

**Health Insurance Rate Review Grant Program
Cycle I No Cost Extension
2nd Extension Report (Extension 2)**

Submission Date: April 30, 2012

State: Arizona

Project Title: HHS Rate Review Grant:
Ensuring Transparency and Protection of
Consumers and Working towards Effective Rate
Review

**Project Quarter
Reporting Period:** Extension 2 (1/1/2012 – 3/31/2012)
("E2")

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PART I: PROJECT NARRATIVE

A. Introduction

A. BRIEF OVERVIEW OF PROJECT

Arizona applied for the \$1,000,000 rate review grant with an original proposed 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. On September 28, 2011 CCIIO awarded ADOI a “No-Cost Extension” (NCE) to the grant period. The NCE makes available unobligated funds for ADOI to continue and expand its goals for the upcoming grant year. This report sets forth the work undertaken and completed to achieve these milestones during the second period of the No Cost Extension reporting period from January 1, 2012 through March 31, 2012 (“Extension 2” or “E2”) and outlines ADOI’s next steps during the NCE period of the grant.

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, which ADOI has revised to reflect ADOI’s NCE activities.

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.

As revised to incorporate ADOI’s NCE activities, the 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 develop at least one consumer-friendly key indicator of individual rate filings; (iv) to develop at least one consumer-friendly key indicator from insurers’ annual small group base premium and index rate submissions; (v) to determine method for public access/disclosure of on-line preliminary rate justifications in open rate filings; (vi) to determine method for public access/disclosure of on-line preliminary rate justifications in open rate filings and retain consultant if necessary; (vii) to determine method for public access to on-line closed rate filings; (viii) to implement on-line public access/disclosure of closed rate filings; (ix) to have an internal demo of Online Access to CAD (x) to have a demo and expanded transparency materials to present at the April and May meetings (xi) to obtain consumer and internal feedback re: online access to closed individual RR filings on or after 01/01/2012; to implement public access/disclosure and comment mechanism for proposed rates and public access/disclosure of on-line preliminary rate justifications; (xii) implement public access/disclosure of on-line preliminary rate justifications and mechanism to allow public comment on the justifications; (xiii) to make any necessary adjustments to online access to closed

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individual RR filings; and (xiv) to evaluate, update and expand transparency materials relating to rate review, including rate review FAQs.

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.

As revised to incorporate ADOI's NCE activities, the 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) based on 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 and make proposed revisions to the current forms or process; (v) to finalize revisions to the existing form and related filing requirements and publish for implementation on a future designated date; (vi) implement new forms, filing requirements and templates for individual RR filings; and (vii) to evaluate the effectiveness of Year 1 compliance accomplishments relating to changes in individual filing requirements.

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.

As revised to incorporate ADOI's NCE activities, the 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 2012; (iv) to obtain stakeholder input on standardized forms; (v) to finalize/implement standardized forms for 2012; and (vi) to evaluate the effectiveness of Year 1 compliance transparency accomplishments relating to changes in small group submissions.

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 five Objectives for accomplishing our second goal. Each Objective has its own milestones, which ADOI has revised to reflect ADOI's NCE activities. Please note that ADOI's NCE activities under Objective 2.C and 2.D essentially make Objective 2.A redundant, and we consider Objective 2.A to be integrated with 2.C and 2.D. Please note also that Objective 2.B is completed.

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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;" and (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) within 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 were: (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.

Objective 2.C

To achieve effective rate review status, as described in 45 C.F.R. §§154.101-154.301, for individual rate revisions.

Milestones for Objective 2.C are: (i) request a moratorium exception; (ii) to file a Notice of Rule-making Docket Opening; (iii) official opening of Rule-making Docket upon publication of notice; (iv) conduct an informal stake holder meeting; (v) file a Notice of Proposed Rulemaking; (vi) conduct a public hearing; (vii) close the public comment period; (viii) file a final proposed rule with GRRC; (ix) attend GRRC public hearing on the individual ERR rule; and (x) and (xi) implement the individual rule on an immediate basis or a regular basis, as determined by GRRC.

Objective 2.D

To achieve effective rate review status as described in 45 C.F.R. §§154.101-154.301, for small group rate revisions.

Milestones for Objective 2.D are: (i) to request an exception to Governor's moratorium on rulemaking, in order to initiate effective rate review for individual & small group rules; (ii) to file a Notice of Rule-making Docket Opening; (iii) official opening of Rule-making Docket upon publication of notice; (iv) through (vii) hold

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four informal stakeholder meeting focused on small group ERR rules; (viii) file Notice of Proposed Rulemaking, (ix) hold formal public hearing; (x) close comment on proposed rule; (xi) file final proposed rule with GRRC; (xii) attend GRRC public hearing on small group ERR rule; and (xiii and xiv) implement the small group ERR rule on an immediate basis on a regular basis, as determined by GRRC.

Objective 2.E

Transition from relying on ADOI internal database and programs for all aspects of managing rate and form filings to using SERFF exclusively.

Milestones for Objective 2.E are: (i) develop SERFF exports and ADOI programming needs for Exports data and retain consultant; (ii) require submission of all PPACA filings on SERFF; (iii) require submission of all life and annuity filings on SERFF; (iv) develop, correct and implement programs for using SERFF export data; (v) require submission of all non-PPACA health, Long Term Care (LTC) and Medical Supplement (Med Supp) on SERFF; (vi) require submission of all filings on SERFF.

B. Program Implementation Status

1. ACCOMPLISHMENTS TO DATE

a. Continued Training and Support for RR Staff

During E2, 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 B.1.be, below. In addition, ADOI's administrative rules analyst RR staff began working with RR staff to prepare early drafts of rules to support Arizona becoming an effective rate review state. ADOI RR team held collaborative meetings with the rules analyst during the drafting period.

ADOI had 'task list' meetings to touch base on deadlines and timelines for upcoming projects. ADOI discussed progress on E1 goals, deadlines for E2 goals, and upcoming goals and deadlines.

b. Continued Actuarial Support

i. Actuary Review and Analysis

During the E2 period through meetings, e-mails and phone conversations, ADOI continued its RR grant work with its actuarial consulting firm, Mercer.

