospital and within 30 days of leaving the hospital.

- *Part B Deductible*: Includes coverage of the annual Medicare Part B deductible.
- *Part B Coinsurance*: Includes coverage for the 20% coinsurance of Medicare-allowed charges.
- *Foreign Travel Emergency*: Includes coverage for 80% of Medicare-allowed charges after a \$250 annual deductible up to a lifetime maximum of \$50,000.
- *Hospice*: Effective June 1, 2010, cost-sharing for hospice benefits will be included in the basic benefits for all Medigap plans. This benefit covers the 5% co-insurance for inpatient respite care and the co-payment (up to \$5) for outpatient prescriptions during a hospice stay.

The following table illustrates the benefits available under each Plan 65 non-group product offered by BCBSRI, including the newly proposed Plan N, consistent with the standardized Medicare supplement offerings set forth by the Centers for Medicare and Medicaid Services (CMS) and in Regulation 8. No provision for the new hospice benefit has been made in rates for this filing because we believe that its initial impact to overall claims expense will be minimal.

Benefit Offerings	Plan A Benefits	Plan B Benefits	Plan C Benefits	Plan L Benefits	Plan N Benefits
Part A Deductible		X	X	75%	X
Part A Co-payment	X	X	X	X	X
365 Additional Days	X	X	X	X	X
Skilled Nursing Facility Co-payment			X	75%	X
Part B Deductible			X		
Part B Coinsurance	X	X	X	75%	\$20 OV, \$50 ER Copays
Foreign Travel Emergency			X		X
Hospice	X	X	X	X	X

In an attempt to simplify BCBSRI's product portfolio for the Medicare eligible population, BCBSRI decided to limit the number of plans available to subscribers. Effective April 1, 2001, Medigap Plan B and Select Plan B are no longer available to new enrollees. In accordance with the Balanced Budget Act of 1997 (BBA 1997), both plans continue to be available to those subscribers enrolled in these plans as of April 2001. In the interest of further simplification, effective June 1, 2010, BCBSRI is proposing to close Select Plan L to new enrollees as well. Since its introduction on February 1, 2007, the enrollment for Select Plan L has not grown by as much as we had originally hoped. Contemporaneous with the closing of Select Plan L, BCBSRI is proposing to introduce

two new products as a replacement: Medigap Plan N and Select Plan N. Medigap Plan B, Select Plan B, and Select Plan L have minimal enrollment.

Medigap Plan N and Select Plan N

As a means of offering more affordable plan options to our senior members, BCBSRI is proposing to offer a new Medigap plan with cost-sharing which more closely resembles that of most commercial and Medicare Advantage plans. In terms of richness of benefits, this plan will serve as a middle ground between Plan A and Plan C. We are planning to offer Plan N on both a Medigap and Select platform, to new enrollees effective June 1, 2010. Plan N was created as part of the NAIC redesign of Medigap plans that was authorized by the Medicare Improvements for Patients and Providers Act (MIPPA) passed on July 15, 2008. These changes were adopted in Rhode Island by OHIC Regulation 8.

There are two features of Plan N that we think will appeal to new subscribers. First, Plan N offers catastrophic hospital coverage in that all Part A services (hospital deductible, hospital co-payments, and skilled nursing facility co-payments) are fully covered under Plan N. Furthermore, Plan N also includes 365 additional fully-paid inpatient hospital days paid after the beneficiary exhausts his/her Medicare lifetime reserve days.

Second, the cost-sharing for Plan N allows for very predictable out of pocket costs for members. Part B services are covered after meeting the Part B deductible and either the applicable flat-dollar copay (\$20 for office visits and \$50 for emergency room visits) or the normal Medicare level of cost-sharing, whichever is lower. For example, if a subscriber incurs an office visit claim covered by Medicare at \$80, then the member will only pay \$16 (20%), not \$20. This example assumes that the member has met the Part B deductible. The introduction of these flat-dollar co-payments allows us to offer our N plans at a roughly 20% discount off of our analogous C plans.

These two features allow for catastrophic hospital coverage and predictable physician and outpatient out-of-pocket costs. We believe that these features will appeal to those subscribers who want to save on premium but do not want to sacrifice piece of mind.

