Health Insurance Rate Review Grant Program
Cycle I Quarterly Report

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State:	**Arizona**
Project Title:	**HHS Rate Review Grant: Ensuring That Consumers Get Value for Their Dollars**
Project Quarter Reporting Period:	**Quarter 1 (08/09/2010 – 12/31/2010) ("C1Q1")**
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Health Insurance Rate Review Grant Program
Cycle I Quarterly Report: Quarter 1 (C1Q1)

PART I: PROJECT NARRATIVE

A. Introduction

A. BRIEF OVERVIEW OF PROJECT

Arizona has applied for a grant with a budget of $550,441 to achieve two goals for enhancing its rate review process with new transparency, compliance enforcement and technology. Meeting these goals will result in new consumer-support capacity, analytical tools and systems that Arizona will be able to sustain with its pre-grant resources after the grant period ends. This report sets forth the work undertaken and completed to achieve these milestones during the first reporting period from August 9, 2010 through December 31, 2010 ("Cycle 1, Quarter 1" or "C1Q1"), and outlines ADOI's next steps in the coming months.

B. GOAL NO. 1

Our first goal for this program is to implement the Affordable Care Act (ACA) and ensure that Arizona consumers get value for their health insurance premiums by improving the transparency and effectiveness of rate review. ADOI has three Measurable Objectives (Objectives) to accomplish this goal. Each Objective has its own milestones.

Objective 1.A

To provide consumers with new transparency and meaningful information about individual and small group health insurance rates, using a mechanism that ADOI can sustain after the grant period ends.

Milestones for Objective 1.A are: (i) to gather public comment on consumer requirements for transparency and meaningful information; (ii) to post to the ADOI website plain language FAQs and key facts about rate review in Arizona; (iii) to institute a requirement that insurers submit the federal "threshold disclosure form" with all rate increase filings, not just those that HHS categorizes as "unreasonable"; (iv) to expand and update web postings with data from TDFs; (v) to develop at least one consumer-friendly key indicator of individual rate filings; (vi) to develop at least one consumer-friendly key indicator from insurers' annual small group base premium and index rate submissions; (vii) to develop the IT capacity to periodically and automatically update web postings with data from TDFs and consumer-friendly rate filing components; and (viii) to make consumer-friendly rate filing components available to the public online.

Objective 1.B

To determine whether ADOI's existing actuarial certification form for individual health insurance rates is a reliable tool for determining whether individual rate filings comply with the law, and if it is not, to revise the form.

Milestones for Objective 1.B are: (i) to develop the criteria and process for substantive review of individual health insurance rate filings; (ii) to conduct a substantive review of 100% of administratively complete initial rate filings and 75% of rate revision filings submitted between November 1, 2010 and April 30, 2011; (iii) for each filing reviewed in Milestone ii above, to determine how often

the actuarial certification of compliance is supported by the substantive review; (iv) if the conclusion from Milestone iii above is that ADOI cannot generally rely on the current actuarial certification, to determine the reasons why not, obtain stakeholder input, include a consumer-friendly key indicator (from 1Av) and make proposed revisions to the current forms or process; (v) if the conclusion from Milestone iii is that ADOI can rely on the actuarial certification, to include a consumer-friendly key indicator (Milestone from 1.A.v), obtain stakeholder input, and make proposed revisions to the current forms or process; and (vi) to finalize revisions to the existing form and related filing requirements and publish for implementation on a future designated date.

Objective 1.C
To determine whether the actuarial certification submission is a reliable tool for ADOI to use to determine whether small group rates in the market comply with the law, and if it is not, to develop a standardized form that is a reliable tool.

Milestones for Objective 1.C are: (i) to identify key indicators for compliance with small group rate setting factors; (ii) to summarize information and variations in A.R.S. § 20-2311(E) non-standardized actuarial, and in A.R.S. § 20-2311(G) non-standardized base premium and index rate submissions for calendar years 2009 and 2010; and (iii) to draft a standardized form for the small group actuarial certification and for submission of base premium and index rates to be used by insurers starting in calendar year 2011.

3. GOAL NO. 2
Our second goal is to ensure that Arizona consumers get value for their dollars by developing the technical infrastructure to comply with ACA requirements for collecting, reviewing and reporting health insurance rates. Arizona has two Objectives for accomplishing our second goal. Each Objective has its own milestones.

Objective 2.A
To review at least 95% of insurers' submissions of rate increases during the grant year that meet the forthcoming ACA standard for "unreasonable" and apply HHS criteria to determine if the unreasonable increase is excessive or unjustified under forthcoming criteria.

Milestones for Objective 2.A are: (i) implement use, *via* SERFF, of a forthcoming Rate Filing Disclosure Form and Justification Form (the "threshold disclosure form" or "TDF") that federal law will require insurers to use if a rate request is "unreasonable;" (ii) as soon as practicable after HHS promulgates standards for "reasonable" and "unreasonable" rate requests, apply forthcoming ACA criteria to determine if unreasonable rate increases are excessive or unjustified; and (iii) by three months after completion of 2.A.ii., incorporate conclusions with TDF data used to update and expand web postings for consumers.