Specifically Mercer helped ADOI evaluate the best procedures for online access. Mercer also discussed with ADOI letters received from the American Academy of Actuaries regarding ADOI's statutory definition of qualified actuaries.

Mercer continued to help ADOI analyze comments received during the E2 period on the Individual Draft rule. Representatives from Mercer attended the Stakeholder meeting held on January 18, 2012 as well as February 27, 2012. See Attachment A Agenda for January 18 meeting; See Attachment

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B Meeting Minutes for January 18 Stakeholder Meeting; See Attachment C PowerPoint of January 18 Stakeholder Meeting.

Based on comments that stakeholders made at the meeting and provided afterward in writing, Mercer provided feedback, specifically on drafting of the Individual Rule. See Section B.1.c.iii below for details.

c. Community Outreach/Public Participation

i. Website Postings during E2

ADOI posted its E1 report to HHS at <http://www.id.state.az.us/RateReview/index.html#ReportsMinutes> ADOI revised the structure of its Rate Review webpage and updated the content by removing past meeting locations/times and adding new meeting minutes.

Posted Copy of Proposed Rulemaking Online

On March 22, 2012, a Notice of Proposed Rulemaking was filed with the Secretary of State. A copy of the Notice of Proposed Rulemaking was posted on the ADOI Rate Review Webpage. Along with a copy of the Notice of Proposed Rulemaking, a Notice of Oral Proceeding Dates was posted on the Webpage. See Attachment D Notice of Oral Proceedings.

ii. Public Meetings

As part of its transparency initiative, ADOI plans to hold four public meetings on rate review issues in E3 (April 16 and May 3, 2012). See Notice of Community Agenda (prepared during E2 period). ADOI RR team met in January, February and March to plan for these Community Meetings. ADOI decided to reach out to different areas in Arizona outside the Phoenix metropolitan area. The goal of these meetings was to educate consumers on transparency efforts and Online Access activities. ADOI also plans to hold three oral proceedings for its proposed individual rule relating to effective rate review (see Section B.1.d, below).

ADOI Rate Review Grant Manager, ADOI Life and Health Rules Analyst, ADOI Rate Review Administrative Assistant and ADOI Special Information Officer have participated in brainstorming sessions to plan its public meetings on three different dates. During these brainstorming sessions, the team discussed the content of the Community Meeting Presentation as well as the coordination of security for the public meetings. ADOI decided to conduct four public meetings and three Oral proceedings. See Attachment E Notice of Community Meetings and Agenda.

During the E2 period the presentation team has worked on several avenues of publicity for its upcoming presentations. The RR team also prepared a packet of information to hand out at the community meetings.

iii. Small Group Work Group Meetings

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On February 27, 2012 ADOI held its first Small Group Work Group meeting. Stakeholders and Consumer representatives attended this meeting. During this meeting ADOI Life and Health Assistant Director informed the group about the status of the Individual Rulemaking along with its timeline for the Small Group. The goal for the Small Group rule is to model it after the Individual Effective Rate Review Rule.

ADOI is in the beginning stages of drafting a Small Group Rule. ADOI is using the Individual Rule as a backbone will being mindful that there are some differences with Small Group and Individual Group requirements in Arizona. See Attachment F Meeting Minutes for February 27, 2012 Small Group Stakeholder Meeting.

iv. Collaboration

During the January and February Stakeholder meetings, ADOI explained to stakeholders the timeline of the new and revised templates. ADOI decided that it made more sense to work towards becoming an Effective Rate Review State and then implement the Template Revisions

ADOI also updated stakeholders on its plans to become an effective rate review state. ADOI asked for feedback on its plan to promulgate a state rule in the individual market by adopting the federal rule by reference. ADOI also outlined the administrative processes necessary to implement effective rate review, including a method to obtaining actuarial review of filings subject to the review.

At this meeting, ADOI asked for industry and consumer feedback on implementing the Rate Review Forms on the original timeline. After considering the feedback and the regulatory impact of staying with the original timeline, ADOI decided the regulatory and industry resources spent on temporary implementation would outweigh the enforcement and compliance benefits and decided not to pursue the original timeline. This is reflected in Section "H", below.

d. Effective Rate Review Status and Progress

At the end of the E1 period ADOI decided to draft its own Individual Rate Review Rule instead of incorporating the Federal Rule by Reference. During the E2 period ADOI pursued a rulemaking to establish requirements that would support Arizona in becoming an Effective Rate Review State. The rule was modeled very closely on the Federal Rule and received great industry and consumer support. The individual and small group rulemakings still have separate timelines, with the individual rule planned for promulgation in fall, 2012 and the small group rule planned for promulgation in fall, 2013. See Attachment G Timeline for Individual Rulemaking; See Section H, below, for a detailed work plan.

On January 18, 2012, ADOI held a stakeholder meeting to inform stakeholders and consumers about the progress of its individual rule. Consumers and Stakeholders submitted comments by February 1, 2012.

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During the meeting, ADOI met discuss its plan and timeline with the Individual Effective Rate Review Rulemaking. ADOI distributed a timeline for the Individual Effective Rate Review Rulemaking. ADOI initiated discussions on a Small Group rulemaking. ADOI requested suggestions and feedback on its Small Group rulemaking plan. At the end of March, ADOI sent out a draft version of the Small Group rule and requested feedback. ADOI requested Consumer and Stakeholder comments on its informal draft Rule.

In January, February, and March, ADOI conducted Rulemaking Drafting Sessions. During these sessions ADOI drafted the Individual Rulemaking. ADOI used the ARS Annotated Revised Statutes, the Administrative Code, along with Consumer and Stakeholder Comments.

On February 27, 2012, ADOI held a small group work group meeting. ADOI discussed a tentative timeline for a small group Effective Rate Review Rule. ADOI handed out Homework to stakeholders and consumers to encourage participation in the initial small group drafting process. See Meeting Minutes attached as Exhibit A.

On March 22, 2012, ADOI filed the Notice of Proposed Rulemaking Article 23 Threshold Rate Review Individual Health Insurance. See Attachment H Notice of Proposed Rulemaking Article 23 Threshold Rate Review Individual Health Insurance. Article 23 Notice of The Proposed Rulemaking will be posted on April 13, 2012 at the following link.