Medigap Plan N will be offered year round without medical underwriting requirements. Enrollment into Select Plan N will require medical underwriting, unless guaranteed issue rules apply. In both plans, the normal age-in discounts will be available. The methodology for rating this new plan is discussed in the Actuarial Summary and detailed in schedules included in this filing.

Required Increases

As in prior filings for benefit plans supplementing the Medicare program, the required subscription rate increases are reflective of projected higher benefit costs primarily arising from factors beyond the control of BCBSRI. These factors include annual increases established by law in the Part A and Part B deductible and coinsurance

amounts, and a continued overall increase in the use of benefits by subscribers. These factors are identified fully in the actuarial schedules accompanying this filing and are utilized in the calculation of the projected claims expense.

As a result of the items mentioned above and the impact that they have on the overall rate increase, the overall required rate increase effective February 1, 2010 is 6.00%. This reflects 5.53% for Medigap Plan A, 5.55% for Medigap Plan B, and 5.55% for Medigap Plan C. Plan 65 Select Plan B has a required rate increase of 6.03%, Plan 65 Select Plan C has a required rate increase of 7.08%, and Plan 65 Select L has a required rate increase of 7.28%.

Plan 65 Medigap

The table below displays the present and required rates for Plan 65 Medigap Plan A, Plan B, Plan C, Plan L subscribers. Also listed are the required rates for the new Medigap Plan N.

BCBSRI discontinued the use of point-of-entry rating for Medigap Plan A and Plan C for all new subscribers enrolling on or after November 1, 1998. Any subscriber who had a “Discount” point-of-entry rate as of November 1, 1998 will continue to do so since this rating structure was intended to be in effect for the lifetime of the subscriber. In the interest of administrative simplicity, effective February 1, 2008, members paying the “Surcharge” point-of-entry rate were given the base rate. The discount, base and surcharge factors utilized in the point-of-entry rating methodology are the factors previously approved by the Office of the Health Commissioner.

Plan 65 Medigap Monthly Rates			
	Present Rate	Required Rate	Percentage Increase
Medigap Plan A			
Discount ⁽¹⁾	\$120.28	\$126.93	5.53%
Base ⁽²⁾	\$133.64	\$141.03	5.53%
Year 1 Age-in Rate ⁽³⁾	\$93.55	\$98.72	5.53%
Year 2 Age-in Rate ⁽³⁾	\$106.91	\$112.82	5.53%
Year 3 Age-in Rate ⁽³⁾	\$120.28	\$126.93	5.53%
Medigap Plan B	\$123.60	\$130.46	5.55%
Medigap Plan C			
Discount ⁽¹⁾	\$182.74	\$192.88	5.55%
Base ⁽²⁾	\$203.04	\$214.31	5.55%
Year 1 Age-in Rate ⁽³⁾	\$142.13	\$150.02	5.55%

Year 2 Age-in Rate ⁽³⁾	\$162.43	\$171.45	5.55%
Year 3 Age-in Rate ⁽³⁾	\$182.74	\$192.88	5.55%
Medigap Plan N			
Base	N/A	\$165.74	N/A
Year 1 Age-in Rate ⁽³⁾	N/A	\$116.02	N/A
Year 2 Age-in Rate ⁽³⁾	N/A	\$132.59	N/A
Year 3 Age-in Rate ⁽³⁾	N/A	\$149.17	N/A

- (1) Discount rates are applicable to subscribers who enrolled prior to November 1, 1998 and within six months of first eligibility for Medicare Part B as primary payer.
- (2) Base rates are applicable to those subscribers who enrolled prior to November 1, 1998 and after six months of first eligibility for Medicare Part B as primary payer and all new subscribers not eligible for the age-in rates. Applicants are required to complete a health screening prior to enrolling unless he/she enrolls in Plan A or Plan N.
- (3) Age-in rate applicable to new Plan 65 Medigap subscribers who enroll within six months of becoming eligible for Medicare Part B as primary payer. First year age-in rate is 70% of the base rate. Second year age-in rate is 80% of the base rate. Third year age-in rate is 90% of the base rate. After the third year, the subscriber pays the Base rate.

Schedules 5, 13 through 19, and 20 through 34 detail the projection of required income and the corresponding rate calculations for the Plan 65 Medigap program.