Objective 2.B
To comply with ACA reporting requirements relating to rate data and rate trends using the uniform reporting template HHS will provide. The objective will be met

approximately eight months after HHS provides the template and supporting documentation to the National Association of Insurance Commissioners. Milestones for Objective 2.B are: (i) contract with SERFF to make the modifications necessary to address the data collection and reporting requirements defined in Section A.1(c)(1) and A.1(c)(2) on pages 15, 16 and 17 of the Grant Announcement; (ii) obtain training from SERFF on system changes; and (iii) coordinate/develop SERFF's ability to satisfy reporting requirements of the uniform template for data reporting within the SERFF system, including basic trending reports.

B. Program Implementation Status

1. ACCOMPLISHMENTS TO DATE

a. Orientation, Training and Support for RR Staff (Applies to Entire Grant Program)
Between October 18 and November 1, 2010, ADOI hired a grant manager, an insurance analyst, and administrative assistant to work on the rate review (RR) grant program. See *Attachment "A"* for descriptions of these three temporary positions.

Permanent ADOI staff trained the RR staff in the following areas:
i. The objectives, requirements and conditions of the RR grant.
ii. Current applicable state statutes and regulations on rate review.
iii. Current rate-filing requirements, forms and review processes.
iv. SERFF functions and operations, including rate review and research.
v. The responsibilities and resources of the ADOI's Consumer Affairs Division.
vi. ADOI's general functions, policies and procedures.

Permanent staff assisted with various accomplishments to date described below, including selecting an actuary, community outreach and public participation, data collection and analysis and preparing to meet reporting requirements. See Sections B.1. b – e, below. Permanent staff also provided computer and other technical support, throughout C1Q1.

b. Obtaining Actuarial Support (Applies to Objectives 1.A, 1.B and 1.C)

i. Retaining an Actuary
ADOI has retained the services of an outside actuarial consulting firm, Mercer, to assist ADOI to: (i) develop substantive review criteria, (ii) train ADOI staff, (iii) evaluate effectiveness of current processes/forms, (iv) recommend improvements to same, (v) consult on key indicators and "unreasonable threshold" filings, (vi) assist with stakeholder involvement and preparation for public meetings, and (vii) communicate with industry actuaries. ADOI's agreement with Mercer is attached as *Attachment "B"*. Mercer has assigned an agency project leader, a senior actuary, a consulting actuary, and an actuarial analyst to assist ADOI with these activities.

ii. Actuary Review and Analysis

During C1Q1, ADOI met with Mercer three times in person, on November 15, 2010, November 23, 2010 and December 2, 2010. See *Attachments "C", "D" and "E"* for the agendas for these meetings. In these meetings and in e-mails and phone conversations during the last two months of C1Q1, ADOI and Mercer covered orientation regarding the grant objectives, project planning and Mercer's initial grant activities. On December 21, 2010, Mercer provided ADOI with a detailed work plan for its activities relating to each grant milestone.

During November and December Mercer developed the criteria and process for substantive review of individual health insurance rates (Milestone 1.B.i). This included reviewing the applicable statute and rules, assessing the current criteria and process, reviewing a sample of rate filings for content and deficiencies, determining the parameters of a revised process and drafting a proposed set of criteria and process for ADOI to review. On December 20, 2010, the parties had a telephone conference to review a draft of Mercer's proposed criteria and process, which Mercer finalized on December 21, 2010. See Section B.1.b.iii, below.

During November and December Mercer participated in ADOI preparation for stakeholder meetings scheduled in January 2011 by reviewing and commenting on the meeting notices and agenda and providing assistance with "consumer-friendly" content. Mercer also began its substantive review of individual filings (Milestone 1.B.ii), its analysis of historical rate filing and consumer complaint data in order to help ADOI identify consumer-friendly key indicators for individual rate filings (Milestone 1.A.v), and its review of small group annual rate submissions and certifications, in order to help ADOI identify consumer-friendly key indicators for small group certifications (Milestone 1.A.vi).

To assist Mercer during C1Q1, ADOI obtained access to SERFF for Mercer and provided Mercer with complaint history documentation compiled and retained by ADOI within the past calendar year. ADOI explained ADOI's rate review process, demonstrating rate review on SERFF and working with Mercer to devise searches in SERFF for filings that Mercer needed to review. ADOI also explained and provided copies of the annual rate certification filed by insurance carriers for their small group policies.

iii. Actuarial Deliverables in C1Q1

On December 21, Mercer completed Milestone 1.B.i by developing the criteria and process for substantive review of individual health insurance rates. The criteria and process are attached as *Attachment "F"*.

c. Community Outreach/Public Participation (Applies to Objectives 1.A and 1.B)

i. Website Postings

During C1Q1, we posted a number of grant-related items on the ADOI website including:

- ADOI's grant application, http://www.id.state.az.us/RateReview/AZ_Rate_Review_Grant_Application_20100816.pdf

- ADOI's Notice of Grant Award from HHS, http://www.id.state.az.us/RateReview/AZ_Rate_Review_Grant_Award.pdf

- A notice and agenda for public meetings in January, 2011, http://www.id.state.az.us/RateReview/Community_Meeting_Notice_and_Agenda.pdf

In addition on, November 7, 2010 we began soliciting public comments or questions about rates and rate review through a dedicated e-mail address posted on the website. ADOI RR Staff also began work on a consumer survey to be posted on our website in the next quarter.

ii. Public Meetings

RR staff has scheduled three stakeholder meetings throughout the state for January 2011 and sent meeting notices to both public and private organizations throughout the state. http://www.id.state.az.us/RateReview/Community_Meeting_Notice_and_Agenda.pdf

iii. Collaboration

The grant Project Director made a brief presentation at a December 14, 2010 meeting on the subject of rate review. The meeting was sponsored by St. Luke's Health Initiatives in Phoenix, Arizona and attended by representatives of consumer advocacy groups. The purpose of the presentation was to generally describe ADOI's rate review grant work, and to inform attendees about the agency's upcoming stakeholder meetings.

