



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
David A. Stella  
SECRETARY

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**CORRESPONDENCE MEMORANDUM**

**DATE:** August 12, 2011  
**TO:** Group Insurance Board  
**FROM:** Roni Harper, Manager  
Optional Insurance Plans and Audits  
**SUBJECT:** Anthem DentalBlue Proposal for Rate Increase

**Staff recommends the Group Insurance Board (Board) accept Anthem DentalBlue's proposal for a 9% rate increase for its Supplemental plan, to begin January 1, 2012.**

**Background**

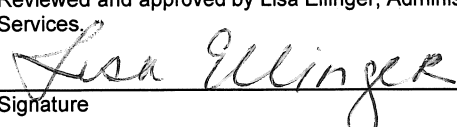
Under the authority granted to the Group Insurance Board (Board) by Wis. Stats. §40.03 (6) (b) and pursuant to §20.921 (1) (a) (3) and §ETF10.20, the Board may approve optional group insurance plans to be offered via payroll deduction. Proposals for changes to benefits and/or premiums for existing plans are reviewed under the Board's Guidelines for Optional Group Insurance Plans Seeking Group Insurance Board Approval for Payroll Deduction Authorization.

Anthem DentalBlue currently provides dental insurance policies under contracts with the State of Wisconsin Office of State Employment Relations (OSER). The last increases in premium rates were in 2007, averaging 19.37% over the three plans, and in 2008, with increases of 8.4% for the Dental PPO plan and 16.2% in the Supplemental plan. Anthem DentalBlue has requested a rate increase of 9% for its Supplemental plan only. Anthem DentalBlue also plans to offer an open enrollment opportunity in October 2011.

Enrollment in the Anthem DentalBlue plan dropped from 12,991 covered members in May, 2010 to 11,746 members in April 2011—a decrease of almost 10%. The University of Wisconsin (UW) Board of Regents dropped its contract, effective January 1, 2011. The plan is available to represented and unrepresented employees through all State payroll offices, except for nonrepresented staff in the UW System.

**Discussion**

Anthem DentalBlue offers three plan types: the HMO, PPO, and Supplemental plans. They are requesting a premium increase for only the Supplemental plan. The chart below shows the 2011 rates and proposed rates for 2012:

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services  
  
Signature \_\_\_\_\_ Date 8/12/11

Board	Mtg Date	Item #
GIB	8.23.11	7A

**January 1, 2012 Renewal Rates**

	<i>Current Rates</i>	<i>Renewal Rates</i>
<b><u>Supplemental Plan</u></b>		
<b>Region 1 and Region 2</b>		
Employee	\$16.59	\$18.08
Employee + One	\$33.19	\$36.17
Family	\$49.80	\$54.28
<b><u>VDC 186 (HMO plan)- no rate change</u></b>		
<b>Region 1 (Milwaukee, Waukesha, Ozaukee, Washington, Racine and Kenosha counties)</b>		
Employee	\$23.27	\$23.27
Employee + One	\$46.55	\$46.55
Family	\$74.47	\$74.47
<b>Region 2</b>		
Employee	\$28.78	\$28.78
Employee + One	\$57.56	\$57.56
Family	\$92.10	\$92.10
<b><u>VP 864 (Preferred PPO)- no rate change</u></b>		
<b>Region 1 and Region 2</b>		
Employee	\$23.51	\$23.51
Employee + One	\$47.01	\$47.01
Family	\$77.56	\$77.56

Rates assume no change to administration or billing (premiums withheld from payroll).

Actuarial review: An analysis by the Board's consulting actuary, Deloitte Consulting, LLP (Deloitte), is attached. Deloitte's review of Anthem DentalBlue's original proposal found a flaw in one area of the assumptions upon which a proposed 17% increase was based. After discussing this factor, Anthem recalculated its proposal. Deloitte has reviewed the updated proposal and is recommending that the 9% increase, for the Supplemental plan only, be approved.

**Conclusion**

Based on staff review and the attached Deloitte evaluation, we recommend that the Board approve the requested rate increase for Anthem DentalBlue.

