

**Recommendation Form for the
2015 Transition to Employee Choice
Due to HHS June 2, 2014 for FF-SHOP States**

Instructions: Please fill out the following form and attach your recommendation for a one year transition to employee choice including an evidence-based assessment of the full landscape of the small group market in your State.

State: Michigan

Insurance Commissioner (signature):



Annette E. Flood
Director, Dept. of Insurance & Financial Services

Please adequately explain that it is in your expert judgment, based on a documented assessment of the full landscape of the small group market in your State that the 2015 Transition to Employee Choice would be in the best interest of small employers and their employees and dependents, given the likelihood that implementing employee choice would cause issuers to price their products and plans higher than they would otherwise price them. Please base your recommendation on discussions with those issuers expected to participate in the SHOP, including naming those issuers, and keep your recommendations specific to 2015 since this is a one year transitional policy.

See attached letter.



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

ANNETTE E. FLOOD
DIRECTOR

Via electronic mail delivery to shop@cms.hhs.gov

June 2, 2014

The Honorable Kathleen Sebelius
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue S.W.
Washington, DC 20201

Re: 2015 Transition to Employee Choice

On May 27, 2014, CMS issued a final ACA rule called "Exchange and Insurance Market Standards for 2015 and Beyond" giving State Insurance Commissioners (and Directors) the option of implementing a one-year transition to employee choice in the FF-SHOP. I am writing you to request a one-year transition for employee choice in the FF-SHOP in Michigan, thereby delaying employee choice in the FF-SHOP until plan year 2016.

This request is based on a survey of issuers in the small group market in Michigan. Michigan surveyed its issuers and received seven responses, including the top five small group issuers: (1) Blue Cross Blue Shield of Michigan, (2) Health Alliance Plan, (3) Health Plus, (4) Priority Health, and (5) United Healthcare. These carriers are either participating or are considering participation in the FF-SHOP in 2015 and represent 90% of the small group premium written in Michigan in 2013. We requested comments on four questions:

1. Whether they agreed that adverse selection would occur with employee choice in 2015
2. Whether they anticipated a rate impact on their own rates with the introduction of employee choice.
3. Whether they may choose not to participate in the SHOP with employee choice
4. Whether they would support a decision to delay employee choice for one year

All five issuers indicated they agreed that employee choice would lead to adverse selection in 2015. All but one issuer would anticipate increasing their rates in 2015 if employee choice were offered in 2015. The one other issuer cited other factors affecting premiums, particularly to the extent employee choice is already prevalent in the small group market and to the extent the use of employee choice in the FF-SHOP changes the prevalence and choice of plans in or outside of the FF-SHOP. All but one also said they would not participate in the FF-SHOP if employee choice were permitted. The other carrier again indicated their analysis of the market dynamics, not simply premium impact, would lead to their decision about participation. Finally, and perhaps most importantly, all five carriers supported the one-year transition for employee choice.

Secretary Sebelius

June 2, 2014

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In addition to the survey results, we have received a copy of a May 28, 2014 Oliver Wyman memo to Blue Cross Blue Shield Association analyzing the impact of employee choice in the SHOP. Their conclusion is that the implementation of employee choice in the FF-SHOP will lead to higher overall costs for small employers due to adverse selection and higher administrative costs in most markets. They estimate the impact to be between 2-4% depending on the degree of choice model implemented. While we understand this impact may ultimately occur anyway, we believe that the one-year delay will allow additional seasoning in the FF-SHOP market in Michigan and allow issuers to better estimate the impact of employee choice, ultimately leading to less disruption when employee choice is implemented in 2016.

Finally, CCIIO itself has recognized that the introduction of employee choice could lead to more conservative pricing, because "it is a new feature in many markets and issuers at this point in time feel they do not have sufficient data available concerning the expected employee risk in an employee choice environment."

In conclusion, it is my expert judgment based on the above-documented assessment of the full landscape of the small group market in Michigan that the 2015 Transition to Employee Choice would be in the best interest of Michigan's small employers and their employees and dependents.

Sincerely,


Annette E. Flood
Director

cc: The Honorable Rick Snyder
Governor