Arkansas Insurance Department

Asa Hutchinson
Governor

Allen Kerr
Commissioner

MEMORANDUM

TO:	Sen. Ronald Caldwell, Chair; Rep. Deborah Ferguson, Chair; Members of the ALC-AHIM Oversight Subcommittee
FROM:	Allen Kerr, Arkansas Insurance Commissioner
DATE:	December 14, 2017
RE:	Health Insurance Rate Increases for Plan Year 2018

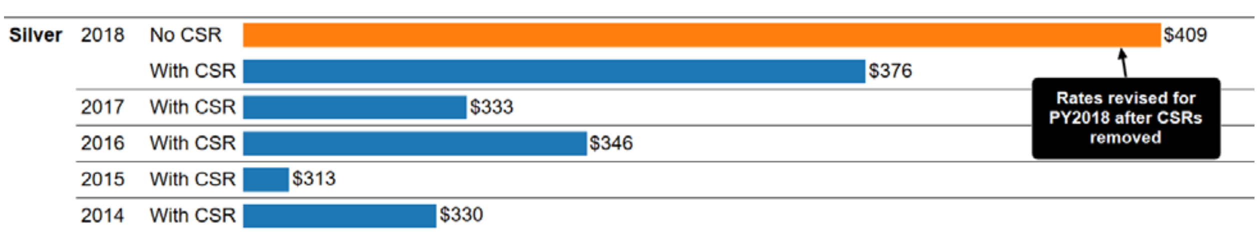
This memorandum will detail the rate increases that were requested for the health insurance companies for Plan Year 2018.

Changes in rates were forced this year due to the ending of Cost Sharing Reduction (CSR) payments from the federal government to the insurance companies, as well as the implementation of a new federal tax against health insurers and ongoing medical trend. The CSRs are payments in addition to tax credits for people who make below 250% FPL (eligible individual). While the tax credit (APTC) has the purpose of reducing the amount of premium that people below 400% FPL pay, CSRs are used to pay for a portion of the cost sharing that an eligible individual incurs over the course of a year. This is done by providing insurance companies advanced CSR payments that are reconciled against claims at the end of the year. If the amount companies paid on behalf of the eligible individual was more than the amount of advanced CSR that the companies received, the federal government would pay the company additional funds to erase the debt. If the amount the companies paid was less, the companies would return the unused funds to the federal government.

At the time of the initial rate filings, the federal government was still making CSR payments to the insurance companies. The filings at that time had increases to offset increased medical trend and the implementation of a new federal healthcare tax levied against insurers. After careful analysis by an outside actuary, the Arkansas Insurance Department (AID) determined that rate increases were justified in amounts under 10%. This would have increased the average rate of health insurance to $376 per month. (See Table 1).

