



March 25, 2016

Kevin Counihan  
Director & Marketplace Chief Executive Officer  
Center for Consumer and Information and Insurance Oversight  
Centers for Medicare & Medicaid Services  
200 Independence Avenue S.W.  
Washington, DC 20201

Dear Mr. Counihan,

Thank you for seeking a recommendation regarding whether vertical choice should be implemented in the federally-facilitated SHOP Marketplace in Pennsylvania. We recommend that the federally-facilitated SHOP Marketplace not implement vertical choice in 2017 in Pennsylvania.

To form this recommendation, the Department consulted with insurers conducting business in Pennsylvania's small group market. Pennsylvania's small group market is currently stable and has experienced reasonable recent premium increases. The majority of insurers cautioned that implementing vertical choice could lead to adverse selection within the small group market, which could potentially lead to premium increases. In addition, it was recommended that the Department wait until the transitional policy is fully phased out, and the 2014 rating reforms cover the entire non-grandfathered market, before considering implementation of vertical choice. Waiting until the full phase-out of the transitional policy would result in a larger risk pool that could better absorb potential adverse selection.

Given concerns that vertical choice could potentially result in premium increases, we prefer to see how the implementation of vertical choice proceeds in other states in 2017, and then we will consider whether to change our recommendation for 2018. Thank you again for seeking our input, and I look forward to continue working with you to ensure that all Pennsylvanians have access to affordable, high-quality health insurance.

Sincerely,

A handwritten signature in blue ink that reads "Teresa D. Miller".

Teresa D. Miller  
Commissioner