

November 21, 2008

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

Subject: Filing of Subscription Rates for Class DIR

Dear Commissioner Koller:

This letter, together with the actuarial schedules enclosed, comprises a filing of subscription rates by Blue Cross & Blue Shield of Rhode Island (“Blue Cross”) for direct pay subscribers in Class DIR Basic (Pool I) and Preferred (Pool II) programs. This filing includes proposed rates to become effective April 1, 2009.

The rates proposed in this filing will affect the approximately 14,000 members enrolled as of September 2008 in Class DIR.

### **Definition of Class DIR**

Class DIR is the rating classification for persons not eligible for employer-based (other than as a self employed individual), nor State or Federal programs. Enrollment is on a non-group basis either through direct application to the Plan or through conversion from prior group coverage. Two rating pools are employed in the Class -- the Basic Pool (Pool I) utilizing community rates and the Preferred Pool (Pool II) with rates determined based on the age and gender of the subscriber. Group conversions occur monthly and an annual open enrollment period is conducted for the Basic Pool (Pool I), while enrollment in the Preferred Pool (Pool II) is available continuously throughout the year for applicants passing a health screening.

### **Benefit Changes Effective With This Filing**

There will be minimal benefit changes for the four plans, the HealthMate Coast-to-Coast Direct Plans 400/800 and 2000/4000, and the HealthMate for HSA Direct Plans 3000/6000 and 5000/10000 in conjunction with this filing. The following Class DIR products will continue to be available:

- *HealthMate Coast-to-Coast Direct Plan 400/800:* Includes a \$400 per individual/\$800 per family deductible, 10% member paid coinsurance in-network for hospitalization, lab tests, and x-rays, \$20 PCP/\$40 Specialist co-payments for in-network services (no deductible), and member paid coinsurance of 20% generic/25% brand/50% non-preferred and \$75 specialty prescription drugs at participating pharmacies. Pharmacy coverage does not apply toward the deductible. The plan includes an in-network out of pocket maximum of \$2,500 per individual / \$5,000 per family. In general, member cost share is greater at out-of-network providers.

- *HealthMate Coast-to-Coast Direct Plan 2000/4000*: This plan is comparable to HealthMate Direct 400/800. The differences include the deductible, coinsurance percentages, and out of pocket maximums. The deductible is \$2,000 per individual / \$4,000 per family under HealthMate Direct 2000/4000, and the member paid coinsurance is 20% for in-network benefits. The out of pocket maximums for the HealthMate Coast-to-Coast Direct Plan 2000/4000 are \$3,000 and \$6,000 for individual and family respectively for in-network services. Pharmacy coverage does not apply toward the deductible. Members have the option of engaging in the Wellness Reward Program and may receive a reward equal to 10% of their annual paid premiums if they meet certain wellness requirements. In general, member cost share is greater at out-of-network providers.
- *HealthMate for HSA Direct Plan 3000/6000*: The HealthMate for HSA Direct Plan 3000/6000 includes deductibles of \$3,000 per individual / \$6,000 per family. These deductibles apply to all covered services except certain preventive care services. Prescription drug coverage is applied toward the deductible. After satisfaction of the deductible, in-network benefits are paid at 100% for all covered services. In general, member cost share is greater at out-of-network providers.
- *HealthMate for HSA Direct Plan 5000/10000*: The HealthMate for HSA Direct Plan 5000/10000 is comparable to HealthMate for HSA Direct Plan 3000/6000. The only difference is the amount of the deductibles. The deductibles are \$5,000 per individual / \$10,000 per family. These deductibles apply to all covered services except certain preventive care services. Prescription drug coverage is applied toward the deductible. After satisfaction of the deductible, in-network benefits are paid at 100% for all covered services. In general, member cost share is greater at out-of-network providers.

There are no major product or benefit changes being proposed at this time. There are, however, a couple of minor benefit changes related to recently enacted mandated benefits and our transition to our new core system. These are outlined in my prefiled testimony.

### **Required Rates**

Blue Cross last filed rate changes for its Class DIR subscribers on November 15, 2007 for an effective date of April 1, 2008. The Office of the Health Insurance Commissioner (OHIC) approved this rate filing with modifications on February 15, 2008. The overall average rate increase approved with that filing, exclusive of any Premium Assistance amounts, was 8.7%.