Plan 65 Select

Plan 65 Select is a Medicare supplemental product offered to subscribers at reduced premiums from BCBSRI's traditional Medigap plans. The savings are attributable to network hospitals contracting not to seek compensation from either BCBSRI or the subscriber for inpatient hospital deductibles and co-payments. Full Medigap benefits are paid when subscribers utilize network providers. The coverage of the Part A Deductible and coinsurance amounts for out-of-network care typically is not covered. However, when emergency care is required and either service is not available within the network, or it is not reasonable to obtain services through a network provider, these non-network Medigap benefits are paid in full.

The following table displays the present and required rates for Plan 65 Select Plan B, Select Plan C, and Select Plan L. Also listed are the required rates for the new Select Plan N.

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Plan 65 Select Monthly Rates			
	Present Rate	Required Rate	Percentage Increase
Select Plan B			
Discount Rate ⁽¹⁾	\$109.63	\$116.24	6.03%
Standard Rate ⁽²⁾	\$133.27	\$141.31	6.03%
Select Plan C			
Discount Rate ⁽¹⁾	\$134.54	\$144.07	7.08%
Standard Rate ⁽²⁾	\$183.35	\$196.33	7.08%
Year 1 Age-in Rate ⁽³⁾	\$94.18	\$100.85	7.08%
Year 2 Age-in Rate ⁽³⁾	\$107.63	\$115.26	7.08%
Year 3 Age-in Rate ⁽³⁾	\$121.09	\$129.66	7.08%
Select Plan L			
Standard Rate	\$109.03	\$116.97	7.28%
Year 1 Age-in Rate ⁽³⁾	\$76.32	\$81.88	7.28%
Year 2 Age-in Rate ⁽³⁾	\$87.22	\$93.58	7.28%
Year 3 Age-in Rate ⁽³⁾	\$98.13	\$105.27	7.28%
Select Plan N			
Standard Rate	N/A	\$117.45	N/A
Year 1 Age-in Rate ⁽³⁾	N/A	\$82.22	N/A
Year 2 Age-in Rate ⁽³⁾	N/A	\$93.96	N/A
Year 3 Age-in Rate ⁽³⁾	N/A	\$105.71	N/A

- (1) The “Discount” rate is applicable to subscribers who enroll after 6 months of first eligibility for Medicare Part B as primary payer and after successfully completing a health screening. Select B is currently closed to new enrollment.
- (2) In order not to preclude existing Medigap subscribers from the opportunity of enrolling in Plan 65 Select at its inception, limited-time offerings of Select were extended to existing subscribers. Although existing subscribers were not required to complete a health screening, if a subscriber opted to complete a health screening and successfully passed, he/she was eligible for the “Discount” rate. If a subscriber did not pass the health screening, or opted not to complete the health screening, he/she was eligible for the “Standard” rate, which had not been favorably adjusted for age or morbidity. After this initial offering at the inception of Plan 65 Select, the “Standard” rating band was closed to new enrollment. Beginning

February 1, 2007, BCBSRI allowed subscribers that have been enrolled in a BCBSRI Medigap plan for 12 months or more to enroll in Select Plan C at the “Standard” rate without completing or successfully passing a health screening.

- (3) Age-in rate applicable to new Plan 65 Select subscribers who enroll within six months of becoming eligible for Medicare Part B as primary payer. First year age-in rate is 70% of the Select Plan C discount rate and Select Plans L and N Standard Rate. Second year age-in rate is 80% of the Select Plan C discount rate and Select Plans L and N Standard Rate. Third year age-in rate is 90% of the Select Plan C discount rate and Select Plans L and N Standard Rate. After the third year, the subscriber pays the Discount rate for Plan 65 Select C and the Standard rate for Plan 65 Select L and Plan 65 Select N.

Schedules 4, 6 through 12, and 20 through 34 detail the projection of required income and the corresponding rate calculations for the Plan 65 Select program.