In order to prepare for the public meetings in January and to gain insight into consumer concerns, in December ADOI convened an informal group of advisors including industry representatives, local producers, advocacy groups and other public agencies. On December 21, 2010 ADOI senior management and RR staff met with representatives of Blue Cross/Blue Shield, Healthnet, a local producer who runs a small business, and the Agency on Aging – Phoenix Area to talk about common questions and concerns heard frequently from their members or constituents. A roster of these advisors and a summary of the discussion are attached as *Attachment "G"*. ADOI used the information to help set priorities for the discussion at our community meetings. We will continue to work with this "Transparency Team" to meet our milestones.

d. ADOI Data Collection, Analysis and Ongoing Rate Review (Applies to Objectives 1.A and 1.B)

i. Consumer Concerns
RR staff reviewed all ADOI closed files of rate-related complaints from Arizona consumers submitted in 2009 and 2010. This review included the assessment of twenty-eight consumer complaints, carriers' responses, and ADOI actions in closing the complaints. RR staff gave the data to Mercer for use in Mercer's analysis and also will use the data in its own analysis of consumer concerns about premium increases.

ii. Rate Filings and Rate-Related Submissions
As of November 15, 2010, under the supervision of permanent ADOI staff, RR staff took over rate review functions that are integral to the grant program.

ADOI RR and permanent staff assisted Mercer by explaining ADOI's rate review process, demonstrating rate review on SERFF and working with Mercer to devise searches in SERFF for filings that Mercer needed to review.

e. Meeting Reporting Requirements (Applies to Objective 2.B)
ADOI completed Milestone 2.B.i by contracting with SERFF to make the modifications necessary to address the data collection and reporting requirements defined in Section A.1(c)(1) and A.1(c)(2) on pages 15, 16 and 17 of the Grant Announcement. ADOI completed the C1Q1 portion of Milestone 2.B.ii on December 20, 2010 by obtaining training from SERFF on system changes ("SERFF 10.5") in effect as of December 17, 2010.

Throughout C1Q1, ADOI RR staff and permanent staff participated actively in the collaborative effort among HHS, various states and the NAIC to define and clarify HHS's C1Q1 reporting requirements. ADOI's participation included providing the NAIC with early versions of the HHS reporting tables and templates populated by existing rate filings. RR staff participated in the December 21, 2010 NAIC/SERFF web demonstration of PPACA/rate-related changes in SERFF and has provided with SERFF with all the information SERFF has requested in connection with C1Q1 reporting, such as Arizona's disposition status map.

In December, 2010, RR staff began to manually compile the available data requested in Part II of the Grant Cycle 1 Quarterly Report Template, using its own Excel versions of the then-available HHS templates for Tables A and B and the Rate Filing Detailed Data Elements ("R2D2"). This manual process was not finished by the end of C1Q1 but it was far enough along to satisfy two functions. First, it assured that ADOI would be able to provide Part II of its C1Q1 report even if there were a delay in SERFF's ability to provide Arizona with the content for Part II of the report. Second, assuming no such delay occurred, it gave ADOI a head-start on (i) validating SERFF's content for Part II of the Report, when the content became available in January, and (ii) drafting a narrative explanation the content of Part II.

2. CHALLENGES AND RESPONSES

a. Transparency Despite Complexity
One challenge RR staff began to face in C1Q1 was the need for careful preparation for educating consumers about health insurance rates, a subject that many people seem to love to hate. The rate-setting and rate-review processes usually confuse and bore most people, while their own premiums usually infuriate them. As described in ADOI's grant application, ADOI has limited authority to review individual rates, and limited information about small group rates. Many people think that insurance regulators have, or should have broad authority to set and control rates and are incredulous about ADOI's limited authority and information.

During C1Q1, one response to this challenge was to form an internal/external advisory group to assist in communicating with consumers. See Section B.1.c.iii, above for details. Another response was to focus preparation and materials for our January stakeholder meetings on finding out what consumers most want to know, so that we will know where to focus our transparency efforts. We need to set aside preconceptions about what consumers want to know or what we think they should know. We need to let consumers educate us at the same time we are trying to educate them.

b. Orientation, Training and Support for RR Staff
Another challenge inherent in the RR grant program is that although the program staff works on nothing except the program, the program could not succeed in a vacuum. In order to sustain the program outcomes with pre-grant resources after the grant period ends, the program activities and objectives have to be transparent and geared to integration from the start. ADOI responded to this challenge in C1Q1 by using permanent staff and existing resources to help launch the program. In particular, the Public Information Officer and the Information Technology Division staff provided on-going advice and support while staff of the Life & Health and Consumer Affairs Divisions trained the RR staff on substantive and procedural issues relating to rates and rate review. See Section B.1.a, above.

c. Retention of Actuary under Procurement Requirements
The State of Arizona has existing contracts for actuarial services, which ADOI has to use to contract with actuarial consultants. It took longer than we planned to identify a contract that had an appropriate scope of work, to interview and obtain proposals from the two firms that seemed best qualified for the work, to select a firm and finalize a written agreement. We contracted with Mercer on October 22, 1010, just nine days short of the deadline for Milestone 1.B, for which the grant actuary was responsible. After notice to our program project officer at HHS, we adjusted the deadline to December 21, 2010. As explained above in Sections 1.b and 1.e, Mercer met the adjusted deadline and the adjustment will not have an impact on any other deadlines.