<http://www.azsos.gov/aar/2012/15/contents.shtm>

ADOI plans to post a link on its website linking to the Administrative Register

e. Internal Information Systems Modifications

As explained in previous reports, ADOI uses an Access database for management and regulatory purposes such as tracking whether staff completes filing reviews within the applicable statutory time frames and responding to public record requests or press/media inquiries. Maintaining the database is resource intensive because (i) it requires considerable double-entry of data already available in SERFF, and (ii) comprehensive research often requires searching both SERFF and the database and finding ways to combine and present the results. In addition, having two separate data collection methods doubles the opportunities for errors and omissions.

Throughout C1Q4 and continuing in E2, the RR Rate Administrative Assistant converted paper filings received in Fiscal Year 2011 into electronic SERFF filings by entering the necessary data in the SERFF filing fields. ADOI RR Rate Administrative Assistant, RR Grant Manager, and Life and Health Assistant Director held meetings to discuss the progress of transferring paper filings onto SERFF. ADOI has utilized the scanner purchased during the E1 period to transition from paper filings to 100% SERFF filings.

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For statistical purposes Between the C1Q4 and E2 reporting period, 91 paper filings have been transferred onto the SERFF system. The process involves transferring relevant data into the SERFF filing fields, scanning relevant documentation into the system, and transferring it onto a PDF format into the electronic filing system.

ADOI has been participating in search and export webinars with SERFF. ADOI administrative staff attended the webinars and found these webinars very useful in achieving effective management of data. ADOI implemented new use of a SERFF existing data field to capture ADOI's "administratively complete" date for all filings. This is essential for tracking filing review cycle time. ADOI hopes to improve its access to a wide range of filings data for management and regulatory purposes. A key part of making this transition is assuring that ADOI will not lose, and hopes to improve, its access to a wide range of filings data for management and regulatory purposes.

f. UPDATE! Rate Detective

During the E2 period ADOI has worked on its goal of transparency and technological efficiency. ADOI developed an internal link to the Health Filing Access Interface (HFAI). This program has been developed through the National Association of Insurance Commissioners (NAIC). ADOI has advertised this program as the Rate Detective and plans to add state specific instructions and guidelines for this program on its webpage.

DEMO PRESENTATIONS: UPDATE! Demo in Life Health Division and Consumer Affairs Division DIVISIONS

ADOI Rate Review Grant Manager conducted a Demo of the Rate Detective to the Life & Health Group. ADOI also conducted a demo of the Rate Detective for the Consumer Affairs Division (CAD) on March 28, 2012. See Attachment I Rate Detective Agenda

On March 23, 2012, ADOI Rate Review Grant manager conducted a demo of the program to the Life & Health Division.

On March 28, 2012, ADOI Rate Review Grant manager conducted a demo of the program to Consumer Affairs Division (CAD).

ADOI received feedback from both divisions and plans to utilize this feedback prior to launching the Rate Detective to the public.

g. UPDATE! January Stakeholder Meeting Effective Rate Review

In January, 2012 ADOI held a Stakeholder Meeting to review the progress of the Individual Effective Rate Review Rulemaking. ADOI gave stakeholders and consumers a deadline to give comments on its draft rule. ADOI explained how it initially tried to Incorporate the Federal Regulation by reference. However, it was more effective to originally draft its own rule.

h. Actuary Letter

During E2 ADOI wrote a response letter to the Academy Of Actuaries. ADOI encouraged the Academy to participate in our Rulemaking Process. Mercer helped in evaluating the correspondence between the Academy and ADOI.

i. UPDATE! Drafting of Rule meetings

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In January, February, and March, ADOI Life and Health Assistant Director, ADOI Rules analyst and ADOI Rate Review Grant Manager held several meetings to draft the Preamble and Article 23 Threshold Rate Review Individual Health Insurance Rulemaking. ADOI incorporated comments from Stakeholders and consumer groups in this rule.

ADOI submitted a draft Rule to HHS. HHS submitted feedback regarding the draft rule. ADOI received constructive feedback and support from HHS. ADOI incorporated the suggestions from HHS into its revised draft.

j. Call with HHS

On March, 15, 2012, ADOI had a call with HHS to discuss budget updates and upcoming community presentations and oral proceedings.

k. Search/Exports

On February 9, 2012 ADOI held a Search/Exports webinar. ADOI reviewed ways to develop exports sorted by Deemer Dates and additional categories.

I. UPDATE! Monitoring with Filing companies: reporting requirements to HHS

ADOI has submitted a Tracker addressing errors noted from HHS re: filing companies. ADOI has identified the errors and/or inconsistencies and have contacted the filing companies re: the same. ADOI is also monitoring these errors for future filing companies.

On January 3, 2012, ADOI met with Mercer, to discuss questions on particular SERFF filings that needed to be reported to HHS.

m. UPDATE! Brainstorming sessions to prepare for Presentations:

In January, February, and March, ADOI held brainstorming sessions to prepare for its Community Meetings in April around Arizona (Phoenix, Tucson, Flagstaff). The purpose of these meetings is to explain to the public what ADOI does when they receive rates, how they process rates, and why an insurance company increases its rates. ADOI has worked on consumer outreach by providing online access to proposed rate increases online.

ADOI also planned to explain a timeline for its Individual Rate Review Rulemaking. ADOI prepared a PowerPoint presentation & plans to provide copies of its Notice of Proposed Rulemaking at the Presentation. ADOI has decided to hold Oral Proceedings in May in three locations (Phoenix, Tucson, Flagstaff)

n. ADOI On-Going Rate Review, Data Collection and Analysis

The Grant Manager has continued substantive review of rate filings. The Grant Manager and the Administrative Assistant checked HIOS for information about rate filings subject to effective rate review by CCIIIO. The RR team and regular staff several times met to update and clarify administrative items concerning SERFF rate increase filings, such as consistent filer use of “requested filing mode”, consistent reviewer use of the “Deemer Date” to manage review cycle time, and reviewer use of a SERFF data field to capture ADOI’s “administratively complete” date for all filings.

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o. Transparency

During the E2 period, ADOI staff met to consider methods for providing Arizona consumers with meaningful access to closed and open on-line PPACA filings. Access to both will improve rate transparency for Arizona consumers and access to open filings is a requirement for effective rate review designation.

