Health Insurance Rate Review Grant Program
Cycle I Quarterly Report

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PART I: PROJECT NARRATIVE

A. Introduction

A. BRIEF OVERVIEW OF PROJECT

Arizona originally 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. ADOI's 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. As of March 31, 2011, ADOI has spent $161,569 and estimates its total spending will be $$521,692. This report sets forth the work undertaken and completed to achieve these milestones during the second reporting period from January 1, 2011 through March 31, 2011 ("Cycle 1, Quarter 2" or "C1Q2"), 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" (TDF) 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 (1/1/2011 – 3/31/2011)

   a. Continued Training and Support for RR Staff (Applies to Entire Grant Program)
   During C1Q2, permanent ADOI staff continued to work with the RR staff to meet the objectives, requirements and conditions of the RR grant in each of the areas described in Sections I.B.1. b–e, below.

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

      i. Actuary Review and Analysis
      We have continued our RR grant work with our retained actuarial consulting firm, Mercer, to improve our current review process within the existing regulatory framework and to work on transparency objectives, including consumer-friendly key-indicators about rates. During C1Q2, ADOI met with Mercer twice in person, on February 10, 2011, and on March 30, 2011. See Attachments "A" and "B". In these meetings and in e-mails and phone conversations during C1Q2, ADOI and Mercer covered continuing milestone responsibilities to reach grant objectives, project planning for C1Q3, and Mercer's grant activities completed during C1Q2.

      Regarding Milestone 1.B. ii, on February 10, 2011, Mercer presented the Excel template it developed for the substantive review of individual initial rate and rate revision filings. ADOI requested revisions to the template to clarify and expand the scope of review, such as excluding certain types of insurance that get filed but are not subject to review, and including rate revision filings that have been rejected and form/rate filings that have been disapproved. Mercer incorporated the revisions into the Excel template. Mercer also provided ADOI with preliminary technical tips for more efficient review, such as using the SERFF "Pipeline" download during routine review.

      Regarding Milestone 1.C. I, Mercer discussed small group rate regulation in some other states as it compared to regulation in Arizona and observed

that while there are many similarities, some elements of the key requirements in Arizona are subject to interpretation. In addition, Arizona lacks standardized forms and prescriptive requirements for small-group submissions. This means that insurers may have differing approaches to compliance. It also drives a wide disparity in the amount of detail included in the annual actuarial certifications submitted to ADOI. Mercer also presented preliminary ideas for key indicators to incorporate into the final recommendations.

Regarding Milestone 1.C.ii, Mercer reported on its on-going substantive review of Calendar year 2009 small group certifications and base premium /index rate submissions provided by ADOI. ADOI agreed to send Mercer copies of the Calendar year 2010 submissions as they come in, to be included in Mercer's review.

On March 30, 2011, Mercer provided ADOI with a newly updated detailed work plan for its activities relating to each grant milestone. See Attachment "C". Regarding Milestone 1.B.ii, Mercer also presented an updated version of the Excel template it is using do the substantive review of individual initial rate and rate revision filings. The template breaks every filing down by filing requirement (general information, checklist, actuarial memorandum and actuarial certification ("P-124"). It is intended to record Mercer's observations in the substantive review process.

ADOI and Mercer discussed possible substantive and administrative revisions to the filing requirement forms, such as clarifying applicable law and having a separate set of forms for rate revisions and initial rates Mercer also identified its preliminary findings to date. Some examples are filings in which the insurer filled out the checklist but did not actually attach all the required information referenced in the checklist, or in which information in the actuarial memorandum was inconsistent with the information on the P-124.

These kinds of observation are critical to the grant purpose of making ADOI rate review more effective because they are exactly the kind of deficiency that ADOI is not currently able to recognize.

Regarding Milestones 1.C.i and 1.c.ii, ADOI and Mercer reviewed Mercer's small group compliance key indicators, which Mercer is applying in its substantive review of small group submissions. See Attachment "D". Mercer's preliminary observation to ADOI in connection with the key indicators was that standardization and explicit statements of compliance with particular requirements probably would improve the regulatory value of the annual certifications.

Regarding Milestones 1.A.v and 1.A.vi, ADOI informed Mercer of its plans to hold three more consumer meetings in May and June. ADOI and Mercer planned for Mercer to attend a Transparency Team meeting scheduled for April 14, 2011 in order to provide the group with a summary

of its initial observations about individual rate review and the small group compliance key indicators it has developed.