3. REQUIRED VARIATIONS FROM ORIGINAL TIMELINE

a. Variation to Milestone 1.B.i.

The State of Arizona has existing contracts for actuarial services, which ADOI has to use to contract with actuarial consultants. It took longer than we planned to identify a contract that had an appropriate scope of work, to interview and obtain proposals from the two firms that seemed best qualified for the work, to select a firm and finalize a written agreement. We contracted with Mercer on October 22, 1010, just nine days short of the deadline for Milestone 1.B, for which the grant actuary was responsible. After notice to our program project officer at HHS, we adjusted the deadline to December 21, 2010. As explained above in Sections 1.b and 1.e, Mercer met the adjusted deadline and the adjustment will not have an impact on any other deadlines.

b. Variation to Milestone 1.A.iii, Milestone 1.A.iv and Measurable Objective 2A.
The HHS grant announcement stated at page 4 that "[f]ederal regulatory guidance is currently under development [that will] include factors to be used in determining whether a proposed rate increase is 'unreasonable' and the criteria for evaluating if an unreasonable rate is 'excessive' or unjustified'."

Milestone 1.A.iii, Milestone 1.A.iv and Measurable Objective 2A call for ADOI to take action based on the content of the federal regulatory guidance referred to above, including use of a possible "threshold disclosure form." Accordingly, ADOI planned the timeframe for these activities around receiving the guidance.

On December 23, 2010, the Secretary of Health and Human Services published a proposed regulation (Docket No. HHS-OS-2010-0029), regarding the disclosure and review under PPACA of unreasonable premium increases by health insurance issuers. The comment period for the proposed rule closed on or about February 21, 2011 and no date has been announced for issuing a final regulation. ADOI proposes to defer any start on these activities until there is a final regulation.

C. Significant Activities – Undertaken & Planned

1. SIGNIFICANT ACTIVITIES UNDERTAKEN

a. Orientation, Training and Support for RR Staff (Applies to Entire Grant Program)
For details, please see Sections B.1.a and B.2.b, above.

b. Obtaining Actuarial Support (Applies to Objectives 1.A, 1.B and 1.C)
These activities included retaining and working with the actuarial firm Mercer and receiving Mercer's criteria and process for substantive review of individual health insurance rate filings. For details, please see Section B.1.b, above.

c. Community Outreach/Public Participation (Applies to Objectives 1.A and 1.B)
These activities included publicizing the rate review grant and creating opportunities for public participation in grant activities, including web postings, setting a schedule for public meetings in January, 2011, and initial

collaboration with a variety of stakeholders. For details, please see Section B.1.c, above.

d. ADOI Data Collection, Analysis and Ongoing Rate Review (Applies to Objectives 1.A and 1.B)
These activities included the collection of historical data from rate filings and consumer complaints and review of rate filings submitted during C1Q1. For details, please see Sections B.1.a and B.1.d, above.

e. Meeting Reporting Requirements (Applies to Objective 2.B)
These activities included preparation for meeting the C1Q1 reporting requirements. For details, please see Section B.1.e, above.

2. SIGNIFICANT ACTIVITIES PLANNED

a. Orientation, Training and Support for RR Staff (Applies to Entire Grant Program)
RR staff will need considerably less hands-on training regarding rate review and other ADOI functions than it did in C1Q1. There will be training on new, grant-related functions and operations, especially in connection with meeting reporting requirements. Permanent staff will continue to assist with community outreach and public participation, data collection and analysis and meet reporting requirements, as well as providing on-going computer and other technical support.

b. Obtaining Actuarial Support (Applies to Objectives 1.A, 1.B and 1.C)
In January, 2011, Mercer will attend ADOI's three scheduled public meetings. The comments obtained from these meetings will be integrated with observations summarized from historical consumer complaint data in order to help ADOI identify consumer-friendly key indicators for individual rate filings and small group rate submissions, as they relate to Milestones 1.A.v and 1.A.vi.

Mercer will continue its substantive review of individual filings by accessing both initial rate filings and rate revision filings through the SERFF system. Key observations will be compiled throughout the substantive review process, as it relates to Milestone 1.B.ii.

Mercer will also continue to review the small group rate submissions, filing requirements and forms to identify key indicators for compliance with small group rate-setting factors, as it relates to Milestone 1.C.i.

c. Community Outreach/Public Participation (Applies to Objectives 1.A and 1.B)

i. Website Postings
In C1Q2, ADOI will post a summary of the discussion at each of our January 2011 stakeholder meetings on our website and an on-line consumer survey. ADOI also will develop consumer-friendly FAQs and other meaningful information about individual and small group rates for

on-line posting and other distribution in C1Q3. For details, see Section C.2.d, below.

ii. Public Meetings
ADOI will hold the following stakeholder meetings early in C1Q2:
Phoenix, AZ - January 4, 2011
Flagstaff, AZ - January 12, 2011
Tucson, AZ - January 18, 2011

We plan the meetings primarily to be forums for consumers of individual or small group health insurance. We also have invited insurance producers, representatives of insurance carriers, consumer advocacy groups and non-profit entities. Attendees will be presented with a PowerPoint presentation and accompanying handout, as well as a take-away list of helpful links and contacts for Arizona consumers (*Attachment "H"*).