Staff will be available at the meeting to answer any questions you may have regarding this proposal.

Attachments – Deloitte Consulting Actuarial Memorandum- 2011  
 Anthem Cover Letter  
 Anthem Actuarial Memorandum



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August 9, 2011

Ms. Roni Harper  
Manager, Optional Plans & Audits  
Division of Insurance Services  
Department of Employee Trust Funds  
801 West Badger Road  
Madison, WI 53702

**Re: 2012 DentalBlue Dental Options VDC 186 HMO, VP 864 PPO, and Supplemental Plan – Proposed Rate Increases**

Dear Roni:

As requested by the State of Wisconsin Department of Employee Trust Funds we have reviewed the information submitted by Anthem Blue Cross and Blue Shield (DentalBlue) for the three plan designs that are offered. An HMO type plan (VDC 186), a PPO type plan (VP 864), and a plan designed to supplement dental benefits available through the participants health plan (Supplemental Plan). These plans are voluntary, payroll-deduction dental options for active state employees and their dependents. The proposed rates are effective on January 1, 2012 and will apply to the Office of State Employment Relations (OSER)-sponsored plans.

In their proposed rates, DentalBlue initially requested a 17.1% increase for the Supplemental Plan, and no changes for the HMO (VDC 186) and the PPO (VP 864) plans. Based on our analysis we believe this proposal contained some assumptions and methodologies that we do not consider to be reasonable. Therefore, we suggested that DentalBlue re-examine the specific assumptions and methodologies that appear to be lacking adequate actuarial support for us to consider reasonable within the Group Insurance Board's guidelines. Consequently, we recommended that the initially proposed rate change be declined.

Subsequently, DentalBlue revised their assumptions and methodologies and requested a 9.0% increase for the Supplemental Plan, and no changes for the HMO (VDC 186) and the PPO (VP 864) plans. Based on our analyses performed in the review of the initial rate increase request, we find 9.0% to be a reasonable rate increase based on DentalBlue experience and generally accepted actuarial principles. Consequently, we recommended that the revised proposed rate change be accepted.

This memo summarizes our analysis of the proposed premium rates effective for the period January 1, 2012 through December 31, 2012. We received the following information from DentalBlue:

- 2010 Annual Enrollment and Utilization Statistics

- 2011-2012 Rate Comparison
- Benefit summary for each plan
- VDC 186 HMO Plan May 2010 – April 2011 Experience Exhibit
- VP 864 PPO Plan May 2010 – April 2011 Experience Exhibit
- Supplemental Plan May 2010 – April 2011 Experience Exhibit
- Responses to questions regarding initial renewal proposal, including;
  - Experience period claims and enrollment by plan and month,
  - Detail regarding trend selection, and
  - Explanation of other assumptions.

**Summary of DentalBlue’s Initial Proposal**

The following summarizes DentalBlue’s rating methodology and assumptions used in the initial rate increase proposal.

- **Rating methodology** – DentalBlue used a loss ratio rating method to determine their proposed rates. The calculated rate increase is determined by dividing a projected loss ratio by their target loss ratio, which is shown in the table below. The projected loss ratio is the projected claims (claim experience plus incurral, trend, and enrollment adjustment) divided by the experience premium.

Plan	Projected Loss Ratio	Calculated Rate Change	Proj. Loss Ratio w/ Calculated Change	Proposed Rate Change	Proj. Loss Ratio w/ Proposed Increase
VDC 186 HMO	71.9%	-12.7%	82.4%	0.0%	71.9%
VP 864 PPO	75.7%	-7.3%	81.7%	0.0%	75.7%
Supplemental	95.4%	19.8%	79.6%	17.1%	81.5%
Aggregate	90.7%	13.4%	80.0%	13.4%	80.0%

- **Experience data** – DentalBlue used one year of claim experience (05/01/10 - 04/30/11) in their rating. They calculated the current earned premium as the premium at current rates multiplied by the most recent month of contracts (April 2011) multiplied by twelve (12).
- **Assumptions** – To calculate the projected claims, DentalBlue multiplied the base experience claims by an incurral factor, trend and enrollment adjustment and then add in retention.
  - **Incurral Factor:** The incurral factor is used to incorporate claims run out that is not captured in the base period claims. DentalBlue used a 1.01 incurral factor for each plan.
  - **Trend:** DentalBlue assumed a 6.0% claim cost trend for both the Supplemental and VP 864 plans, as well as a 6.0% capitation and 6.0% fee schedule trend for the VDC 186 plan. These trends are used to project the base period claims from the experience period to the proposal period.