Also during C1Q2, Mercer attended all three stakeholder meetings held in January 2011, and one of the smaller consumers meeting in March 2011. (See Section 1.C.ii.) This allowed Mercer to hear first-hand from consumers about the questions and topics the consumers consider most important and, at two of the meetings, to answer questions posed directly by consumers (Milestones 1.A.v and 1.A.vi).

Mercer also continued its substantive review of individual filings (Milestones 1.B.ii) and its substantive review of small group annual rate certifications (Milestone 1.C.ii).

ii. Actuarial Deliverables in C1Q2

On February 25, 2011, Mercer timely completed Milestone 1.C.i by submitting its report identifying key indicators for compliance with small group rate-setting factors. See Attachment "D". Mercer's proposed key indicators for compliance include:

(1) A determination whether the actuarial certification addresses each of the prescribed rating rules set forth in A.R.S. § 20-2311 including a statement that the rating methods and assumptions are actuarially sound.

(2) An assessment to determine if the accountable health plan addresses compliance with the employer disclosure required by A.R.S. § 20-2311 D.

(3) A determination whether the actuarial certification is signed by a member of the American Academy of Actuaries who is in good standing and up to date with required continuing education credits, and/or an individual approved by the ADOI director as an acceptable signer.

(4) A determination whether the actuarial certification provides a description of the carrier's rating systems or testing procedures.

(5) A verification that the base premium and index rates required by A.R.S. § 20-2311(E) are specifically identified in the filing and that they reflect the appropriate contract period.

(6) A determination whether the actuarial certification indicates compliance with the Actuarial Standards of Practice (ASOP) No. 26, which provides binding requirements on professional work performed by actuaries who prepare certifications of compliance in the small employer group market, including indentifying the issues to be addressed and the required documentation. http://www.actuarialstandardsboard.org/pdf/asops/asop026_052.pdf

Item Nos. 2, 4 and 6 are especially significant, as they relate to information ADOI does not currently request, although some insurers include one or more of these items in their submissions. Most of the small employer group actuarial certifications reviewed to date by Mercer provide a general statement of compliance with all applicable regulations. However, the proposed key indicators would lead to standardization and explicit statements of compliance with particular requirements that would improve the regulatory value of the annual certifications.

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

i. Website Postings

During C1Q2, we maintained our postings of (i) an announcement of our grant award, along with our application and award notice, (ii) notices and agendas for the three public meetings throughout the state in January 2011. We posted our C1Q1 report to HHS at http://www.id.state.az.us/RateReview/1st_Quarter_Report_2_24_2011.pdf. We also we posted a summary of the discussion at each January stakeholder meeting as follows:

January 4, 2011(Phoenix):
http://www.id.state.az.us/RateReview/2011_01_04_Public_Mtg_Minutes.pdf
January 12, 2011(Flagstaff):
http://www.id.state.az.us/RateReview/2011_01_12_Public_Mtg_Minutes.pdf
January 18, 2011 (Tucson):
http://www.id.state.az.us/RateReview/2011_01_18_Public_Mtg_Minutes.pdf

On February 14, we posted a consumer survey focusing on concerns about individual and small group insurance rates in Arizona. To develop the survey questions, we took into account the comments we received at the January stakeholder meetings and on ADOI's dedicated rate review e-mail address. As of March 31, 2011, we had received 282 responses to the survey.

Also related to website development, on March 10, 2011 ADOI participated in a state collaboration call with SERFF about SERFF's work to make PPACA form and health insurance rate filings available directly to the public via the Internet. In follow up to that call, on March 25, ADOI provided written comment and feedback to SERFF about the proposed format for this public access search tool.

ii. Public Meetings and Follow-Up Consumer Groups

In January 2011, RR staff held three stakeholder meetings in Arizona, after sending notices to both public and private organizations, as well as media outlets throughout the state, advertising these meetings. See Attachment "E". From comments provided at these meetings and from ADOI's dedicated email address, RR Staff compiled public comment on consumer requirements for transparency and meaningful information.

(Milestone 1.A.i, timely completed on January 25, 2011). See Attachment "F".