Meeting notices and agendas were posted by Arizona State University, the Arizona Department of Commerce, Flagstaff Chamber of Commerce, NetworkingPhoenix.com, Tucson Metropolitan Chamber of Commerce, Eventful (Phoenix What's On site), Arizona Chamber of Commerce, Phoenix Networking Events calendar, Arizona Daily Star, the Arizona State University Community Connect Blog, and the State Bar of Arizona.

If warranted by what it learns at these public meetings and through other communication, ADOI may hold other public meetings in C1Q2. See Section C.2.d, below.

iii. Collaboration
After it has conducted the three scheduled public meetings and compiled the results of the meetings, ADOI will reconvene its Transparency Team (see Section B.1.c.iii, above and *Attachment G*) to assist in planning the next steps for community outreach and public participation. We expect to ask the Transparency Team for feedback on any materials we have prepared by that time and for help in recruiting hands-on consumer participation.

We also expect to use contacts we make at the public meetings to identify individuals and organizations that can expand the Transparency Team or help us directly recruit hands-on consumer participation.

d. ADOI Data Collection, Analysis and On-Going Rate Review (Applies to Objectives 1.A and 1.B)

i. Consumer Concerns
During C1Q2 and C1Q3, RR staff will analyze the information received from stakeholder meetings, along with its completed analysis of consumer complaints to ADOI (see Section B.1.d.i, above), online comments (see Section B.1.c.i, above) and any other communications or data collected so far to develop (1) an easy-to-understand list of FAQs and (2)

consumer-friendly, meaningful information to provide to the public by April 30, 2011 (Milestone 1.A.ii). Based on what the data indicates that consumers want to know and where we should to focus our transparency efforts, RR staff will develop consumer-friendly FAQs and other meaningful information about individual and small group rates for on-line posting and other distribution in C1Q3.

ii. Rate-Filings and Rate-Related Submissions
During C1Q2, RR staff will review and close any filings ADOI receives during C1Q2. ADOI will receive status reports from Mercer regarding its substantive review of rate revision filings we receive between November 1, 2010 and April 30, 2011 (Milestone 1.B.ii). During C1Q2 we also will receive Mercer's report on the key indicators for compliance with small-group rate-setting factors (Milestone 1.C.1).

e. Meeting Reporting Requirements (Applies to Objective 2.B)
In January, 2011, ADOI will complete Part I of this report. ADOI also will continue the process it began in C1Q1 to manually compile the data requested in Part II of this Report, using it own Excel versions of the current HHS templates for Tables A and B and the Rate Filing Detailed Data Elements ("R_2D_2"). This will prepare ADOI to validate SERFF's content for Part II of the Report and to draft any necessary narrative explanation for the content of Part II. ADOI also will be able to compare its manual compilation with preliminary data SERFF will release in January to test its understanding of the reporting requirements.

D. Operational/Program Developments/Issues

ADOI has identified its operational/program developments above in Section B.1. The only operational/program issues we have encountered are the challenges described in Section B.2.a, above.

E. Public Access Activities

There are several barriers to increasing public access to rate review information in Arizona. The most significant barrier at the outset is that we do not know what access consumers want. We see no point putting grant resources into something like providing on-line access to rate filings if Arizona consumers will not look at the filings, or will look only at certain portions of them. Our first and most important public access activity will be to find out what consumers most want to know and focusing our transparency efforts accordingly.

Other barriers to increasing public access of rates and rate filing information may include a general lack of public understanding about how insurers to set rates and how Arizona regulators review them. It may not be easy to reduce complex subject matter to simple things that most people want to know, but Milestones 1.A.v and 1.A.vi require us to identifying consumer-friendly key indicators for individual and small group rate submittals. In C1Q1, ADOI laid the foundation for this activity by planning and engaging in broad community outreach (see Section B.1.c) analyzing relevant consumer complaint data already available to us (see Section B.1.d), and

obtaining actuarial support to, among other things, help us assess what rate information is easily available in rate filings (see Section B.1.b).

F. Collaborative Efforts

See Sections B.1.c.iii and C.2.c.iii, above.

G. Lessons Learned

1. Some of the primary lessons learned in C1Q1 mirror the challenges described in section B.2, above. More specifically:

    a. The procurement process for selecting and contracting with an actuarial firm took longer than we expected it to.

    b. In planning and implementing rate and rate-review transparency, we need to set aside preconceptions about what consumers want to know or what we think they should know to know. We need to let them educate us at the same time we are trying to educate them.

    c. In planning grant activities, we underestimated the amount of non-grant funded agency resources it would take to launch and maintain the program.

2. All written rate-related complaints that consumers submitted to ADOI in 2009 and 2010 included complaints or questions about rate increases.

3. The actuaries' preliminary review and recommendations suggest that ADOI's rate filings and review process would benefit from increasing the standardization of filing requirements.