Transparency Updates:

UPDATE! Posting of Healthcare.gov. ADOI has created a 'one stop shop' for consumers to view Recent rate increases online. ADOI has posted a link directly to Healthcare.gov for filings filed with the Department of Health and Human Services with requested rate increases in Arizona. Healthcare.gov is ADOI's method of online access to consumers. Consumers are able to see a filing company's preliminary justification posted. ADOI hopes to plan a recent rate notification to consumers. ADOI has continued to review other states' methods to online access in order to create the most effective method for Arizona.

UPDATE! ADOI has also created the Rate Detective to allow the public to gain access to closed PPACA related Filings. ADOI has explained to the Life and Health Division, CAD, and plans to explain to consumers that this program is run by the NAIC. However, ADOI plans to provide guidelines to Arizona consumers utilizing this program to make it effective and easy to understand. ADOI has utilized the Health Filing Access Interface to provide access to open and closed PPACA related filings online. ADOI hopes to implement the Cycle 2 enhancements to allow the public to view the Rate Filings online. ADOI has also incorporated Healthcare.gov onto its Rate Review webpage. ADOI has worked on developing a page that shows the Preliminary Justification to consumers.

UPDATE! ADOI implemented a public comment mechanism to comply with the Federal Effective Rate Review Regulation. Currently the method for a consumer to submit a comment is via email at email Ratereview@azinsurance.gov. This method may change at a later date.

p. Health Filing Access Interface

ADOI considered the option of using SERFF's Health Filing Access Interface. ADOI discussed this option with Mercer. On January 3, ADOI Rate Review Grant manager conducted a presentation on various states' efforts to online access. Mercer helped ADOI evaluate different options for providing online access to consumers. ADOI decided to pursue the Health Filing Access Interface to provide online access to consumers. ADOI has had discussions with the NAIC on the implementation of this method.

q. AHP Project

During C1Q4 as well as the E1 period ADOI worked on Accountable Health Plan (AHP) Project. The goals of this project is to make sure that ADOI has an updated list of all insurers that are required by ARS §§ 20-2311(F) and (G) to

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make small group rate revision submissions. Because of budget and staffing problems ADOI has not done this kind of comprehensive audit since 2007. Updating the information and using it to work with any non-compliant insurers not only supports ADOI's enforcement of Arizona's small group rating laws, but its enforcement of Arizona's small group guaranteed issue laws.

During the E2 period, ADOI followed up with inactive companies and companies that were missing certifications and rates and gave these companies until the March 1, 2012 deadline to comply with Arizona's small group guaranteed issue laws. Most companies were cooperative and provided missing certifications and rates.

One company voluntarily disclosed a compliance issue to the Department. This issue concerned the overcharging of small group PPO and HMO plans. The company had a conference call and met with ADOI to discuss the error. The company provided a revised certification disclosing its failure to comply with 20-2311(G) and its plans to fix the error.

2. CHALLENGES AND RESPONSES

a. Delay in Implementing the Rate Review Forms Developed in C1Q1 – C1Q4.

Milestones 1.B.v and 1.C.v originally called for ADOI to finalize revisions to the existing forms and filing requirements for individual rates and to finalize standardized small group rate-submission forms by the end of C1Q4. At the very end of C1Q4 and into E1, as ADOI progressed with preliminary work on draft rules for Arizona to become an effective rate review state, it became clear that these Rate Review Forms would need to be revised, or another set of forms developed, for filings subject to effective rate review. At a stakeholder meeting on November 15, 2011, ADOI asked for industry and consumer feedback on implementing the Rate Review Forms on the original timeline. Several insurers recommended that ADOI not go forward to implement Rate Filing Forms at all at this time but continue to work on them in connection with the effective rate review rule-making ADOI we have begun. After considering the feedback and the regulatory impact of staying with the original timeline, ADOI decided the regulatory and industry resources spent on temporary implementation would outweigh the enforcement and compliance benefits and decided not to pursue the original timeline. This is reflected in Section "H" (the Work Plan), below.

b. Content of Effective Rate Review Rule: Decision not to Incorporate the Federal Rule by Reference.

Initially, beginning in the Fourth Quarter ADOI intended to promulgate a rule in the individual market by incorporating the federal rate review rule by reference and to promulgate a small group rule "from scratch" on a separate timeline. By the end of E1, ADOI decided not to pursue the incorporation by reference for the individual rule because of the large number of modifications required to make the rule "fit" in Arizona. Instead, ADOI will draft its own rule, modeled closely on the federal rule. This complicates the drafting process and adds some challenge to getting stakeholder consensus on the content.

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However, the final rule will be more appropriate and effective for Arizona and ADOI does not expect the change in plan to affect the proposed time line for the rule. Taking this approach to the individual rule will also give ADOI a head start on drafting a small group rule.

UPDATE! Small Group Rule

ADOI has begun the process of drafting a Small Group Rule. ADOI held a meeting to discuss its plan for the Draft of the Rule on February 27, 2012. ADOI will have a second meeting to discuss a draft rule after this reporting period.

ADOI's small group rule will take a different timeline than the Individual Rule. At this time ADOI does not require Small Group filings to be filed with the Department. ADOI will need time to update its state laws to comply with Effective Rate Review in the Small Group Market. See Attachment J Tentative Small Group Timeline.

c. Accuracy of Rates Data Collected from Insurers

During the E2 period ADOI continued working with the insurers to correct or verify the data. ADOI completed a Rate Review Tracker addressing issues that were found on filings reported to HHS. ADOI Rate Review team has kept an eye out for filing error patterns and during the Review Process

3. REQUIRED VARIATIONS FROM ORIGINAL TIMELINE

a. Delay in Implementing the Rate Review Forms Developed in C1Q1 – C1Q4.