RR staff then followed up in Phoenix with two smaller, focused meetings with several consumers, producers and public interest representatives, on March 8 and 17, 2011. These meetings addressed comments at our larger public meetings in January, where several attendees expressed an interest in seeing rate filings and small group rate submissions first-hand. See Attachment "G" for the agenda for these meetings.

At the March meetings, ADOI handed out hard copies of a 2010 rate review filing, a 2010 small group actuarial certification, and a set of 2010 base premium rates and index rates, and explained them to the participants. The feedback from the participants was clear: the materials are not transparent. Suggestions for improvement included requiring every individual rate revision to include a summary of the reasons for that particular increase, adding rate-increase factors to the P-124 and moving the P-124 to the front of the filing. Participants emphasized that consumers want to know why rates go up in general, why their personal rates go up, and how their insurance company's rates compare to other company's rates. Consumers also want insurers and ADOI to provide materials that are easy to read and understand.

iii. Collaboration
ADOI met with its Transparency Team on February 23, 2011. This informal group of advisors includes industry representatives, local producers, advocacy groups and other public agencies. ADOI gave the Transparency Team update our recent grant transparency activities, including the January public meetings, preliminary plans for follow-up meetings with smaller groups of consumers in March, the survey ADOI posted online on February 14, and a first draft of FAQs to be posted on the ADOI website. ADOI used the feedback from the Transparency Team to help set the agenda for the March consumer meetings and in our transparency efforts more generally. See Attachment "H" for a roster of these advisors and a summary of the February 23 discussion.

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

i. Consumer Concerns
After holding the January 2011 public meetings, RR Staff compiled and analyzed comments and concerns raised, along with comments from ADOI's dedicated email address. A brief online consumer survey was developed from this information, and posted on the ADOI website on February 14, 2011. See Attachment "I" or https://www.surveymonkey.com/s/adoi_health_insurance_rate_review
As of March 31, 2011, ADOI has received 282 responses to this survey. See Attachment "J" for a summary and analysis of the survey responses. Significant results include:

- For individual policies, a significant percentage of respondents (at least 66%) stated that learning how insurance companies set

health insurance rates, how frequently they raise rates, how they determine what to charge in premiums, and how to obtain rate information from ADOI would all be "very helpful".

- For small group policies, a significant percentage of respondents (at least 67%) stated that learning about the information set forth in Section I.B.1.d.i, immediately above, would be "very helpful".

ii. Rate Filings and Rate-Related Submissions
RR staff and permanent staff reviewed draft materials and preliminary recommendations from Mercer relating to its substantive review of individual rate filings and small-group submissions. See Section I.B.1.b.i above for details.

In conjunction with providing Mercer with small group submissions for calendar years 2009 and 2010, the RR staff is reviewing the records to determine whether there are companies that have not made the required submissions. If so, RR staff will bring those companies into compliance, which will directly improve the effectiveness of its small group rate-oversight.

e. Meeting Reporting Requirements (Applies to Entire Grant Program)
With regard to Objective 2.B, RR staff and ADOI permanent staff continued to work with the NAIC on developing the SERFF reporting requirements and capabilities. As reported previously, in c1Q1 ADOI compiled the data requested in Part II of the C1Q1 report in its own Excel version of the HHS reporting templates. This enabled ADOI during the first two months of C1Q2, when ADOI was preparing its C1Q1 Report, to validate SERFF's content for Part II of the Report and provide HHS with an explanation of content with which it did not concur.

More generally, RR Staff and permanent staff participated in a monitoring call with HHS grant officers on March 22, 2011, to review and discuss ADOI's C1Q1 report. ADOI was advised that all of our reporting requirements have been met, and that we have provided a thorough discussion and assessment of our grant work to date. HHS staff identified one area for improvement by asking for a more detailed description of the on-going actuarial component of the program. ADOI verbally provided some detail and agreed to provide HHS with a copy of Mercer's report identifying key indicators for compliance with small group rate-setting factors. We submitted this report to HHS on March 22, 2011 and it is part of the Report. See Attachment "D". Section I.B.1.b, above, includes more detail about actuarial activity than did ADOI's Report for C1Q1, in part because there is more information to report.