The overall average required rate increase projected in this filing, exclusive of any Premium Assistance amounts, is 5.9%. The proposed rate increases for Basic (Pool I) and Preferred (Pool II) are 6.8% and 4.3%, respectively. All rates included in this filing will remain in effect for the twelve-month period commencing April 1, 2009. The Class DIR Basic (Pool I) required monthly rates and the Preferred (Pool II) required monthly rates for the four Direct Pay products are included in the following table. Please note that all subscribers aged 65 and over receive the Basic (Pool I) rate. Rates for subscribers aged 65 and over are therefore not displayed in the table below for Preferred (Pool II) subscribers.

**Required Basic (Pool I) Monthly Rates**

|             |            | <b>HM 400</b> | <b>HM 2000</b> | <b>HM for<br/>HSA 3000</b> | <b>HM for<br/>HSA 5000</b> |
|-------------|------------|---------------|----------------|----------------------------|----------------------------|
| Under 65    | Individual | \$714.27      | \$535.91       | \$437.69                   | \$345.02                   |
|             | Family     | \$1,345.64    | \$1,009.62     | \$824.58                   | \$650.00                   |
| 65 and over | Individual | \$1,123.34    | \$842.83       | \$688.36                   | \$542.62                   |
|             | Family     | \$2,120.04    | \$1,590.64     | \$1,299.12                 | \$1,024.07                 |

**Required Preferred (Pool II) Monthly Rates**

|          |        | <b>HM 400</b> | <b>HM 2000</b> | <b>HM for<br/>HSA 3000</b> | <b>HM for<br/>HSA 5000</b> |
|----------|--------|---------------|----------------|----------------------------|----------------------------|
| Under 25 | Male   | \$195.61      | \$146.77       | \$119.87                   | \$94.49                    |
|          | Female | \$273.52      | \$205.22       | \$167.60                   | \$132.13                   |
|          | Family | \$655.42      | \$491.77       | \$401.63                   | \$316.61                   |
| 25-29    | Male   | \$216.36      | \$162.33       | \$132.58                   | \$104.51                   |
|          | Female | \$309.93      | \$232.54       | \$189.92                   | \$149.72                   |
|          | Family | \$734.18      | \$550.86       | \$449.89                   | \$354.66                   |
| 30-34    | Male   | \$246.42      | \$184.89       | \$151.00                   | \$119.04                   |
|          | Female | \$368.36      | \$276.38       | \$225.72                   | \$177.94                   |
|          | Family | \$778.63      | \$584.21       | \$477.13                   | \$376.13                   |
| 35-39    | Male   | \$281.98      | \$211.57       | \$172.79                   | \$136.22                   |
|          | Female | \$365.39      | \$274.16       | \$223.91                   | \$176.51                   |
|          | Family | \$821.82      | \$616.62       | \$503.59                   | \$396.99                   |
| 40-44    | Male   | \$301.46      | \$226.19       | \$184.73                   | \$145.63                   |
|          | Female | \$399.69      | \$299.89       | \$244.92                   | \$193.08                   |
|          | Family | \$840.03      | \$630.28       | \$514.75                   | \$405.79                   |
| 45-49    | Male   | \$364.55      | \$273.52       | \$223.39                   | \$176.10                   |
|          | Female | \$442.88      | \$332.29       | \$271.38                   | \$213.94                   |
|          | Family | \$885.33      | \$664.27       | \$542.51                   | \$427.67                   |
| 50-54    | Male   | \$461.93      | \$346.59       | \$283.06                   | \$223.14                   |
|          | Female | \$517.39      | \$388.20       | \$317.05                   | \$249.94                   |
|          | Family | \$986.10      | \$739.88       | \$604.26                   | \$476.35                   |
| 55-59    | Male   | \$591.91      | \$444.12       | \$362.71                   | \$285.93                   |
|          | Female | \$590.64      | \$443.16       | \$361.93                   | \$285.32                   |
|          | Family | \$1,103.80    | \$828.19       | \$676.39                   | \$533.21                   |
| 60-64    | Male   | \$632.98      | \$474.93       | \$387.88                   | \$305.77                   |
|          | Female | \$632.98      | \$474.93       | \$387.88                   | \$305.77                   |
|          | Family | \$1,199.49    | \$899.99       | \$735.02                   | \$579.43                   |

### **Filing Schedules**

Schedules displaying the required rates and detailed actuarial schedules documenting the calculation of the required rates are enclosed as Blue Cross Exhibit 2. Schedule 41 of Exhibit 2 pertains to the Hospital, Surgical/Medical, and Pharmacy claims projections, and is being submitted confidentially under separate cover.