As noted in its report for C1Q4, ADOI delayed implementation of C1Q4 Milestones 1.B.v and 1.C.v, which called for ADOI to finalize the Rate Review Forms by September 30, 2011, in order to extend the opportunity for stakeholder review of drafts. In E1, ADOI completed the forms but has put implementation on hold, pending the outcome of its effective rate review rule-making. See Section B.2.a, above. In essence, Milestone 1.B.v has been integrated into Measurable Objective 2.C and Milestone 1.C.v has been integrated into Measurable Objective 2.D. During the E2 period, ADOI has not yet finalized the Rate Review Forms noted in the C1Q4 report. ADOI has put implementation on hold, pending the outcome of its effective rate review rule-making.

b. Online Access to PPACA Filings

The Work Plan, Section H below, calls for ADOI by December 31, 2011 to determine methods for public access/disclosure of on-line preliminary rate justifications in open rate filings (Milestone 1.A.v), public comment on preliminary rate justifications in open filings (Milestone 1.A.vi), and public access to on-line closed rate filings (Milestone 1.A.vii). These items were completed on January 19, 2012, after the close of E1.

c. Transition to 100% SERFF Filings

ADOI has moved some of these interim deadlines for this objective back to parallel the adjusted timelines for its internal information systems modifications. The overall timeline for the objective is not affected. For detail, please Section H below.

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UPDATE! During the E2 period, ADOI Administrative Assistant, ADOI Rate Review Grant Manager, and ADOI Life and Health Assistant Director met monthly to review progress on transitioning to 100% SERFF Filings. There were challenges on inserting the correct filing type from paper to electronic filings.

C. Significant Activities – Undertaken & Planned

1. SIGNIFICANT ACTIVITIES UNDERTAKEN

See Sections 1.b.1 and 1.B.2 above.

2. SIGNIFICANT ACTIVITIES PLANNED

a. Continuing Work with Actuaries (Applies to Objectives 1.A, 1.B, 1.C and 2.A)
During (E3), Mercer will support ADOI with its no-cost extension activities.

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

i. Website Postings

During E2, ADOI will maintain and update the website postings described in Section 1.B.1.c.i, above. ADOI will also provide additional links on its Rate Review Webpage as well as the ADOI main page to inform consumers of updates.

UPDATE! ADOI has added a section on its webpage that includes the following rulemaking documents: 1) a draft rule for effective rate review of individual rate increases, 2) an individual rulemaking timeline and 3) dates of public meetings and oral proceedings. ADOI has also informed the public of its rulemaking activities on the main webpage.

ii. Stakeholder Meetings and Collaborative Efforts

In January, 2012, ADOI will meet again with industry and consumer stakeholders, including the “transparency team” from C1Q1 – C1Q2, to review ADOI’s draft of an individual effective rate review rule. In February, 2012, ADOI will formally propose the individual effective rate review rule by filing it with the Arizona Secretary of State and meet with industry and consumer stakeholders to review ADOI’s draft of a small group effective rate review rule. The individual and small group rulemakings have separate timelines. See Section H, below, for a detailed work plan.

Throughout E2, ADOI will prepare for public meetings and oral proceedings for the individual rulemaking. These are scheduled for E3. ADOI has sent a copy of the Notice of Proposed Rulemaking Article 23 Individual health Insurance out to stakeholders and consumers along with dates of the upcoming Oral Proceedings.

c. ADOI Data Collection, Analysis and On-Going Rate Review

Health Insurance Rate Review Grant Program Extension 2 Report: Extension 2 (E2)

The RR staff will continue to review substantive review of rate filings and monitor *healthcare.gov* for information about rate filings subject to effective rate review by CCIIO. The RR team and regular staff will continue to update and clarify administrative items concerning use of SERFF and to work insurers to make any necessary corrections to data submitted in filings that are reported to CCIIO.

ADOI contacted companies on *healthcare.gov* for compliance issues such as the failure to file data with ADOI that is filed with CMS. Several companies on *Healthcare.gov* listed past rate filings between 2008 and 2010 that were not filed with the Department. ADOI monitored these issues during E2 and will continue to do so during the next period. ADOI continued to review filings that came in through HIOS.

e. Internal Information Systems Modifications

On February 9, 2012 ADOI and SERFF had a second meeting via webinar to work on ADOI's methods for searching and "exporting" data. During this Webinar, ADOI worked with SERFF to create a list of exports that were effective. One example of an export created was a list of filings that displayed Administrative Complete Date, Filer, and Deemer date. Also in E2, ADOI expects to publish a Regulatory Bulletin establishing the time line for all ADOI filers to begin discontinue paper filings and begin to use SERFF.

g. Rulemaking Process

ADOI will continue to work on administrative rules for conducting effective rate review. ADOI submitted its Draft Rule to the Secretary of State on March 23, 2012. The rule was published in the Administrative Register April 13, 2012 (See Rulemaking Timeline Sheet) Once the Rule is proposed a Public Comment period will commence. See Attachment J for a timeline for the individual rulemaking. ADOI plans to promulgate a small group rule in fall, 2013.

h. AHP Efforts

See Section (B.1.q)

i. Search/Exports

See Section (B.1.k)

j. Progress with Online Access

See Section (B.1.f)

D. Public Access Activities

See Section C.2. b, above

E. Collaborative Efforts

See C.2.b above.

F. Lessons Learned

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

ADOI learned that consumers wanted Arizona to work towards Effective Rate Review. ADOI learned that drafting its own rule would be the most effective method towards becoming an Effective Rate Review State

ADOI learned that consumers wanted online access to recent rate increases. ADOI learned that providing a link to Healthcare.gov was an effective method of consumer outreach in regards to online access.

ADOI learned that consumers wanted answers to the following questions: “What happens when my rates increase? How do my rates compare to my colleagues rates? Why are my rates Increasing? ADOI found that the Health Filing Access Interface was an effective online tool for transparency and for answers on these questions. ADOI has encouraged consumers to submit feedback on this program.

See Sections B.2.b and B.2.c, above, regarding challenges.

G. Updated Budget

As of March 31, 2012, the closing date of the reporting period, ADOI’s expenditures and forecast remains the same as the last reporting period.

Personnel	\$187,396.00
Fringe Benefits:	\$72,308.00
Travel:	\$2,918.00
Equipment	\$13,735.00
Supplies:	\$4,050.90
Contractual	\$713,691.00
Other	\$5,901.08
Total Proposed Budget (as of March 31, 2012)	\$503,678.00

For more information, please see the updated budget spreadsheet attached as Attachment K.

H. Updated Work Plan and Timeline

The tables below set forth ADOI’s updated work plan and timeline for the rest of the NCE period (Extension 1 through Extension 4). This table was submitted with the Fourth Quarterly report and has been updated with revised deadlines.