HHS also discussed with ADOI variations reported in the grant program timeline for Milestones 1.A.iii, Milestone1.A.iv and Measurable Objective 2A, which ADOI asked to defer, pending federal regulatory guidance. HHS informed ADOI of the flexibility work on other grant activity during the period of deferral and to apply for a no-cost extension of the grant period if warranted.

f. Information Systems Limitations

While working on transparency, regulatory effectiveness and data collection during C1Q1 and C1Q2, ADOI found several significant barriers to efficiency and effectiveness in its current system for tracking filings and collecting data, especially rates data. These barriers result primarily from the fact that ADOI collects data in two places; in an internally developed Access database known at ADOI as RAFTS (for the Rates and Forms Filing Tracking System) and in SERFF. The barriers relate most directly to Milestone 1.A.iii, Milestone1.A.iv, Objective 2.B.ii and Objective 2.B.iii but they have an impact throughout the grant program. For more information, see Section I.D below.

In C1Q2, RR staff assembled an ADOI team to address these limitations. The team consists of RR staff, the Assistant Director of the Consumer Affairs Division and members of her staff, the ADOI Chief Information Officer and a member of his staff, the ADOI Public Information Officer and the Assistant Director of the Life & Health Division. During C1Q2, the team met on February 2, February 8, March 7 and March 10 , 2011 to develop a wish-list and preliminary plan for migrating to one system. In brief, the preliminary plan is to migrate to SERFF, subject to SERFF having the necessary tools. The plan is also subject to ADOI applying to HHS during C1Q3 to support this endeavor with grant funds that were originally targeted for now-deferred Milestones 1.A.iii, Milestone 1.A.iv and Measurable Objective 2.A. endeavor.

2. CHALLENGES AND RESPONSES

a. Transparency Despite Complexity

One challenge RR staff continued to face in C1Q2 was the need for careful preparation for educating consumers about health insurance rates, a subject that many consumers seem to love to hate. 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. Consumers also continue to express concerns about other subjects less directly related to rate review, such as pre-existing medical conditions, the healthcare Exchange and the pros or cons of a single payer/public option health care system. However, ADOI intends to limit its transparency activities to those concerning rate review, as described in its grant application.

During C1Q2, ADOI responded to the challenge by focusing its preparation and materials for the January and March stakeholder meetings on finding out what consumers most wanted to know, so that we would know where to focus our transparency efforts. We attempted to set aside preconceptions about what consumers want to know or what we think they should know to know and attempted to let consumers educate us at the same time we were trying to educate them. We plan more consumer meetings in May and June to, among other things, "test" the success of our efforts to date.

b. Continued Training and Support for RR Staff and the Grant Program
The insurance analyst for the grant program left ADOI on January 20, 2011. This meant that permanent ADOI permanent staff did the primary grant work relating to preparing the C1Q1 report, substantive review of filings received in C1Q2, and developing requirements for an improved filing-tracking and data-collection system.

In planning grant activities, we underestimated the amount of non-grant funded agency resources it would take to launch and maintain the program. Although the program staff works on nothing but 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 continued to respond to this challenge in C1Q2 by using permanent staff and existing resources to continue its assistance with program activities. In particular, the Public Information Officer and the Information Technology Division staff continued to provide on-going advice and support while staff of the Life & Health and Consumer Affairs Divisions continued to work with RR staff on substantive and procedural issues relating to rates and rate review, and with possible changes for online posting of SERFF filings. See Section I.B.1, above.

c. Information Systems Limitations
While working on transparency, regulatory effectiveness and data collection during C1Q1 and C1Q2, ADOI found several significant barriers to efficiency and effectiveness in its current system for tracking filings and collecting data, especially rates data. These barriers result primarily from the fact that ADOI collects data in two places; in an internally developed Access database known at ADOI as RAFTS (for the Rates and Forms Filing Tracking System) and in SERFF. The barriers relate most directly to Milestone 1.A.iii, Milestone1.A.iv, Objective 2.B.ii and Objective 2.B.iii but they have an impact throughout the grant program. For more information on this challenge, see Section I.D below. For information on ADOI's response to the challenge, see Section I.B.1.f, above.

3. REQUIRED VARIATIONS FROM ORIGINAL TIMELINE
ADOI has met its milestones for C1Q2 and does not anticipate any variations to the timeline that it did not address in its C1Q1 report.