- **Enrollment Adjustment:** DentalBlue applied an enrollment adjustment factor to each plan to account for the change in enrollment over the experience to the expected annual enrollment (based on the most recent month of enrollment multiplied by 12). The enrollment adjustment was 0.678 for the Supplemental Plan, 0.530 for VP 864 and 0.421 for VDC 186. By calculating the enrollment and paid claims experience in the same 12 month period, they are assuming that either claims pay in the month of incurral or enrollment is consistent month to month.
- **Retention:** DentalBlue incorporated the following retention percentages in their plans (based on a percentage of required annual premium); 20.4% for the Supplemental Plan, 18.3% for VDC 864 PPO, and 17.6% for VDC 186 HMO.
- **Proposed Rates** The current rates are shown below in Tables 1A and 1B. DentalBlue proposed to increase the Supplemental rates by 17.1%, while making no changes to the HMO and PPO rates. The following tables compare the current 2011 rates with the initially proposed 2012 rates.

- **Table 1A and 1B – Initially Proposed Rates**

Table 1A	VDC 186 HMO (Region 1)			VDC 186 HMO (Region 2)		
	<i>Current</i>	<i>Proposed</i>	<i>% Incr.</i>	<i>Current</i>	<i>Proposed</i>	<i>% Incr.</i>
Employee	\$23.27	\$23.27	0.0%	\$28.78	\$28.78	0.0%
Employee Plus 1	\$46.55	\$46.55	0.0%	\$57.56	\$57.56	0.0%
Employee Plus 2+	\$74.47	\$74.47	0.0%	\$92.10	\$92.10	0.0%

Region 1: Milwaukee, Waukesha, Ozaukee, Washington, Racine and Kenosha counties  
Region 2: All other Wisconsin counties

Table 1B	VP 864 PPO (Regions 1&2)			Supplemental Plan (Regions 1&2)		
	<i>Current</i>	<i>Proposed</i>	<i>% Incr.</i>	<i>Current</i>	<i>Proposed</i>	<i>% Incr.</i>
Employee	\$23.51	\$23.51	0.0%	\$16.59	\$19.43	17.1%
Employee Plus 1	\$47.01	\$47.01	0.0%	\$33.19	\$38.86	17.1%
Employee Plus 2+	\$77.56	\$77.56	0.0%	\$49.80	\$58.32	17.1%

**Deloitte Consulting Analysis of Initial Proposal**

Our analysis included reviewing the information received, validating the proposed methodology, examining the assumptions used, and confirming the proposed rate increase.

**Assumptions:**

- **Incurral Factor:** DentalBlue used a 1.01 incurral factor for all plans, which they have indicated is their plan-wide incurral factor. This is equivalent to the 1.01 incurral factor used last year, and suggests that the time between incurral and payment of DentalBlue's claims is approximately two months. Due to the short time typically observed between

incurral and payment of dental claims, we would expect an incurral factor of less than 1.01.

- **Trend** – DentalBlue used the following trend assumptions for each of the dental options:
  - VDC 186 HMO – **6.0%** combined (6.0% for capitation and 6.0% for fee schedule)
  - VP 864 PPO – **6.0%**, and
  - Supplemental – **6.0%**.

The DentalBlue trend reflects the anticipated increases in cost of benefits, provider capitation increases and increased utilization in the new rating period. DentalBlue indicated they used a trend that was applied to the entire Wisconsin large group block of business (not group specific).