Enrollment

Total non-group Plan 65 enrollment has continued to decline over the past several years. However, since 2007, enrollment losses for Plan 65 Medigap have been partially offset by enrollment gains for Plan 65 Select. The following table illustrates historical non-group Plan 65 enrollment segregated by Plan 65 Medigap and Plan 65 Select products:

Plan 65 Non-group Enrollment (rounded to the nearest hundred)							
	Medigap Plan A	Medigap Plan B	Medigap Plan C	Select Plan B	Select Plan C	Select Plan L	Total
12/2004	100	100	16,300	200	5,500	N/A	22,200
12/2005	100	100	15,000	100	5,300	N/A	20,700
12/2006	200	100	13,800	100	5,500	N/A	19,700
12/2007	200	100	12,900	100	5,800	100	19,200
12/2008	200	100	12,200	100	6,200	100	18,900
7/2009	200	100	11,700	100	6,500	200	18,800

Expected Loss Ratios

The minimum loss ratio standard of 65% set forth in Regulation 8, as amended, applicable to non-group Medigap coverage, including Medicare Select plans, would be met based on the claims projections and required rates contained in this filing. The projected return to subscribers in the form of aggregate benefits as a percentage of earned premiums for the entire period for which the new rates are computed is displayed in the following table:

Expected Loss Ratios					
	Plan A	Plan B	Plan C	Plan L	Plan N
Plan 65 Medigap	80.3%	107.0%	85.5%	--	91.6%
Plan 65 Select	--	77.4%	86.4%	76.2%	85.4%

Actuarial Schedules and Summary

Enclosed with this filing is a summary of the actuarial assumptions and steps, as well as detailed rate calculation schedules. The summary speaks to each of the major areas of the rate calculation process and refers back to the corresponding schedules. The detailed schedules mirror what have been submitted to the Office for previous filings.

Part B Physician Fee Increases

The physician fee increases in this rate filing are based on the actual and projected increases in the Part B physician conversion factor. The 1.1% increase in physician payments for January 1, 2009 was enacted per the Medicare Improvement for Patients and Providers Act of 2008, which passed by a veto-override in the House of Representatives and Senate on July 15, 2008. The physician fee increase for January 1, 2010 is estimated to be 1.1%. This estimate is consistent with the recommendation of the MedPAC report to congress regarding Medicare payment policies released in March 2009. That increase is assumed to repeat for January 1, 2011.

Actuarial Certification

The actuarial assumptions utilized in this rate filing have been developed under my guidance. As a member of the American Academy of Actuaries, I confirm that this filing was prepared using generally accepted actuarial principles that were consistently applied. Schedules 1 through 35 reflect fair, accurate, and reasonable computations of required rates for the BCBSRI Plan 65 Medigap products, Plans A, B, C, and N and the BCBSRI Plan 65 Select Products, Plans B, C, L, and N.

Administrative Expense Information

Also enclosed is a Plan 65 budget narrative and comparison exhibits. These documents speak to the allocated expenses for Plan 65.

Addressing Affordability

In accordance with the guidance put forth by the OHIC on March 27, 2009, an update to the 2009 Annual Affordability Report is included in this filing.

In addition, with the Plan 65 rate filing effective February 1, 2007, we introduced the Age-in Credit Program and Select Plan L product, as well as changes to enrollment eligibility guidelines for certain products to help address affordability. Furthermore, this filing introduces Medigap Plan N and Select Plan N to the Plan 65 portfolio. Updates of these programs are included in the actuarial summary enclosed with this filing.

Filing fee

In compliance with the filing fee requirements contained in Section 42-14-18 of the General Laws of Rhode Island, an electronic funds transfer (EFT) in the amount of \$200.00 payable to "General Treasurer, State of Rhode Island" has been initiated for this submission. Medigap and Select policy forms will be submitted under separate cover. Policy forms Plan 65 A (08/08), Plan 65 B (08/08), Plan 65 C (08/08), Plan 65 B SELECT (08/08), Plan 65 C SELECT (08/08), and Plan 65 L SELECT (08/08) will be amended with the amendment DIRECTAMEND (01/10). New policy forms Plan 65 N (06/10) and Plan 65 N SELECT (06/10) will be filed for the new plan N.

We respectfully ask for your timely approval of this filing as submitted. BCBSRI believes that the required rates are in the interest of both the public and the Corporation.

As always, we shall be pleased to provide any additional information that you, your staff, and/or the consulting actuary may require.

Sincerely,



John Lynch
Chief Actuary

JL/swl

Enclosures

cc: Ms. Monica Neronha, Esquire
Mr. Jeffrey McLane, F.S.A., M.A.A.A