C. Significant Activities – Undertaken & Planned

1. SIGNIFICANT ACTIVITIES UNDERTAKEN

a. Continued Support for RR Staff (Applies to Entire Grant Program)
RR staff needed much less hands-on training regarding rate review and other ADOI functions than in C1Q1. However, the insurance analyst for the grant program left ADOI on January 20, 2011. This meant that permanent ADOI staff did the primary grant work relating to preparing the C1Q1 report, reviewing filings received in C1Q2, and development of requirements for an improved data-collection and filing tracking system. Permanent staff also

continued to assist with community outreach and public participation, as well as providing on-going computer and other technical support.
For details, please see Sections I.B.1.a and I.B.2.b, above.

b. Continued Work with Actuaries (Applies to Objectives 1.A, 1.B and 1.C)
These activities consist of ADOI's collaboration with the actuarial firm Mercer, and receiving Mercer's key indicators for compliance with small group rate-setting factors. For details, please see Section I.B.1.b, above.

c. Community Outreach/Public Participation (Applies to Objectives 1.A and 1.B)
These activities included: (i) continuing postings publicizing the rate review grant, (ii) creating opportunities for public participation in grant activities, including web postings, an online survey, (iii) holding consumer meetings throughout the state in January and March, 2011, (iv) setting a schedule for public meetings in May and June, 2011, (v) continuing to work with our Transparency Team and (vi) working with other states and SERFF to make PPACA form and health insurance rate filings available directly to the public via the Internet.

d. ADOI Data Collection, Analysis and Ongoing Rate Review (Applies to Objectives 1.A and 1.B)
These activities included collecting historical data from individual rate filings and small group submissions, review of rate filings submitted during C1Q2, and analyzing data from our online survey. For details, please see Sections I.B.1.a and I.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 I.B.1.e, above.

f. Information Systems Limitations
See Section I.B.1.f above.

2. SIGNIFICANT ACTIVITIES PLANNED

a. Continuing Support for RR Staff (Applies to Entire Grant Program)
Permanent staff will continue to assist with community outreach and public participation, data collection and analysis, meeting reporting requirements, developing the requirements for an improved data-collection and filing-tracking system and providing on-going computer and other technical support.

b. Continuing Work with Actuaries (Applies to Objectives 1.A, 1.B and 1.C)
With regard to transparency, Mercer will propose draft consumer key indicators for ADOI to review and present at the public meetings to be held in May and June, 2011. (Milestones 1.A.v and vi). Mercer will attend the public meeting that ADOI has scheduled in Phoenix on May 17, 2011 in order to integrate consumers' comments and feedback into its work on developing final consumer indicators. (Milestones 1.A.v and 1.A.vi).

With regard to improving ADOI regulatory processes, Mercer will continue its substantive review of initial individual rate filings and rate revision rate filings (Milestone 1.B.ii) and report to ADOI on its conclusions regarding whether the actuarial certification for individual filings (the "P-124") is a reliable tool for compliance (Milestone 1.B.iii). If it is not, then Mercer will assess the deficiencies in the current template for the P-124 and other filing requirements assist ADOI in revising the existing certification forms and rate (Milestones 1.B.iv and 1.B.iv-a).

Mercer will continue to review the small group rate submissions and summarize its observations, including noting variations in what insurers submit to ADOI (Milestone 1.C.ii). Based on the findings from Milestone 1.C.ii, Mercer will draft a standardized form for the small group actuarial certification form and filing requirements (Milestone 1.C.iii).

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

i. Website Postings

In C1Q3, ADOI will post online, consumer-friendly FAQs and key facts about individual and small group rates. ADOI will also post a notice for our upcoming consumer meetings set for May and June, 2011. For details about these meetings, see Section C.2.c.ii, below.

We will continue to work with other states and SERFF to make PPACA form and health insurance rate filings available directly to the public via the Internet.

ii. Public Meetings

ADOI will hold the following stakeholder meetings in C1Q3:

Phoenix, AZ - May 17, 2011
Yuma, AZ - May 24, 2011
Prescott, AZ - June 2, 2011

We plan the meetings primarily to be forums for consumers of individual or small group health insurance. These meetings will provide attendees with the opportunity to view and comment on proposed consumer-friendly key indicators for individual rate filings, and small group certifications. We want to "test" our conclusions against public input gained to date, and to give consumers the opportunity to offer their input and suggestions before we make our final determination about these consumer -friendly indicators. 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.

iii. Collaboration

In C1Q3, ADOI will meet with its Transparency Team (see Section I.B.1.c.iii, above) to:

- Summarize the information gathered at the C1Q2 public meetings and through the survey ADOI posted in C1Q2.