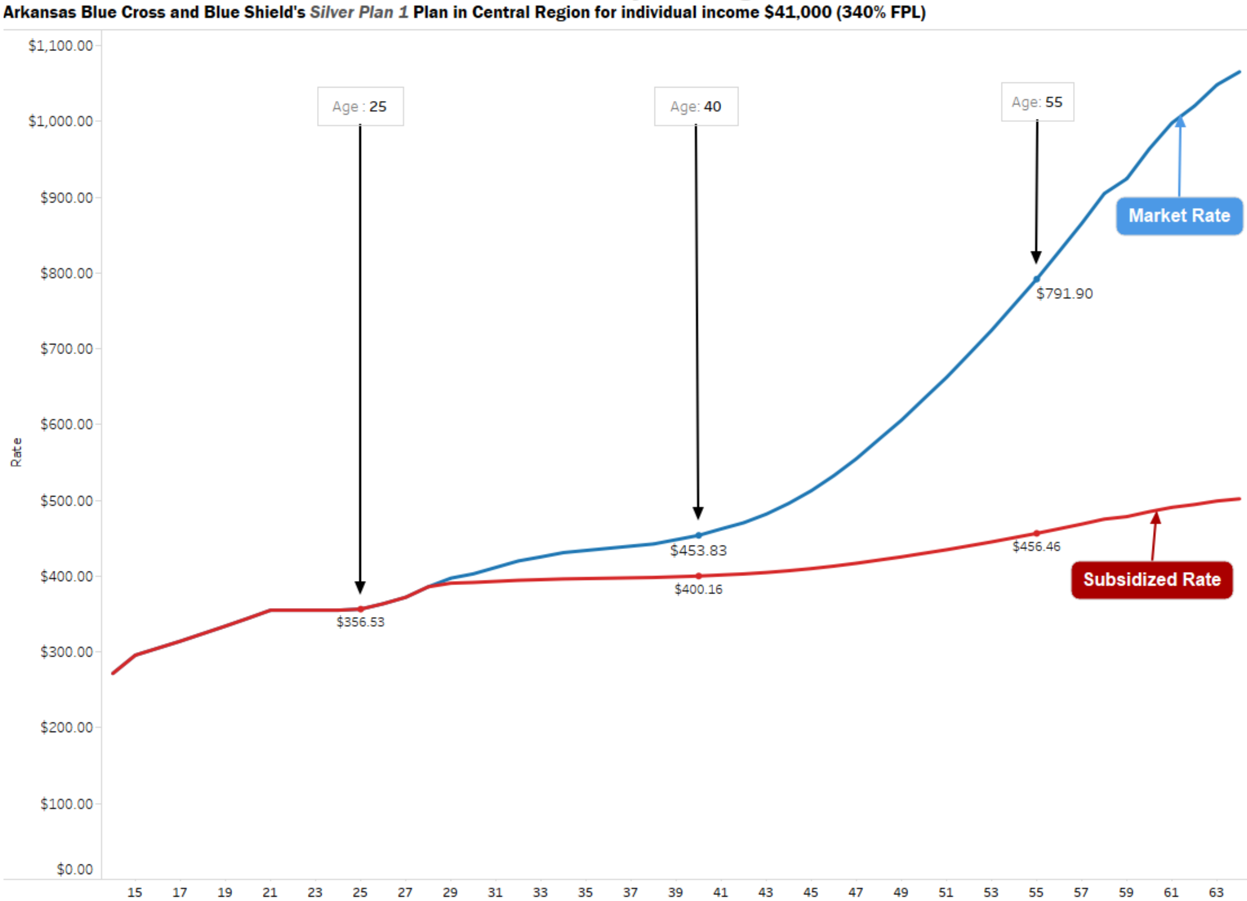
Table 1: Effect of CSR Removal in Arkansas on 2018 Rates
Average Silver non-Smoker Rates for 40 year old

Observation: Silver increase by 22.8% with CSRs removed from PY2017 rates. The increase would have been 12.9% with CSRs.



After the decision was made to end CSR payments, the federal government allowed for insurers to update their initial rate filings to account for the fact that the Affordable Care Act requires insurers to offset payments to providers on behalf of the eligible individuals despite the fact that the Act failed to provide appropriation for the ongoing CSR payments. AID allowed for a second rate filing window for rate filings that would include consideration of the lack of CSR payments over plan year 2018. AID followed federal recommendation to place the increase on the Silver plans as these are the only plans where CSRs may be paid. Because the APTC is determined based upon the second lowest cost silver plan, this also offered additional protection for Arkansas consumers by increasing the amount that premiums could be lowered for individuals whose household income is under 400% FPL. The overall impact increased the average price for plans to $409 per month before APTCs were applied. (See Table 2).

Table 2: Plan Year 2018 Rates before and after APTC subsidy across age
Arkansas Blue Cross and Blue Shield's *Silver Plan 1* Plan in Central Region for individual income $41,000 (340% FPL)



The Marketplace has been experiencing a declining trend over the last year. (See Table 3). After hitting a high of approximately 73,000 enrollees during the 2016 open enrollment period, the current projected enrollment for the Marketplace is approximately 60,554 enrollees for both medical and dental plans. (See Table 4). Current enrollment for the Marketplace medical plans is 51,994 as of December 1, 2017. As projected enrollment may include members who are changing plans, there is often a "bloat" in reporting as these members could be double counted. (See Table 3). We do not expect these numbers to be finalized until open enrollment is closed and members have made their first payments. This should occur toward the middle of January or first of February. However, this still represents a reduction in enrollment of close to 5,000 lives as compared to this time last year. (See Table 3).