For non-capitation claims, DentalBlue relied on incurred claims data from their reserving process for Wisconsin non-capitation large group claims. They compared 2010 year-to-date costs through April 2010 with the costs for the same period in 2009. For capitation, paid capitation data was reviewed from their general ledger for Wisconsin large group claims. 2010 year-to-date costs through April 2010 were compared with costs for that same period in 2009.

In our experience we typically see annual dental trends in the range of 3% – 6%, with HMOs being at the lower end of this range, PPOs in the middle and Traditional Indemnity toward the upper end. The table below provides a summary of the trend experience across all three plans.

Plan	2009-10 Trend	2010-11 Trend	Two-Year Annual Trend
VDC 186 HMO	-8.1%	-0.7%	-4.4%
VP 864 PPO	2.9%	-1.0%	0.9%
Supplemental	2.6%	10.8%	6.6%
<b>Aggregate</b>	-0.1%	7.1%	3.5%

The actual annual trend experience across all three plans for the past two years is 3.5%. We believe this two-year period of experience is fairly credible and should be considered in developing the trend assumed in the renewal rate calculation. In contrast, DentalBlue assumed trends of 6%, which they have indicated is based on their entire large group book of business in Wisconsin across all three plans. While the 6% trend would seem appropriate for the Supplemental Plan, it does appear to be excessive for the PPO and HMO plans. Please see the Appendix A for a detailed summary of the most recent year of trend experience for the three plan types.

- **Enrollment Adjustment** – DentalBlue made an enrollment adjustment to account for a change in membership. The adjustment was calculated as the most recent months (April

2011) number of member contracts over the average of the claims experience period (5/1/2010 – 4/30/2011) number of member contracts. Due to the significant decline in enrollment, this factor has added significance, as it needs to appropriately reflect the impact the January 2011 drop in enrollment has on the claims experience over the most recent twelve month period. The projected adjustments by plan were as follows:

- VDC 186 HMO – **0.421**,
- VP 864 PPO – **0.530**, and
- Supplemental – **0.678**.

In reviewing DentalBlue's enrollment adjustment factors, we noticed that these factors are based on the count of member contracts for the same 12 month period that the annual paid claims are calculated. Given that the monthly calculated earned premium is collected approximately 1 to 2 months ahead of the actual paid claims experience for these member contracts, there appeared to be a mismatch in how this factor was being calculated.

- **Retention** –DentalBlue's retention is composed of administrative expenses, risk charges, contingency reserves, premium taxes, profit margin and any commissions (no commissions are paid on OSER).

DentalBlue's assumed retention rates had decreased for each plan since last year's renewal, as summarized in the following table:

<u>Plan</u>	<u>Assumption for Renewal Year</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
VDC 186 HMO	17.4%	20.2%	17.6%
VP 864 PPO	18.6%	19.4%	18.3%
Supplemental	22.0%	22.2%	20.4%

DentalBlue did not provide an explanation for their retention assumptions. However, in view of the minimum loss ratio guideline 75% loss ratio requirement, which would allow for a 25% maximum retention, their retention assumptions do not appear to exceed the limits.

To better assess the reasonableness of the retention assumptions, we calculated the loss ratios from May 2010 to April 2011 for the three plans, in the following table:

May 2010 to April 2011	
Plan	Loss Ratio
VDC 186 HMO	59.6%
VP 864 PPO	67.2%
Supplemental	83.0%
Aggregate	78.8%

- **Target Loss Ratio** – The target loss ratio for each plan was as follows:
  - VDC 186 HMO – **82.4%** combined (capitation and fee schedule),
  - VP 864 PPO – **81.7%**, and
  - Supplemental – **79.6%**

The stated target loss ratios are considered reasonable as they meet or exceed the 75% minimum loss ratio guideline.

- **Current Annual Premium** – The Rate Increase calculation was based on taking the difference of the resulting “Required Annual Premium” over the “Current Annual Premium.” DentalBlue indicated that April 2011 membership was used to determine income at current rates for the 2012 renewal calculation. This method is applied consistently across all plans. The Current Annual Premium for each plan was as follows:
  - VDC 186 HMO – **\$369,384**,
  - VP 864 PPO – **\$329,268**, and
  - Supplemental – **\$2,555,676**.