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
MEASURABLE OBJECTIVE 1.A.	1.A.i. By 1.31.11, gather public comment on consumer requirements for transparency and meaningful information. Completed

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

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
By September 19, 2011, 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.ii. By 4.30.11, post to the ADOI website plain language FAQs and key facts about rate review in Arizona. Completed
	1.A.iii. By 6.30.2011, develop at least one consumer-friendly key indicator of individual rate filings, e.g., an item on the individual actuarial certification showing per-capita increases to premium for each revision. Completed
	1.A.iv. By 6.30.2011, develop at least one consumer-friendly key indicator for insurers' annual small group base premium and index rates. Completed
	1.A.v. By 12.31.2011, determine method for public access/disclosure of on-line preliminary rate justifications in open rate filings. Retain consultant if necessary. Not complete by 12.31.2011.
	1.A.vi. By 12.31.2011, determine method for public access/public comment preliminary rate justifications in open filings. Retain consultant if necessary. Not complete by 12.31.2011
	1.A.vii. By 12.31.2011, determine method for public access to on-line closed rate filings. Retain consultant if necessary. Not complete by 12.31.2011
	1.A.viii. By 03.01.2012, implement on-line public access/disclosure of closed rate filings, possibly as pilot program.
	1.A.ix. By 04.16.2012 have a demo and expanded transparency materials to present at the April and May meetings New milestone item (Completed)
	1.A.x. By 06/30/2012, obtain consumer and internal feedback re: online access to closed individual RR filings on or after 01/01/2012. Former date: 05/31/2012
	1.A.xi. By 07/15/2012, implement public access/disclosure of on-line preliminary rate justifications mechanism to allow public comment on the justifications; implement on-line access with updated rate review webpage and other expanded transparency materials Former date: 06/1/2012
	1.A.xii. By 8.31.12, make any necessary adjustments to online access to closed individual RR filings.
	1.A.xiii. Evaluate, update and expand transparency materials relating to rate review, including rate-review FAQs.
	MEASURABLE OBJECTIVE 1.B. To determine whether ADOI's existing actuarial certification form for individual health insurance rates is a reliable tool for determining whether
1.B.ii. By 4.30.2011, based on the new criteria and process, conduct substantive review of 100% of new rate filings and 75% of rate revision filings that insurers submit between 11.1.2010 and 4.30.2011. Completed	
1.B.iii. By 5.15.2011, for each filing reviewed under 1.B.ii., determine how often the actuarial certification is supported by the substantive review, that is, how often can ADOI rely on the actuarial certification. Completed	

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

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
individual rate filings comply with the law, and if it is not, to revise the form.	1.B.iv. By 5.31.2011, if the conclusion in 1.B.iii. is that ADOI cannot generally rely on the actuarial certification, determine why. Completed
	1.B.iv-a. By 6.30. 2011, draft revisions to the existing form and filing requirements to make the actuarial certification reliable. Completed
	1.B.iv-b. By 8.15.2011, obtain stakeholder input on the draft revisions, changes proposed under 1.A.v. above, other administrative revisions and a reasonable implementation date for the revised forms. Completed 09.30.2011.
	1.B.v. By 09.15.2011, finalize revisions to the existing forms and filing requirements for individual RR filings. Designate implementation date. Forms and requirements completed 11.15.2011.
	1.B. vi. 02.01.2012. Implement new forms, filing requirements and templates for individual RR filings. Integrated into Measurable Objective 2.C as of 12/31/2011.
	1.B.vi. Monitor the use and effectiveness of templates for individual filings to determine the effectiveness of Year 1 compliance accomplishments as follows.
	1.B.vii-a. By 05.31.2012 complete actuarial review of RR filings submitted from 02.01.2012 through at least 4.30.2012. Integrated into Measurable Objective 2.C as of 12/31/2011.
	1.B.vii-b. By 06.30.12, make compliance revisions to individual Filing requirements and templates. Integrated into Measurable Objective 2.C as of 12/31/2011.
MEASURABLE 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.	1.C.i. By 02.28.2011, identify key indicators for small group rate-setting. Completed
	1.C.ii. By 04.30.2011, summarize information and variations in A.R.S. § 20-2311(E) actuarial certifications and § 20-2311(G) base premium and index rate submissions for 2009 and 2010. Completed
	1.C.iii. By 06.30.2011, 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 in 2012. Completed
	1.C.iv. By 07.31.2011, obtain stakeholder input on standardized forms. Completed 9.30.2011
	1.C.v. By 09.30.2011 finalize/implement standardized forms for 2012. Forms completed 11.15.2011. Implementation integrated into Measurable Objective 2.C as of 12/31/2011.
	1.C.vi. Monitor the use and effectiveness of templates for small group submissions to determine the effectiveness of Year 1 compliance accomplishments as follows:
	1.C.vi-a. By 4.30.12, complete actuarial review 2012 small group submissions. Integrated into Measurable Objective 2.C as of 12/31/2011.
	1.C.vi-b. By 9.30.12 revise forms (small group Template for Annual Certification and Base Premium and Index Rates). Integrated into Measurable Objective 2.C as of 12/31/2011.