Table 3: Projected Versus Effectuated Member Count
(QHP-Medicals. Data as of December 1, 2017 reported by Insurance Companies)

Observation: Per industry data as of reporting date December 1, 2017 combined with historical trends, marketplace enrollment in Plan Year 2018 is projected to be lower.

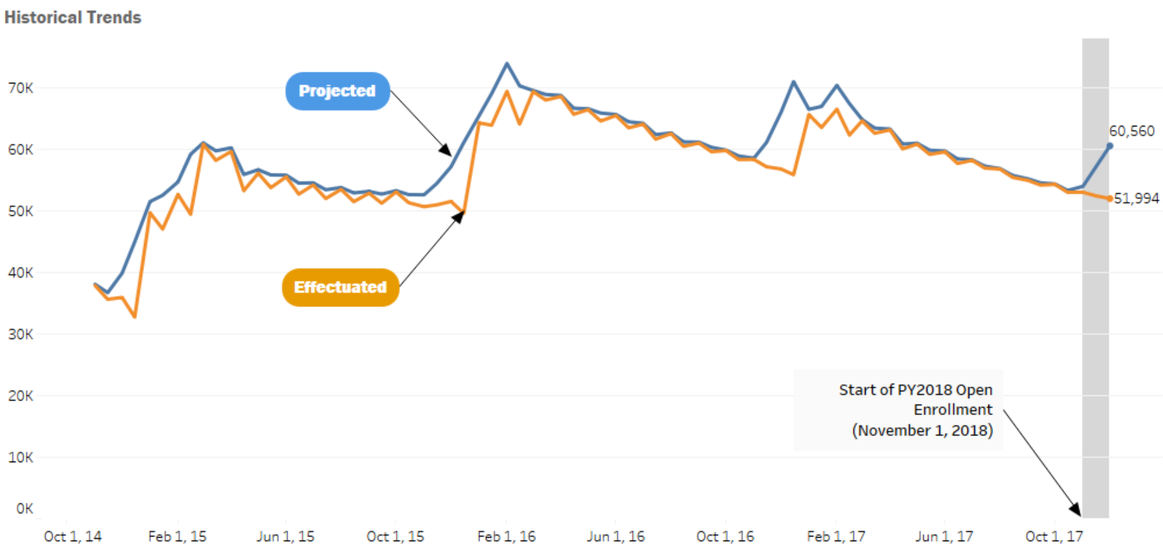
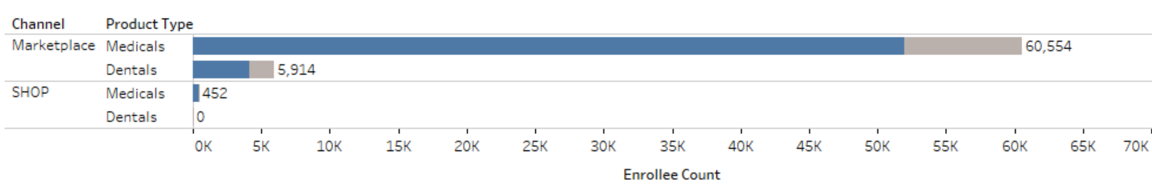


Table 4: Enrollee Count
Marketplace/SHOP (Current + New Signups)
(Data as of December 1, 2017 reported by insurance companies)

