

July 16, 2010

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, and C, and Plan 65 Select Plans B, C, and L

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 and a summary of the actuarial steps and assumptions. These new rates have been calculated to be applicable for the eleven months commencing February 1, 2011. The Office of the Health Commissioner approved the current Plan 65 Medigap and Plan 65 Select rates on October 30, 2009 for billing cycle rate years commencing February 1, 2010, March 1, 2010, and April 1, 2010. As of June 30, 2010, there were approximately 18,600 subscribers enrolled in these non-group plans.

With this rate filing, we are also proposing to move the annual rate renewal date to January effective in 2012. Therefore, the proposed rates in this rate filing will be effective February 1, 2011 through December 31, 2011. The change in rate effective date for the 2012 plan year is being proposed in order to better coordinate with the Medicare Advantage (MA) enrollment and disenrollment policies. Additionally, this would line up the rate renewal date with changes in Medicare deductibles and copayments. It should also be noted that due to the transition of our billing system to Facets, rates for all quarterly billed members will change concurrent with the rate renewal date, rather than with their next quarterly bill.

We have also accelerated our Plan 65 filing this year from our usual mid-August date in the hopes that we will have approved rates in time for the beginning of the MA marketing season, which begins on October 1st. For many years (and in 2010), MA enrollees had some flexibility to switch plans during the Open Enrollment Period (OEP). This OEP will not be available in 2011, but will change to an annual disenrollment period from January 1st – February 15th. During this time, MA members will only be able to disenroll from their MA plan and go back to traditional Medicare. These changes in MA "disenrollment" rules are expected to make members particularly anxious about their decision making during this year's Annual Enrollment Period. Because of this, we would like to provide definitive rate information on all of our senior market products at the beginning of the MA selling season. In order to ensure we are able to incorporate final

rate information into our marketing materials, we respectfully request a rate decision by August 31st.

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 are 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 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
Part A Deductible		X	X	75%
Part A Co-payment	X	X	X	X
365 Additional Days	X	X	X	X
Skilled Nursing Facility Co-payment			X	75%
Part B Deductible			X	
Part B Coinsurance	X	X	X	75%
Foreign Travel Emergency			X	
Hospice	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 OHIC Regulation 8, both plans continue to be available to those subscribers enrolled in these plans as of April 2001. As mentioned in last year's rate filing, BCBSRI has also closed Select Plan L to new enrollees effective June 1, 2010. Since its introduction on February 1, 2007, the enrollment for Select Plan L did not grow as much as we had originally hoped. Select Plan L continues to be available to those subscribers enrolled in this plan as of June 2010. The current enrollment in Medigap Plan B, Select Plan B, and Select Plan L is minimal.

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.

Blue Cross is sensitive to the current economic conditions in Rhode Island and understands the difficulty that many families face in paying their health insurance premiums. In order to keep the rates for its Plan 65 products as low as possible, Blue Cross is not seeking a reserve contribution from Plan 65 subscribers at this time. In addition, Blue Cross is limiting the required rate increase for its Select Plan L product to 16%, below its required increase of 29%. It should be noted that as of March 31, 2010, Blue Cross corporate reserves were at 17% of annual premium, well below the minimum of the Blue Cross surplus range recommended by the Lewin report of 23% of annual premium, and surplus levels are expected to decline further in the foreseeable future.

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, 2011 is 11.1%. This reflects 10.67% for Medigap Plan A, 11.78% for Medigap Plan B, and 11.78% for Medigap Plan C. Plan 65 Select Plan B has a required rate increase of 6.95%, Plan 65 Select Plan C has a required rate increase of 9.62%, and the rate increase proposed for Plan 65 Select L is 16.00%.

Plan 65 Medigap

The table below displays the present and required rates for Plan 65 Medigap Plan A, Plan B, and Plan C subscribers.

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 factor utilized in the point-of-entry rating methodology is the same factor previously approved by the Office of the Health Insurance Commissioner.

Plan 65 Medigap Monthly Rates			
	Present Rate	Required Rate	Percentage Increase
Medigap Plan A			
Discount ⁽¹⁾	\$124.42	\$137.69	10.67%
Base ⁽²⁾	\$138.24	\$152.99	10.67%
Year 1 Age-in Rate ⁽³⁾	\$96.77	\$107.09	10.67%
Year 2 Age-in Rate ⁽³⁾	\$110.59	\$122.39	10.67%
Year 3 Age-in Rate ⁽³⁾	\$124.42	\$137.69	10.67%
Medigap Plan B	\$128.17	\$143.27	11.78%
Medigap Plan C			
Discount ⁽¹⁾	\$189.50	\$211.82	11.78%
Base ⁽²⁾	\$210.55	\$235.35	11.78%
Year 1 Age-in Rate ⁽³⁾	\$147.39	\$164.75	11.78%
Year 2 Age-in Rate ⁽³⁾	\$168.44	\$188.28	11.78%
Year 3 Age-in Rate ⁽³⁾	\$189.50	\$211.82	11.78%

- (1) Discount rate band is closed to new members.
- (2) Base rates are applicable all new subscribers who enroll after 6 months of first eligibility for Medicare Part B as primary payer. Applicants are required to complete a health screening prior to enrolling unless he/she enrolls in Plan A during open enrollment.
- (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, 6, 12 through 14, and 16 through 27 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 services are 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.