H. Updated Budget

1. ADOI proposed a budget of $550,441 on its grant application. Based on our C1Q1 spending and the spending planned for the rest of the grant period, we are revising that amount to $485,513, as summarized below. The expected savings will result primarily from smaller-than-expected expenses for personnel and fringe benefits. For detail, we have attached a spreadsheet showing Arizona's updated expenditures and budget forecast *(Attachment "I"*) and an updated Budget Narrative (*Attachment "J"*).

    a. Personnel: $96,387.00:
        i. 1 FTE Executive Consultant ("EC" or "Grant Manager").
        ii. 1 FTE Insurance Analyst ("IA")
        iii. 1 FTE Administrative Assistant ("AA").

    b. Fringe Benefits: $23,985.

    c. Travel: $5,300.

d. Supplies: $19,105.

e. Contractual: $335,778.
   i. Actuarial Services, $158,250.
   ii. Technology Consultants. $86,008
   iii. Project Coordinator. $91,520

f. Other: $4,958.

I. Updated Work Plan and Timeline

Table 1 (below) sets forth ADOI's updated work plan and timeline, incorporating variations from the original timeframe explained in Section B.3.a, above.

TABLE 1

GOAL 1: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTHCARE INSURANCE PREMIUMS BY IMPROVING THE TRANSPARENCY AND EFFECTIVENESS OF RATE REVIEW.		
OBJECTIVE MEASURABLE OBJECTIVE 1.A. To provide consumers with new transparency and meaningful information about individual health insurance and small group insurance rates, using a mechanism that ADOI can sustain after the grant period ends.	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
	1.A.i. By January 31, 2011, gather public comment on consumer requirements for transparency and meaningful information. *In Progress*	Rate Review Grant Manager
	1.A.ii. By April 30, 2011, post to the ADOI website plain language FAQs and key facts about rate review in Arizona. *In Progress*	Rate Review Grant Manager; Web Development Consultant (not yet retained)
	1.A.iii. After HHS adopts the final Rate Filing Disclosure Form and Justification Form (the "threshold disclosure form" or "TDF") institute a requirement that insurers submit the TDF with all rate increase filings, not just those that HHS categorizes as "unreasonable." *Deferred Milestone Date, Pending HHS Regulatory Guidance*	Assistant Director, Life & Health Division
	1.A.iv. By three months after completion of 1.A.iii., expand and update web postings with data from TDFs received to date. *Deferred Milestone Date, Pending HHS Regulatory Guidance*	Rate Review Grant Manager
	1.A.v. By June 30, 2011, develop at least one consumer-friendly key indicator of individual rate filings, for example, an item on the	Rate Review Grant Manager; Sr. Actuary Consultant

GOAL 1: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTHCARE INSURANCE PREMIUMS BY IMPROVING THE TRANSPARENCY AND EFFECTIVENESS OF RATE REVIEW.		
	MILESTONE	**RESPONSIBLE INDIVIDUAL**
	individual actuarial certification showing per-capita increases to premium of each rate revision. *In Progress*	(Mercer); Rate Review Analyst
	1.A.vi. By June 30, 2011, develop at least one consumer-friendly key indicator from insurers' annual small group base premium and index rate submissions. *In Progress*	Rate Review Grant Manager; Sr. Actuary Consultant (Mercer); Rate Review Analyst
	1.A.vii. By August 31, 2011, develop the IT capacity to periodically and automatically update web postings with data from TDFs and consumer-friendly component(s) of rate filings. *Not Started*	Technology Architecture Consultant (not yet retained); Web Development Consultant (not yet retained)
	1.A.viii. Throughout the grant year, coordinate with SERFF project for consumer-friendly, on-line rate-filing components. *Not Started*	Technology Architecture Consultant (not yet retained)
MEASURABLE OBJECTIVE 1.B. By September 30, 2011, to determine whether ADOI's existing actuarial certification form for individual health insurance rates is a reliable tool for determining whether individual rate filings comply with the law and, if not, to revise the form.	1. B.i. By December 21, 2010 develop the criteria and process for substantive review. *Completed; Revised Milestone Date*	Sr. Actuary Consultant (Mercer)
	1.B.ii. By April 30, 2011, based on the new criteria and process, conduct substantive review of 100% of administratively complete initial rate filings and 75% of rate revision filings that insurers submit between November 1, 2010 and April 30, 2011. *In Progress*	Sr. Actuary Consultant (Mercer) Rate Review Analyst
	1.B.iii. By May 15, 2011, for each filing reviewed under 1.B.ii., determine how often the actuarial certification of compliance is supported by the substantive review. In other words, how often can ADOI rely on the actuarial certification? *Not Started*	Sr. Actuary Consultant (Mercer); Jr. Actuary Consultant (Mercer); Rate Review Grant Manager
	1.B.iv. By May 31, 2011, if the conclusion in the previous milestone (1.B.iii.) is that ADOI	Sr. Actuary Consultant

