



South Carolina Department of Insurance

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

March 24, 2016

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

Re: Recommendation to Not Implement Vertical Choice in FF-SHOP

Dear Secretary Burwell:

I am writing to advise that it is the recommendation of the South Carolina Department of Insurance that vertical choice should not be made available in the Federally-facilitated SHOP in South Carolina. This recommendation is based upon our discussions with health insurance issuers that currently offer Qualified Health Plans through the FF-SHOP as well as those that are expected to participate in the FF-SHOP in 2017. There are two issuers that currently participate in the FF-SHOP in South Carolina: (1) BlueChoice HealthPlan of South Carolina; and (2) BlueCross BlueShield of South Carolina. Both QHP issuers have indicated that vertical choice, if implemented, will increase operational costs and complexities. They cited a variety of factors in their response to our inquiry, including the likelihood of adverse selection and higher administrative burdens that would increase costs as a result of the implementation of vertical choice.

We share the concerns raised by these issuers about the impact that vertical choice could have on the operational resources required of FF-SHOP issuers and the resulting administrative expense load in small group rates. Ultimately, as you know, additional administrative expenses resulting from vertical choice implementation would be borne by the small employers and their employees and dependents that are seeking coverage through these issuers.

In the opinion of this agency and based upon the foregoing, it is in the best interest of small employers and their employees and dependents to forgo vertical choice given the likelihood that implementation of vertical choice would result in QHP issuers pricing their products and plans higher than they otherwise would price them for the 2017 benefit year. Should HHS accept this recommendation, the South Carolina Department of Insurance, on behalf of the State of South Carolina as an Effective Rate Review State, will ensure that health insurance issuers are not

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factoring vertical choice into their prices for the 2017 benefit year through our review of the rates and form filings that correspond to the QHP applications submitted to HHS. This will include requiring an affirmative statement by each QHP issuer's actuary that this option is not factored into their projections, assumptions, or ultimately, their prices. This process will ensure that small employers and their employees and dependents are receiving the full benefit via their premiums as a result of forgoing implementation of vertical choice.

Finally, please note that the recommendation against vertical choice in the FF-SHOP will be the least disruptive to South Carolina consumers and health insurance issuers, who are continuing to adjust to the numerous changes occurring as a result of the ACA.

Sincerely,



Kendall R. Buchanan
Deputy Director, Division of Market and Consumer Services

Cc: Raymond G. Farmer
Director of Insurance