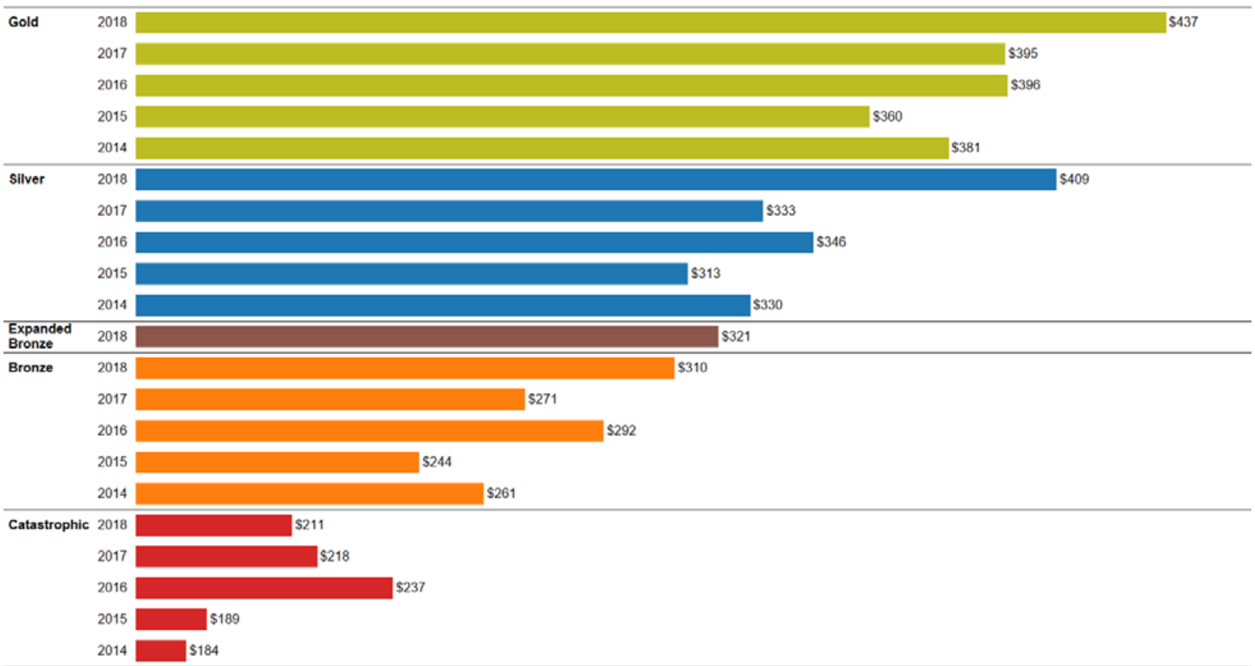


Channel	Product Type	Current	New-signups
Marketplace	Medicals	51,994	8,560
	Dentals	4,105	1,809
SHOP	Medicals	452	0
	Dentals	0	0

Color legend
New-signups
Current

The cause of the reduction in enrollments is not currently known. This could be the result of the increase in rates, lack of education about enrollment dates and availability, the shortened enrollment window, or questions related to the future of individual health insurance caused by the uncertainty of Congressional action related to healthcare policy moving forward. We do know that there will not be future increases related to CSR removal, though rate changes may occur to address how insurance is utilized by eligible individuals. Absent additional large policy changes such as experienced with CSRs this year, our actuaries report that Arkansas's insurance market has reached stabilization as seen by the initial set of rate filings this year. We also have begun to notice a trend in the rate filings over the course of the past five years where increases in the Silver variations tend to be followed by reductions in the next year. (See Table 5).

Table 5: Arkansas Rate Trends
Average Arkansas non-Tobacco Rates for 40 year



Our goal for Plan Year 2018 will be to continue to work with the legislature, the Governor's Office, the federal regulators, and other state agencies to assist the Marketplace in stabilizing for the future years. To that end, we recognize that rising health insurance rates, which are also affected by federal taxes and other fees, could cause consumers not being able to continue to afford health insurance leading to additional rate increases in the future. We hope to address some of these challenges and opportunities for reform through the study of the healthcare landscape that we are jointly conducting with the Department of Human Services.