GOAL 1: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTHCARE INSURANCE PREMIUMS BY IMPROVING THE TRANSPARENCY AND EFFECTIVENESS OF RATE REVIEW.		
	MILESTONE	**RESPONSIBLE INDIVIDUAL**
	cannot generally rely on the actuarial certification, determine the reasons why. *Not Started*	(Mercer); Jr. Actuary Consultant (Mercer)
	1.B.iv-a. By June 30, 2011, draft revisions to the existing form and related filing requirements as appropriate to make the actuarial certification a reliable tool. *Not Started*	Rate Review Grant Manager; Sr. Actuary Consultant (Mercer); Technology Architecture Consultant (not yet retained)
	1.B.iv-b. By August 15, 2011, obtain stakeholder input on the draft revisions, any changes proposed under 1.A.v. above, other revisions to facilitate insurers' filing, and ADOI review of the form; and a reasonable implementation date for the revised form. *Not Started*	Rate Review Grant Manager; Sr. Actuary Consultant (Mercer); Jr. Actuary Consultant (Mercer); Rate Review Analyst
	1.B.v. By August 15, 2011, if the conclusion in 1.B.iii. is that ADOI can generally rely on the actuarial certification, obtain stakeholder input on any changes proposed under 1.A.v., other revisions to facilitate insurers' filing and ADOI review of the form, and a reasonable implementation date for the revised form. *Not Started*	Rate Review Grant Manager; Rate Review Analyst; Technology Architecture Consultant (not yet retained)
	1.B.vi. By September 15, 2011, finalize revisions to the existing form and related filing requirements and publish for implementation on a designated date. *Not Started*	Assistant Director, Life & Health Division; Rate Review Grant Manager
MEASURABLE OBJECTIVE 1.C. By September 30, 2011, to determine whether the actuarial certification submission	1.C.i. By February 28, 2011, identify key indicators for compliance with small group rate-setting factors. *In Progress*	Sr. Actuary Consultant (Mercer); Jr. Actuary Consultant (Mercer)
	1.C.ii. By April 30, 2011, summarize information and variations in A.R.S. § 20-2311(E) non-standardized actuarial and in	Sr. Actuary (Mercer) Jr. Actuary

GOAL 1: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTHCARE INSURANCE PREMIUMS BY IMPROVING THE TRANSPARENCY AND EFFECTIVENESS OF RATE REVIEW.		
	MILESTONE	**RESPONSIBLE INDIVIDUAL**
required by A.R.S. § 20-2311(E) is a reliable tool for ADOI to use to determine whether small group rates in the market comply with the law and, if it is not, to develop a standardized form that is a reliable tool.	A.R.S. § 20-2311(G) non-standardized base premium and index rate submissions for calendar year (CY) 2009 and CY 2010. *In Progress*	Consultant (Mercer) Rate Review Analyst
	1.C.iii. By June 30, 2011, based on 1.A.i. and 1.A.ii., draft a standardized form for the small group actuarial certification and for submission of base premium and index rates, to be used by insurers for their CY 2011 filings. *Not Started*	Rate Review Grant Manager; Jr. Actuary Consultant (Mercer)
	1.C.iv. By July 30, 2011, obtain stakeholder input on the proposed standardized forms. *Not Started*	Rate Review Grant Manager
	1.C.v. By September 30, 2011, finalize standardized forms and publish for use by insurers for their CY 2011 filings. *Not Started*	Assistant Director, Life & Health Division; Rate Review Grant Manager

GOAL 2: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTH INSURANCE PREMIUMS BY DEVELOPING THE PROCESSES AND SYSTEMS TO COMPLY WITH ACA REQUIREMENTS FOR COLLECTING, REVIEWING AND REPORTING HEALTH INSURANCE RATES.		
OBJECTIVE	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
MEASURABLE OBJECTIVE 2.A. As soon as practicable after HHS promulgates standards for "reasonable" and "unreasonable" health insurance rate requests, to review at least 95% of insurers' submissions of rate	2.A.i. Implement use, *via* SERFF, of a forthcoming Rate Filing Disclosure Form and Justification Form (the "threshold disclosure form" or "TDF") that federal law will require insurers to use if a rate request is "unreasonable." *Deferred Milestone, Pending HHS Regulatory Guidance*	Rate Review Grant Manager; Rate Review Analyst; Technology Architecture Consultant (not yet retained)
	2.A.ii. As soon as practicable after HHS promulgates standards for "reasonable" and "unreasonable" rate requests, apply forthcoming ACA criteria to determine if unreasonable rate increases are excessive or	Jr. Actuary Consultant (Mercer);Rate Review Analyst

GOAL 2: TO IMPLEMENT ACA AND ENSURE THAT ARIZONA CONSUMERS GET VALUE FOR THEIR HEALTH INSURANCE PREMIUMS BY DEVELOPING THE PROCESSES AND SYSTEMS TO COMPLY WITH ACA REQUIREMENTS FOR COLLECTING, REVIEWING AND REPORTING HEALTH INSURANCE RATES.		
OBJECTIVE	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
increases during the grant year that meet the forthcoming ACA standard for "unreasonable" and to apply HHS criteria to determine if the unreasonable increase is excessive or unjustified under forthcoming criteria.	unjustified. *Deferred Milestone, Pending HHS Regulatory Guidance*	
	2.A.iii. By three months after completion of 2.A.ii., incorporate conclusions with TDF data used to update and expand web postings for consumers. *Deferred Milestone, Pending HHS Regulatory Guidance*	Technology Architecture Consultant (not yet retained); Web Development Consultant (not yet retained)
MEASURABLE OBJECTIVE 2.B. To comply with ACA reporting requirements relating to rate data and rate trends using the uniform reporting template HHS will provide.	2.B.i. Contract with SERFF to make the modifications necessary to address the data collection and reporting requirements defined in Section A.1(c)(1) and A.1(c)(2) on pages 15, 16 and 17 of the Grant Announcement. *Completed*	Rate Review Grant Manager, ADOI Deputy Director
	2.B.ii. Obtain training from SERFF on system changes. *In Progress*	Rate Review Grant Manager, Rate Review Insurance Analyst, Rate Review Admin. Ass't.
	2.B.iii. Coordinate/develop SERFF's ability to satisfy reporting requirements of the uniform template for data reporting within the SERFF system, including basic trending reports. *In Progress*	Rate Review Grant Manager, Rate Review Insurance Analyst, Technology Architecture Consultant (not yet retained)