We believe that DentalBlue’s calculated Current Annual Premium is reasonable.

#### **Deloitte Consulting Summary of DentalBlue’s Revised Proposal**

In response to our initial review, the DentalBlue agreed that they would revise their methodology and assumptions and resubmit their rate increase request. Consequently, DentalBlue requested a rate of increase of 9.0% increase for the Supplemental Plan, and no changes for the HMO (VDC 186) and the PPO (VP 864) plans.

The primary revision DentalBlue made to its assumptions and methodologies was lowering the enrollment adjustment factor, which we noted was the most material of the assumptions we believed to be overstating the required premium. DentalBlue’s updated factor of 0.629 more accurately represents the anticipated change in exposure of the Supplemental plan from the Experience Period to the Projection Period.

Based on our initial analysis described in this memorandum, we indicated that a rate increase request of 9% for the Supplemental Plan is reasonable. After reviewing each of DentalBlue’s



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updated assumptions, we are comfortable with the reasonableness of the magnitude of the rate increase requested.

**Summary**

Based on our analysis, we believe that DentalBlue's initial proposal was not reasonable and therefore, not in line with the Group Insurance Board's guidelines. The methodology relied upon to develop the enrollment adjustment overstated the projected claims for each of the three plan types. While the methodology that DentalBlue has relied upon is otherwise reasonable, the assumed annual trends and incurral factors were inconsistent with the calculated enrollment adjustment, plan experience, and industry trends.

Subsequent to our initial review, DentalBlue has provided a revised rate increase based on revised assumptions which include a new enrollment adjustment factor. Based on our analyses, we believe that the updated assumptions and requested rate increase are reasonable and, therefore, in line with the Group Insurance Board's guidelines. It is our understanding that the Office of State Employee Relations are responsible for negotiating with DentalBlue regarding the proposed premium rates. We would suggest that they accept this revised 2012 rate increase in its current form.

Sincerely,

Timothy D. Gustafson, FSA, MAAA

Enclosure

cc: Eric Viney

## Appendix A

### Recent Trend Experience

Listed below is a detailed summary of the most recent year of trend experience for the three plan types:

- **VDC 186 (HMO) Trend:** Over the last year (5/10-4/11 to 5/10-4/11), the VDC 864 plan has seen a 23.4% decrease in paid claims, which was due in part to a 22.8% decrease in enrollment. The average incurred claims PCPM (per contract per month) trend over the last year for this plan is -0.7%. The capitation portion of the incurred claims has decreased more over the past than the fee schedule trend. The fee schedule trend assumption of 6.0% and the capitation trend assumption of 6.0% are both higher than levels we typically see. Altogether, DentalBlue's 6.0% trend projection is much higher than the recent experience of this plan, and higher than what is currently observed in the industry for similar plans.
- **VDC 864 (PPO) Trend:** Over the last year (5/09-4/10 to 5/10-4/11), the VDC 864 plan has had a decrease in paid claims of 16.5% with a corresponding 15.7% decrease in enrollment. The average incurred claims PCPM trend over the last year for this plan is -1.0%. DentalBlue's 6.0% trend projection is higher than the recent experience of this plan, and higher than what is typically observed in the industry for similar plans.
- **Supplemental Trend:** Over the last year (5/09-4/10 to 5/10-4/11), the Supplemental Plan has had an increase in paid claims of 4.1%, while enrollment decreased by 6.0%. The average incurred claims PCPM trend over the last year for this plan is 10.8%, and 2.6% in the prior year. We believe that DentalBlue's 6.0% trend projection is reasonable relative to the recent experience of this plan, and comparable to what is currently observed in the industry for similar plans.