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

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
MEASURABLE OBJECTIVE 2.A. As soon as practicable after HHS sets standards for “unreasonable” rates, review at least 95% of submissions that meet the ACA “unreasonable” standard, applying HHS criteria to determine if the increase is excessive or unjustified. <u>Integrated into Measurable Objective Nos. 2.C and 2.D.</u>	2.A.i. Implement, a forthcoming Rate Filing Disclosure Form and Justification Form (the “threshold disclosure form” or “TDF”) that federal law will require insurers to use for “unreasonable” rate revisions. <u>Integrated into Measurable Objective Nos. 2.C and 2.D.</u>
	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. <u>Integrated into Measurable Objective Nos. 2.C and 2.D.</u>
	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. <u>Integrated into Measurable Objective Nos. 2.C and 2.D.</u>
MEASURABLE OBJECTIVE 2.B. To comply with ACA reporting requirements rate data and rate trends using HHS’s uniform reporting template. Completed.	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) of Grant Announcement. Completed
	2.B.ii. Obtain training from SERFF on system changes. Completed
	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. Completed
MEASURABLE OBJECTIVE 2.C. Achieve “effective rate review” status, as described in 45 C.F.R. §§ 154.101-154.301, for individual rate revisions.	2.C.i. By 09.01.2011, request exception to Governor’s moratorium on rulemaking, in order to initiate effective rate review for individual & small group rules. Completed 09.02.2011.
	2.C.ii. File Notices of Docket Opening (NDO) for individual & small group rules to support designation of Arizona as an ERR state. Completed 09.19.2011.
	2.C.iii. Dockets officially open upon publication of NDOs by the Secretary of State in Register. Completed October 21, 2011.
	2.C.iv. By 11.15.2011, hold informal stakeholder meeting for discussion of individual ERR rule. Completed
	2.C.v. By 03.23.2012, file Notice of Proposed Rulemaking for individual ERR rule. Completed (Former Date: 2.24.2012)
	2.C.vi. By 05.14.2012, hold public hearing for individual ERR rule. Former Date: 4.16.2012
	2.C.vii. By 05.24.2012, close comment on proposed individual ERR rule. Former Date: 5.21.2012
	2.C.viii. By 07.13.2012, file final proposed rule with GRRC for individual ERR. Former Date: 7.12.2012
	2.C.ix. 09.11.2012: Estimated GRRC public hearing on individual ERR rule Former Date: 9.6.2012
	2.C.x. 09.11.2012: Estimated immediate implementation date for individual ERR rule.

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

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
	2.C.xi. 11.10. 2012: Estimated regular implementation date for individual ERR rule. Former Date: 11.06.2012
MEASURABLE OBJECTIVE 2.D. Achieve “effective rate review” status, as described in 45 C.F.R. §§ 154.101-154.301, for small group rate revisions.	2.D.i. By 09.01.2011, request exception to Governor’s moratorium on rulemaking, in order to initiate effective rate review for individual & small group rules. Completed.
	2.D.ii. File Notices of Docket Opening (NDO) for individual & small group rules to support designation of Arizona as an ERR state. Completed.
	2.D.iii. Dockets officially open upon publication of NDOs by the Secretary of State in Register. Completed.
	2.D.iv. By 11.15.2011, hold informal stakeholder meeting regarding development of individual & small group ERR rules. Completed.
	2.D.v. By 2.15.2011, hold informal stakeholder meeting focused on small group ERR rules Combined with 2.D.vi, below.
	2.D.vi. By 2.15.2012, hold informal stakeholder meeting re first draft of small group ERR rule. Completed: Meeting held 2.27.2012
	2.D.vii. By 4.15.2012, hold informal stakeholder meeting re second draft of small group ERR rule. Note: First meeting held 2.27.2012, Second meeting will be held at a later date.
	2.D.viii. By 6.15.2012, hold informal stakeholder meeting re third draft of small group ERR rule. Revised
	2.D.ix. By 12.15.2012, file Notice of Proposed Rulemaking for small group ERR rule. Revised
	2.D.x. By 3.15.2013 hold public hearings for small group ERR rule. Revised
	2.D.xi. By 5.15.2012, close comment on proposed small group ERR rule. Revised
	2.D.xii. By 6.15.2013, file final proposed rule with GRRC for small group ERR. Revised
	2.D.xiii. 9.04.2013: Estimated GRRC public hearing on small group ERR rule. Revised
	2.D.xiv. 9.04.2013: Estimated immediate implementation date for small group ERR rule.
	2.D.xv. 11.04.2013: Estimated regular implementation date for small group ERR rule. Revised
MEASURABLE OBJECTIVE 2.E. Transition from relying on ADOI internal database and programs for all aspects of managing rate and form filings to using SERFF exclusively.	2.E.i. By 04/01/2012, develop SERFF Exports and ADOI programming needs for Exports data – retain programming consultant. Former Date: 12.31.2011.
	2.E.ii. By 06.30.2012, require submission of all PPACA filings to be submitted on SERFF. Former date: 01.01.2012.
	2.E.iii. By 6.30.2012, require submission of all life and annuity filings on SERFF. Former date: 04.01.2012
	2.E.iv. By 06/30/2012, develop, correct and implement programs for using SERFF Export data. Former date: 05.31.2012

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

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
	2.E.v. By 09.01.2012, submission of all non-PPACA health, LTC, Med Supp and other filings on SERFF. <i>Former date: 07.01.2012</i>
	2.E.vi. By 09.01.2012, require submission of all filings on SERFF. <i>Combined with 2.E.v, above.</i>

PART II: HEALTH INSURANCE RATE DATA COLLECTION

ADOI submitted its E2 data through HIOS on April 30, 2012, using a download from SERFF. ADOI has no reportable filings for the E2 period. As before, please note that SERFF Tables C – E do not show any filings for Arizona because ADOI does not receive any group rate filings.

**Health Insurance Rate Review Grant Program
Extension 2 Report: Extension 2 (E2)**

ATTACHMENTS

Attachment	Description
A	Agenda for January 18, 2012 Stakeholder Meeting
B	Meeting Minutes for January 18, 2012 Stakeholder Meeting
C	PowerPoint for January 18, 2012 Stakeholder Meeting
D	Notice of Oral Proceedings
E	Notice/Agenda for Community Presentations
F	Meeting Minutes for Small Group February 27, 2012 Stakeholder Meeting
G	Updated Schedule for Individual Rulemaking
H	Notice of Proposed Rulemaking Article 23 Threshold Rate Review Individual Health Insurance
I	Rate Detective Demo Agenda
J	Tentative Timeline for Small Group Rule
K	Updated Budget Spreadsheet