- Ask for feedback on draft FAQs and key facts before posting them,
- Verbally provide a preliminary explanation of some of Mercer's findings, and
- Outline its proposed process for engaging insurers as stakeholders in the process of changing our requirements for individual rate filings and small group submissions.

Toward the end of C1Q3 we will begin to the stakeholder work with insurers. (Milestones 1.A.v and vi, 1.B.iv-a and 1.C.iii).

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

i. Consumer Concerns
During C1Q3, RR staff will analyze the information received from (i) stakeholder meetings, (ii) online comments (see Section I.B.1.c.i, above), (iii) survey results, and (iv) any other communications or data collected so far, to post on the ADOI website an easy-to-understand set of FAQs and key facts by April 30, 2011. (Milestone 1.A.ii).

ii. Rate-Filings and Rate-Related Submissions
During C1Q3, ADOI RR staff will review and close any filings ADOI receives during C1Q3. ADOI will receive updated 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 C1Q3 we also will receive recommendations from Mercer regarding (1) any revisions to existing form and rate filing requirements for individual policies, and (2) standardization of small group submittals (Milestones 1.B.iv-a & 1.C.iii).

e. Meeting Reporting Requirements (Applies to Objective 2.B)
These activities will include monitoring the data collection in SERFF and comparing it to ADOI's own data. In C1Q2, ADOI's manual data collection had significantly fewer discrepancies from SERFF's data collection than in C1Q1. ADOI will work with SERFF to resolve the remaining issues. See Part II, below.

f. Information Systems Limitations
See Section I.B.1.f above for steps ADOI is taking to address these limitations in its data-collection and filing-tracking capabilities. During C1Q3 ADOI will follow up with HHS regarding the Milestones and Objectives that are affected and a possible application for a no-cost extension of the grant period in order to complete its work on this.

D. Operational/Program Developments/Issues

While working on transparency, regulatory effectiveness and data collection during C1Q1 and C1Q2, ADOI found several significant barriers to efficiency and effectiveness in its current system for tracking filings and collecting data, especially rates data. These barriers primarily result from the fact that ADOI collects data in

two places; in an internally developed Access database known at ADOI as RAFTS (for the Rates and Forms Filing Tracking System) and in SERFF. The barriers relate relate most directly to Milestone 1.A.iii, Milestone1.A.iv, Objective 2.B.ii and Objective 2.B.iii but they have an impact throughout the grant program.

To date, ADOI relies on RAFTS to monitor administrative information that SERFF currently does not collect. The most important such information is the review cycle times for administrative and substantive review of filings. In addition, ADOI uses RAFTS to track and collect data from paper filings. The inefficiencies and ineffectiveness of having two systems include (i) the need to enter data in RAFTS that is already in SERFF, (ii) the need to research both systems to collect data, and (iii) the opportunities for error and omission that go with item (i) and item (ii).
With regard to health insurance rate revision filings alone, the research and data collection is minimized because ADOI receives 99% of such filings on SERFF. However, we still have to look in RAFTS for the 1% of rate revision filings not in SERFF. More important, the related policy forms and advertisements may not be in SERFF first because the policy forms may have been filed some years ago and second because we still receive approximately 15% of health filings overall on paper.

Moreover, RAFTS is a “homegrown” program that has served ADOI well but cannot keep up with the growing need to collect and retrieve data, run reports and be accessible outside the Life & health Division. For example, when staff in the Consumer Affairs Division need information from RAFTS to assist a consumer they have to contact L&H to get it. They do not have direct access to RAFTS. That is a very resource-intensive way to answer relatively simple questions.

See Section I.B.1.f above for steps ADOI is taking to eliminate these barriers.

E. <u>Public Access Activities</u>

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

F. <u>Collaborative Efforts</u>

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

G. <u>Lessons Learned</u>

1. <u>Transparency.</u>

From consumer feedback at our public meetings, e-mails and survey responses, we have learned that consumers want a better understanding of the following, without limitation:

The factors that go into setting rates
How one insurer’s rate increases compare to another’s.
How frequently insurers raise rates,
How to obtain rate information from ADOI

ADOI also has learned that to connect with consumers, it has to acknowledge and address frustration at premium increases and the public perception of inadequate regulatory control over health insurance in general, and health insurance rates in particular. Based on this feedback, ADOI has decided to include some of these “context” issues in the FAQs and other materials it is

preparing, even though the questions are not strictly related to how ADOI does rate review.