Anthem Blue Cross and Blue Shield  
145 South Pioneer Road  
Fond du Lac, WI 54935

July 29, 2011

Roni Harper  
Manager of Optional Insurance Plans & Audits  
Department of Employee Trust Funds  
801 West Badger Road  
Madison, WI 53713

RE: Anthem DentalBlue Supplemental Plan, DentalBlue PPO Plan, Dentacare DMO  
2012 Renewals

Dear Ms. Harper:

Thank you for allowing Anthem Blue Cross and Blue Shield the opportunity to continue offering our DentalBlue Supplemental plan. We remain committed to providing quality, cost effective supplemental dental coverage to the State of Wisconsin employees.

The Anthem Dentacare DMO plan, DentalBlue Preferred PPO plan and the DentalBlue Supplemental will be renewed with no change to the benefit plan designs. Members enrolled in these plans will continue to have access to our Anthem website at [www.anthem.com](http://www.anthem.com) and our SpecialOffers@Anthem discount programs.

DentalBlue Supplemental Plan Renewal

- A 6.0 % trend was used to project claims a total of 20 months from the current period to the next contract year.
- An enrollment adjustment was made which used a lagged enrollment approach due to the large decrease in membership that occurred effective January 1, 2011. This adjustment pushed back the enrollment information by 2 months to more accurately tie the enrollment to the actual claims being paid.
- A renewal increase of 9.0% has been calculated for the 2012 plan year. The original calculation was a 13.6% increase

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Dentacare HMO and DentalBlue Preferred PPO Plan Renewals

- A 6.0% trend was used on the calculations for each of the plans to project the claims a total of 20 months from the current period to the next contract year
- The calculated change for the Dentacare DMO was a -12.7%
- The calculated change for the DentalBlue PPO was a -7.28%
- Both are being renewed at no increase for the 2012 plan year.

The savings from the Dentacare DMO and the Preferred PPO plans is being used to offset the original calculated increase in the DentalBlue Supplemental plan reducing the original renewal to a 10.46% increase. A business decision was made to further reduce the increase by 1.46% for a final offer of 9.0% for the supplemental plan.

If you have any questions following your review of the detailed rationale in the attached documents please contact me at [Sandra.reblin@anthem.com](mailto:Sandra.reblin@anthem.com).

Sincerely,



Sandy Reblin  
Account Manager Consultant

Enclosures

Cc: Tim Gustafson, Deloitte Consulting LLP

**Actuarial Memorandum**  
Anthem  
OSER Employees – DentalBlue Rates for Calendar Year 2012

Rate Change Filing

1. Scope and Purpose

The purpose of this filing is to summarize the dental rates and benefits for the OSER Group Insurance Program, provided by Anthem. This filing provides rates to be effective from January 1, 2012 through December 31, 2012.

2. Benefit Description

This filing includes rates and benefits for three dental plans:

Plan VDC 186 is a HMO plan which provides a combination of pre-paid benefits and benefits based on a percentage of the provider negotiated rate for participating providers and specialists only.

Plan VP 864 is a PPO plan which provides benefits based a percentage of the provider negotiated rate for participating providers. For non-participating providers, the plan provides benefits based on a percentage of the lesser of the 1) billed charge, or 2) usual, customary, and reasonable amount.

The Supplemental plan is an indemnity plan which provides benefits based on the lesser of the 1) billed charge, or 2) maximum allowable amount as determined by the benefit schedule.

3. Trend Assumption

VDC 186: The annual capitation trend is assumed to be 6.0%, the annual fee schedule trend is assumed to be 6.0%.

VP 864: The annual dental claims trend is assumed to be 6.0%.

Supplemental Plan: The annual fee schedule trend is assumed to be 6.0%.

4. Target Loss Ratio

The target loss ratios for VDC 186, VP 864, and the Supplemental Plan are 82.59%, 81.44%, 78.0% respectively. These reflect the target loss ratios, not the projected loss ratios.

5. Rate Change Calculation – See renewal exhibits

6. Actuarial Certification

I certify to the best of my knowledge and judgment that this rate filing is in compliance with the applicable laws and regulations of the State of Wisconsin and that the premiums are designed to be 1) adequate, 2) not unfairly discriminatory, and 3) reasonable in relationship to the benefits provided.



Seth L. Katz, FSA, M.A.A.A.  
Director, Actuary  
Anthem

6/24/11

Date