The underlying actuarial methodology used in the preparation of the required rates in this filing is similar in nature to the previous Class DIR rate filing submitted to the OHIC. The filing schedules and supporting actuarial pre-filed testimony detail the rating methodology.

### **Pre-Filed Testimony**

Contemporaneous with this filing, we are submitting separately the pre-filed testimony of Augustine Manocchia, MD, Chief Medical Officer, who will be Blue Cross' witness with regards to medical management issues, and myself, who will be Blue Cross' actuarial and policy witness at the upcoming rate hearing on this matter. We believe submitting the pre-filed testimony contemporaneously with the rate filing will make the discovery process more efficient and decrease the length of time of all aspects of the hearing process.

### **Affordability as Addressed in the Rate Filing**

In consideration of previous rate decisions issued by the OHIC, Blue Cross has taken many steps to address the issue of affordability in this rate filing. Specifics of these programs are detailed in the pre-filed testimonies of Dr. Manocchia and me.

### **Stability of the Direct Pay Market**

According to the report of the "Market Merger Task Force" of the Office of the Health Insurance Commissioner, the following points illustrate a key finding of the report which suggests that the Rhode Island individual insurance market is relatively stable.

- The analysis showed that the individual membership mix is not shifting over time – in fact, the share of young, healthy members has remained relatively stable (and even increased) over the past three years.
- Adjusted for product and age/gender mix, the individual market premium is \$12 per member per month less than the small group market premium.
- Premium trends have been similar in both markets and are estimated to be the same in the individual and small group market in the future.
- Rhode Island's individual market compares favorably with individual markets in other states.

Over the last several years, enrollment in the Rhode Island Direct Pay market has been fairly stable with the proportion of Preferred (Pool II) members slowly increasing relative to Basic (Pool I). The financial stability of the entire Class DIR is dependent to a significant degree on the proportion of Pool II members since they help subsidize the rate for Pool I subscribers. The Direct Pay market would be on a stronger financial basis if a smaller subsidy were generated from a larger Pool II enrollment base. In order to grow the enrollment in Pool II relative to Pool I, Blue Cross has employed some pricing strategies over the last few years, such as gradually reducing the cross subsidy that Pool II contributes toward Pool I and extending the AccessBlue program to Pool II subscribers. The evidence so far suggests that these strategies are having a positive effect.

In addition to the rate structure changes, Blue Cross redesigned the Class DIR product portfolio effective April 1, 2006. Blue Cross now offers a wide range of comprehensive benefit plans with cost sharing features designed to encourage more efficient use of the health care system. We believe these benefit designs have contributed to the moderating claims trends observed in the Direct Pay market.

A discussion of the shift in the enrollment mix within Class DIR over the last few years is included in my pre-filed direct testimony. A comparison of trends and premium rates between Blue Cross and other regional plans is included in Exhibit 3, "Trend and Comparison Supplement".

### **Conclusion**

The development of the actuarial assumptions has been developed by my staff and reviewed by myself. I certify that this rate filing was developed utilizing sound actuarial assumptions and methodologies.

In accordance with the filing fee requirements contained in section 42-14-18 of the General Laws of Rhode Island, a filing fee of \$100 (\$25 per each policy) has been included with this submission via electronic funds transfer (EFT). This filing pertains to the following policy form numbers which have been submitted to the Department under separate cover:

- Form Number HMC2C DIRECT 400/800 (04/09)
- Form Number HMC2C DIRECT 2000/4000 (04/09)
- Form Number HM HSA DIRECT 3000/6000 (04/09)
- Form Number HM HSA DIRECT 5000/10000 (04/09)

We respectfully ask for your timely approval of this filing as submitted. Blue Cross and Blue Shield of Rhode Island believes that the proposed rates are in the interest of both the public and the Corporation.

Commissioner Christopher F. Koller

November 21, 2008

Page 6

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

Sincerely,

A handwritten signature in black ink, appearing to read "John Lynch".

John Lynch, F.S.A., M.A.A.A.  
Chief Actuary

JL/swl

Enclosures

cc: Mr. Normand G. Benoit, Esquire  
Mr. John A. Cogan, Jr., Esquire  
Mr. Charles C. DeWeese, F.S.A., M.A.A.A.  
Dr. Augustine Manocchia  
Ms. Genevieve M. Martin, Esquire  
Ms. Monica Neronha, Esquire  
Mr. James E. Purcell  
Mr. Thomas Boyd  
Mr. Jeffrey McLane, F.S.A., M.A.A.A.