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

3. Regulatory
   ADOI applied for this rate review grant in part in order to determine the effectiveness of its own individual rate review process and its small group rate oversight, in light of the legal authority it has in those areas. ADOI did not assume its processes and oversight were effective or ineffective; it turned the analysis over to Mercer and arranged for Mercer to help improve its effectiveness if necessary. Milestones 1.B.iv, 1.B.iv-a, 1.B.iv-b and 1.B.v. Based on the information and observations Mercer has provided so far, there is room for ADOI to improve its regulatory effectiveness. See Section I.B.1.b, above. ADOI will proceed in C1Q3 and C1Q4 with the activities planned to make improvements that are necessary.

3. Information Systems Limitations
   See Sections I.B.1.f and I.D, above.

H. Updated Budget

ADOI proposed a budget of $550,441 on its grant application. In our C1Q1 report, we revised that figure to $485,513. Based on our C1Q2 spending and the spending planned for the rest of the grant period, we are revising that amount again to $521,692 as summarized below. For detail, we have attached an updated statement of expenditures and budget forecast, see Attachment “K” as well as an updated Budget Narrative. See Attachment “L”.

The revision is based on greater than expected expenses for personnel (salary) and fringe benefits. The budget that ADOI included in its grant application included state-wide mandatory unpaid furlough days between June 1, 2011 and September 30, 2011. As of the date this report is submitted, the state has canceled the mandatory unpaid furlough days, increasing salary expenses by $6,267. Fringe benefit expenses increased because of benefit elections and higher employer costs for benefits in the benefit year that began on January 1, 2011.

a. Personnel: $102,654:
   i. 1 FTE Executive Consultant (“EC” or “Grant Manager”).
   ii. 1 FTE Insurance Analyst (“IA”) until January 210. 2011.
   iii. 1 FTE Administrative Assistant (“AA”)

b. Fringe Benefits: $53,897.

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 as of March 31, 2011. It incorporates the variations from the original timeframe explained in our C1Q1 report and changes in "responsible individual" based on the departure of the RR insurance analyst, staffing by the actuarial consultant (Mercer) and actual participation of ADOI permanent staff.

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	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
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.	1.A.i. By January 31, 2011, gather public comment on consumer requirements for transparency and meaningful information. ***Completed: See Attachment F***	Rate Review (RR) 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*	RR 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 (Ass't. Dir. L&H).
	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*	RR 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 individual actuarial certification showing	RR Grant Manager; Mercer; Ass't. Dir. L&H.

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OBJECTIVE	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
	per-capita increases to premium of each rate revision. *In Progress*	
	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*	RR Grant Manager; Mercer; Ass't. Dir. L&H
	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. *In Progress*	RR Grant Manager, ADOI CIO; ADOI PIO; Ass't. Dir. L&H.; 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. *In Progress*	RR Grant Manager, ADOI CIO; ADOI PIO; Ass't. Dir. L&H.; Technology Architecture Consultant (not yet retained); Web Development 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	1. B.i. By December 21, 2010 develop the criteria and process for substantive review of individual rate filings. ***Completed: See C1Q1 Report, Attachment F***	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*	Mercer
	1.B.iii. By May 15, 2011, for each filing reviewed under 1.B.ii., determine how often the	Mercer; RR Grant Manager

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	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
not, to revise the form.	actuarial certification of compliance is supported by the substantive review. In other words, how often can ADOI rely on the actuarial certification? *In Progress*	
	1.B.iv. By May 31, 2011, if the conclusion in the previous milestone (1.B.iii.) is that ADOI cannot generally rely on the actuarial certification and related filing requirements, determine the reasons why. *Not Started*	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*	RR Grant Manager; Mercer; Ass't. Dir. L&H.
	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*	RR Grant Manager; Mercer; Ass't. Dir. L&H.
	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*	RR Grant Manager; Mercer; Ass't. Dir. L&H.
	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*	Ass't. Dir. L&H; RR Grant Manager; ADOI PIO