Plan 65 Select Monthly Rates			
	Present Rate	Required Rate	Percentage Increase
Select Plan B			
Discount Rate ⁽¹⁾	\$113.95	\$121.87	6.95%
Standard Rate ⁽²⁾	\$138.52	\$148.15	6.95%
Select Plan C			
Discount Rate ⁽¹⁾	\$141.40	\$155.00	9.62%
Standard Rate ⁽²⁾	\$192.70	\$211.24	9.62%
Year 1 Age-in Rate ⁽³⁾	\$98.98	\$108.50	9.62%
Year 2 Age-in Rate ⁽³⁾	\$113.12	\$124.00	9.62%
Year 3 Age-in Rate ⁽³⁾	\$127.26	\$139.50	9.62%
Select Plan L			
Standard Rate	\$114.81	\$133.18	16.00%
Year 1 Age-in Rate ⁽³⁾	\$80.37	\$93.23	16.00%
Year 2 Age-in Rate ⁽³⁾	\$91.85	\$106.54	16.00%
Year 3 Age-in Rate ⁽³⁾	\$103.33	\$119.86	16.00%

- (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) The "Standard" rate for Select Plan C is applicable to exiting subscribers who switch from another BCBSRI Plan 65 product without completing or successfully passing a health screening. Select B is currently closed to new enrollment.
- (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 Plan L Standard Rate. Second year age-in rate is 80% of the Select Plan C discount rate and Select Plan L Standard Rate. Third year age-in rate is 90% of the Select Plan C discount rate and Select Plan L 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. Select L is currently closed to new enrollees.

Schedules 4, 8 through 10, and 16 through 27 detail the projection of required income and the corresponding rate calculations for Plan 65 Select B and Plan 65 Select C, while Schedules 4, 6, 12 through 14, and 16 through 27 detail the projection of required income and the corresponding rate calculations for Plan 65 Select L.

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
12/2005	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
12/2009	200	100	11,300	100	6,700	200	18,600
6/2010	200	100	11,000	100	7,000	300	18,600

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. These expected loss ratios are calculated based on the pricing methodology employed in this rate filing, including the pooling mechanism used to project the claims expense for each product. The rating methodology is described in more detail in the *Actuarial Summary*.

Expected Loss Ratios				
	Plan A	Plan B	Plan C	Plan L
Plan 65 Medigap	83.2%	106.5%	88.2%	--
Plan 65 Select	--	79.8%	87.9%	90.7%

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.

It should be noted that the administrative expenses in this rate filing were developed utilizing a more simplified approach than in previous filings. The detailed budget exhibits and narrative submitted in previous filings are therefore not being included with this filing submission.

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 physician fee factor was frozen at the 2009 level through May 31, 2010. Subsequently, the "*Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010*", signed into law on June 25, 2010, established a 2.2% increase in the physician fee schedule retroactive from June 1st through November 30th, 2010. The rates calculated in this filing assume that this fee schedule will remain in effect through the end of 2010. The physician fee increase for January 1, 2011 is estimated to be 1.0%. This estimate is consistent with the recommendation contained in the Medicare Payment Advisory Commission (MedPAC) report to congress regarding Medicare payment policies released in March 2010.

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 28 reflect fair, accurate, and reasonable computations of required rates for the BCBSRI Plan 65 Medigap products, Plans A, B, and C and the BCBSRI Plan 65 Select Products, Plans B, C, and L.

Open Enrollment

Medigap Plan A will continue to be open to all enrollees regardless of health status through February 28, 2011. Thereafter, BCBSRI will conduct an annual open enrollment for Medigap Plan A that coincides with the Annual Enrollment Period and disenrollment period for Medicare Advantage. Open enrollment for Medigap Plan A will begin October 15th and continue through the end of February of the following year. All BCBSRI Plan 65 products will continue to be open year round to any enrollees who pass medical underwriting, enroll during their initial Medigap open enrollment period (defined as the six month period beginning when an individual is both age 65 and enrolled in Medicare Part B), or otherwise qualify for guaranteed issue.

Addressing Affordability

Our group rate filing, which was submitted May 15, 2010 included various information regarding our affordability initiatives. No additional affordability report is available at this time.

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 \$150.00 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. The policy forms pertaining to this filing are Plan 65 A (01-11), Plan 65 B (01-11), Plan 65 C (01-11), Plan 65 Select B (01-11), Plan 65 Select C (01-11), and Plan 65 Select L (01-11).

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 and/or the consulting actuary may require.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jeffrey McLane', is written over a horizontal line.

Jeffrey McLane, F.S.A., M.A.A.A
Associate Actuary

Enclosures

cc: Ms. Monica Neronha, Esquire