

**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: Arizona

Insurance Commissioner (signature): 
Germaine L. Marks, Director

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.



Department of Insurance

State of Arizona

Office of the Director
Telephone: (602) 364-3471
Facsimile: (602) 364-3470

JANICE K. BREWER
Governor

2910 North 44th Street, 2nd Floor
Phoenix, Arizona 85018-7256
www.azinsurance.gov

GERMAINE L. MARKS
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, D.C. 20201

Dear Secretary Sebelius:

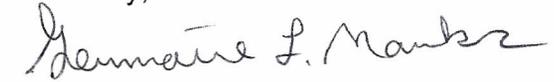
Under the recently released regulation on Exchange and Market Standards for 2015 and Beyond, HHS has asked the states to decide whether to recommend that the Federally-facilitated SHOP provide for a one-year transition to the "employee choice" model. Based upon a discussion with health insurance issuers expected to participate in the FF-SHOP in 2015, as well as careful consideration of the May 28, 2014 Oliver Wyman report, I recommend that the transition occur at the later date. The following issuers preliminarily indicated they intend to seek certification from the U.S. Department of Health and Human Services to participate in the FF-SHOP in 2015: All Savers Insurance Company, Blue Cross Blue Shield of Arizona, Inc., Health Net Life Insurance Company, Health Net of Arizona, Inc., Meritus Health partners, and Meritus Mutual Health Partners.

Half of the issuers that responded to a survey indicated the implementation of this SHOP option would necessitate a premium increase for consumers. The reasons cited included the risk of adverse selection and increased administrative costs. Issuers also raised concerns beyond increased premiums including the functionality of the FF-SHOP attributable to the added technical components related to employee choice. Two insurers with substantial experience in the Arizona small group health insurance market both highlighted that any increased costs associated with the FF-SHOP plans will impact the price of off-exchange plans. The experience of the plans sold on the exchange ultimately affects the prices of the plans sold off the exchange and plans sold on the exchange must be priced the same as when the same plans are sold off the exchange. Any increase in the FF-SHOP plan premiums will increase the cost of those same plans off the exchange and that could ultimately lead to fewer choices for employees. Further, the decision to finalize the regulation and propose the option at this late date left minimal time for states to give all due consideration to this issue.

I recommend, based on my expert judgment and the available information, the one-year transition option in Arizona. In view of the likelihood that implementation would cause issuers

to price their products and plans higher than they would otherwise price them, the “2015 Transition to Employee Choice” is in the best interest of Arizona’s consumers and small group health insurance issuers.

Sincerely,

A handwritten signature in cursive script that reads "Germaine L. Marks". The signature is written in black ink and is positioned above the printed name and title.

Germaine L. Marks
Director