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	**MILESTONE**	**RESPONSIBLE INDIVIDUAL**
MEASURABLE OBJECTIVE 1.C. By September 30, 2011, to determine whether the actuarial certification submission 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.	1.C.i. By February 28, 2011, identify key indicators for compliance with small group rate-setting factors. ***Completed. See Attachment D***	Mercer
	1.C.ii. By April 30, 2011, 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 year (CY) 2009 and CY 2010. *In Progress*	Mercer
	1.C.iii. By June 30, 2011, based on 1.C.i. and 1.C.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*	RR Grant Manager; Mercer
	1.C.iv. By July 30, 2011, obtain stakeholder input on the proposed standardized forms. *Not Started*	RR Grant Manager; Ass't. Dir. L&H; Mercer
	1.C.v. By September 30, 2011, finalize standardized forms and publish for use by insurers for their CY 2011 filings. *Not Started*	RR Grant Manager; Ass't. Dir. L&H; Mercer; ADOI PIO

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	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."	RR Grant Manager; Technology Architecture Consultant (not yet retained) Ass't. Dir. L&H;

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**
"reasonable" and "unreasonable" health insurance rate requests, to review at least 95% of insurers' submissions of rate 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.	*Deferred Milestone, Pending HHS Regulatory Guidance*	
	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 unjustified. *Deferred Milestone, Pending HHS Regulatory Guidance*	Mercer; RR Grant Manager
	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); RR Grant Manager; ADOI CIO; ADOI PIO
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. See C1Q1 report***	RR Grant Manager, ADOI Deputy Director
	2.B.ii. Obtain training from SERFF on system changes. *Ongoing*	RR Grant Manager, RR Admin. Asst. Ass't. Dir. L&H. ADOI PIO
	2.B.iii. Coordinate/develop SERFF's ability to satisfy data collection and reporting requirements of HHS the uniform template for data reporting within the SERFF system, including basic trending reports. *In Progress*	RR Grant Manager; Technology Architecture Consultant (not yet retained); Ass't. Dir. L&H; ADOI PIO; ADOI CIO

PART II: HEALTH INSURANCE RATE DATA COLLECTION

ADOI submitted C1Q2 rates data through HIOS on April 28, 2011, using an HIPR download from SERFF. ADOI has only five filings to report for C1Q2. In C1Q2, the data in the SERFF download matches the data ADOI has compiled manually much more closely than it did in C1Q1. We offer a few clarifications or corrections below.

TABLE A: ADOI agrees with all the data in Table I except with A2. ADOI A2 data reflects three rate revisions/increases submitted during C1Q2, while the SERFF data shows four. ADOI's count is lower because it excludes one form/rate filing for new rates. New rates are not a rate increase.

TABLE B: The policy holders and covered lives identified by insurers as "FFS" or "OTH" are actually "PPO". In Arizona every insured product that is not offered by an HMO is technically a PPO product. The subset categories such as "FFS" or "HSA" have no legal significance.

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

All of the filings that ADOI is reporting on for C1Q2 were submitted before January 27, 2011, that is, before all the Rate Review Detail Data (R2D2) data became required elements in every PPACA rate filing. As a result, ADOI will begin reporting the full complement of R2D2 data in C1Q3.

Health Insurance Rate Review Grant Program
Cycle I Quarterly Report: Quarter 2 (C1Q2)

LIST OF ATTACHMENTS

ATTACHMENT A
Agenda for ADOI Meeting with Mercer 02.10.2011

ATTACHMENT B
Agenda for ADOI Meeting with Mercer 03.30.2011

ATTACHMENT C
Mercer's Updated Work Plan for Grant Activities 03.30.2011

ATTACHMENT D
Mercer's Submittal for Milestone 1.C.i. – Proposed Key Indicators for Compliance with Small Group Rate-Setting Factors

ATTACHMENT E
Media Contacts for January 2011 Community Meetings

ATTACHMENT F
Compilation of Public Comment from Milestone 1.A.i, from January 2011 Public Meetings, and from Email Comments

ATTACHMENT G
Meeting Agenda for March 2011 Consumer Meetings

ATTACHMENT H
"Transparency Team" Roster and 02.23.2011 Meeting Notes

ATTACHMENT I
ADOI Consumer Survey on Rate Review

ATTACHMENT J
Summary and Analysis of Survey Responses

ATTACHMENT K
Updated Arizona Expenditures and Budget Forecast

ATTACHMENT L
Updated Budget Narrative