PART II: HEALTH INSURANCE RATE DATA COLLECTION

A. Overview of Reporting Status

ADOI has submitted C1Q1 data through HIOS, using a download from SERFF. The SERFF download does not represent all of ADOI's reportable filings correctly. Therefore, we are also providing our own version of the data.

B. Table A

A. ADOI 'S VERSION OF TABLE A:

HIPR Table A – Summary

Rate Filings For This Period (A1)	13
Rate Increases For This Period (A2)	11
Reviewed (A3)	11
Approved (A4)	10
Denied (A5)	1
Deferred (A6)	0

B. EXPLANATION OF DIFFERENCES BETWEEN ADOI TABLE A AND SERFF TABLE A.

HIPR Table A – Summary	**ADOI #**	**SERFF #**	**Explanation**
Rate Filings For This Period (A1)	13	13	No difference with regard to the number of filings submitted in C1Q1.[1]
Rate Increases For This Period (A2)	10	6	ADOI A2 data reflects 10 rate revisions submitted during C1Q1. It excludes three form/rate filings for new rates, because new rates are not rate increases. The SERFF A2 data does not include four filings that the filers designated as "unselected" rather than "increase".
Reviewed (A3)	12	8	ADOI A3 data counts 12 filings closed during C1Q1. Three filings did not close until C1Q2. ADOI cannot explain the SERFF data for this field.
Approved (A4) .	10	7	ADOI A4 data reflects three form/rate filings that ADOI closed as "approved" during

[1] ADOI and SERFF have different counts of the total number of filings relevant to Table A, however. The ADOI total is 15; the SERFF total is 14. Based on instructions from HHS, ADOI considers C1Q1 to cover the period 8/09/2010–12/31/2010 and is therefore including a filing closed on 8/13/2010. SERFF C1Q1 data covers the period 8/15/2010–12/31/2010 and therefore excludes the filing closed on 8/13/2010.

			C1Q1 and seven rate revision filings that ADOI closed as "filed" during C1Q1. ADOI cannot explain the SERFF data for this field.
Denied (A5)	2	1	ADOI Table 1 for C1Q1 covers the period 8/09/2010–12/31/2010 and includes a filing disapproved ("denied") on 8/13/2010. SERFF Table A for C1Q1 covers the period 8/15/2010–12/31/2010 and excludes the filing closed on 8/13/2010.
Deferred (A6)[2]	0	0	No difference.

C. <u>Table B</u>

SERFF Table B does not show any filings for C1Q1. To be included in Table B, a filing must be closed during the reporting period and specify the number of policy holders and covered persons affected by a rate filing. ADOI did not close any filings in C1Q1 that specified both the number of policy holders and covered persons affected by a rate filing. However, all the rate revision filings that ADOI closed during C1Q1 did specify the number of affected policy holders as below in ADOI's version of a partial Table B, below.

HIPR Table B (individual) – Summary

Product Type: PPO	Policy Holders: 4,919	Covered Lives: N/A in C1Q1

Specification of the number of policy holders and covered persons is required in SERFF for all filings submitted on or after December 17, 2010. Therefore, we expect that the SERFF Table B for Arizona for C1Q2 will populate automatically.

D. <u>Tables C – E</u>

SERFF Tables C – E do not show any filings for Arizona because ADOI does not receive any group rate filings.

[2] The HHS definition for Field A6 is, "the total number of filings that were withdrawn or rejected for lack of adequacy for the time period." For C1Q1, ADOI did not report certain filings ADOI rejected because they were administratively incomplete, for example, missing a checklist or a certification. ADOI did report one filing it rejected because of a substantive inadequacy. This filing is not reflected in A6 because ADOI closed it in C1Q2. For C1Q2, ADOI would appreciate clarification regarding "lack of adequacy."

Health Insurance Rate Review Grant Program
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LIST OF ATTACHMENTS

ATTACHMENT A
Position Descriptions for Rate Review Staff.

ATTACHMENT B
Mercer Proposal to Provide Actuarial Services, October 22, 2010.

ATTACHMENT C
Agenda for ADOI Meeting with Mercer 11.15.2010.

ATTACHMENT D
Agenda for ADOI Meeting with Mercer 11.23.2010.

ATTACHMENT E
Agenda for ADOI Meeting with Mercer 12.02.2010

ATTACHMENT F
Criteria and Process for Substantive Review of Individual Health Insurance

ATTACHMENT G
"Transparency Team" Roster and Minutes

ATTACHMENT H
Public Meeting Handouts:
- Powerpoint Presentation
- ADOI Contact Information
- List of Health Benefit Resources for Arizona Consumers

ATTACHMENT I
Updated Arizona Expenditures and Budget Forecast

ATTACHMENT J
Updated Budget Narrative