**ATTACHMENT A-AGENDA FOR JANUARY 18,
2012 STAKEHOLDER MEETING**

**ARIZONA DEPARTMENT OF INSURANCE
EFFECTIVE RATE REVIEW RULEMAKING
JANUARY 18, 2012 STAKEHOLDER MEETING
AGENDA**

- I. INTRODUCTIONS
- II. RULEMAKING STATUS AND TIMELINES
 - A. Small Group: Anticipated Schedule, including Meeting in February, 2012
 - B. Individual: February 24, 2012 date to propose Draft Rule
- III. DISCUSSION OF INDIVIDUAL DRAFT RULE
 - A. Decision not to adopt Federal Rule
 - B. Discussion of Preamble
 - C. Discussion of Rule: Structural Changes and Headings
- IV. CONCURRENT EFFECTIVE RATE REVIEW ACTIVITIES
 - A. On-line Access to Closed Filings
 - B. Transparency Improvements
 - C. Transition to SERFF filing
 - D. Announcement of Oral Proceedings for Individual Rulemaking
- V. FEEDBACK AND NEXT STEPS
- VI. ATTACHMENTS TO 1.18.2012 AGENDA
 - 1.12.2012 Draft Individual Rulemaking
 - Updated Schedule for Individual Rulemaking
 - Minutes from 11.15.2011 Stakeholder Meeting

2910 N. 44th Street, Phoenix, AZ 85018, 3rd Floor Training Room

**ATTACHMENT B-MEETING MINUTES FOR
JANUARY 18, 2012 STAKEHOLDER MEETING**

**Arizona Department of Insurance
Meeting with Stakeholders
Regarding Rulemaking and Effective Rate Review progress**

**January 18, 2012, 9:00am-11:00pm
ADOI Offices, 2910 N. 44th Street, Phoenix, 3rd Floor Training Room**

MEETING MINUTES:

1. Arizona Department of Insurance (ADOI) held a meeting with Stakeholders on January 18, 2012 from 9:00am -11:00 am. The meeting was held at the ADOI.
2. The purpose of this meeting was to update Health Insurers and Consumers on ADOI's progress with its Rate Review Grant Activities, specifically Effective Rate Review and the implementation of a Individual Rulemaking
3. Alexandra Shafer, ADOI Asst. Director – Life & Health began the meeting with an update on the Small Group filing forms. These forms included a template for Annual Certification and a Template for Base Premium and Index Rates.
4. After discussion of Arizona Filing requirements and forms, the focus of the meeting was on the implementation of a Rulemaking and Effective Rate Review activities.
5. The status of ADOI's rulemaking was given as well as a proposed timeline for an Individual Rulemaking. The anticipated effective implementation date of an individual Rulemaking will be between 9.11.2012 and 11.10.2012. Oral proceeding dates will take after April 2012.
6. A rulemaking on the small group side will take a different track and anticipated effective date will be in 2013.
7. The Discussion of the purpose of a Rulemaking Advisory took place. The attendees of the 11.15.2011 meeting make up the Rulemaking Advisory Committee. This Notice of the Advisory Committee is filed with the Secretary of State and can be amended.
8. The drafting of the Individual rule was discussed. The initial plan for the Individual Rulemaking was to Adopt the Federal Regulation by Incorporation. See AAC R20-6-1101. ADOI decided it would be more effective to draft its own rule. The rule draft will be ready for discussion at the next stakeholder meeting, tentatively planned for January 2012. ADOI also asked for consumer feedback re: the economic impact of incorporating the federal rule by reference.
9. The Applicability of the Individual Rule was discussed. On September 6, 2011, the Federal Regulation was amended to account for Association Coverage. The exclusion of Small Group Coverage in our proposed rulemaking as well as types of insurers and types of insurance was addressed. Stakeholders were asked what other modifications they thought were necessary for an Individual Rulemaking.

10. The final section of the meeting focused on Concurrent Effective Rate Review Activities. These Include 1) On-line access to Closed Filings 2) Developing an Actuarial Review Process 3) Transparency Improvements 4) Transition to SERFF filing.
11. Questions and answers from meeting participants took place as well as feedback on the discussion and next steps

**ATTACHMENT C-POWERPOINT FOR
JANUARY 18, 2012 STAKEHOLDER MEETING**

Health Insurance Rate Review Grant Program

Arizona Department of Insurance
Effective Rate Review Rulemaking
January 18, 2012



Welcome!

- I. INTRODUCTIONS
- II. RULEMAKING STATUS AND TIMELINES
- III. DISCUSSION OF INDIVIDUAL DRAFT RULE
- I. CONCURRENT EFFECTIVE RATE REVIEW ACTIVITIES
- II. FEEDBACK AND NEXT STEPS

Small Group Rate Submission Requirements

- In order to establish small group rates for the first time, or raise an established rate, an insurer must set the rates within a certain rating band. As long as the premium is within the rating band, there is no ceiling on the rates.
- Insurance companies must file an actuarial certification with ADOI annually, stating that their small group rates comply with Arizona law. ADOI's current small group forms include 1) Template Annual Certification 2) Template Cover Letter for Base Premium and Index Rates and 3) Base Premium and Index Rates Spreadsheet
- ADOI plans to revise Small Group Rate Filing Forms in 2012. See Small Group Rate Filing Forms.
- See §20-2311 for Arizona's statute for small group health insurance

Small Group Status and Timelines

- Small Group: The Small Group Rulemaking will take a separate timeline/track from the Individual Rulemaking. The plan is to have a meeting in February 2012 to discuss Small Group forms and a draft of a small Group Rule. The Anticipated Effective Date for Implementation of a Small Group rule is in 2013.
- Focus Group for Small Group?

Small Group: Anticipated Effective Date

- ADOI plans to achieve Effective Rate Review status, as described in 45 C.F.R. §§ 154.101-154.301, for small group rate revisions.
- ANTICIPATED KEY DATES:
 - By 10.15.2012, file Notice of Proposed Rulemaking for small group ERR rule.
 - By 11.15.2012 hold public hearing for small group ERR rule.
 - By 3.15.2013, file final proposed rule with GRRC for small group ERR.
 - 7.04.2013: Estimated regular implementation date for small group ERR rule.

Individual: Updated Anticipated Effective Date

- The goal is to have an individual rulemaking in place by Fall of 2012. The timeline for the Individual Rule has been updated.
- Key bullet points:
 - By 2/24/12 File Notice of Proposed Rulemaking with SOS
 - By 4/16/12 Can begin holding oral proceedings to take formal public comments on the rulemaking
 - By 5/21/12 Close record ending comment period
 - By 7/13/12 File Notice of Final Rulemaking with GRCC
 - By 9/11/12 If approved by GRCC, rulemaking is filed with Secretary of State (SOS)
 - By 11/10/12 Effective Date for Individual Rulemaking

See Rulemaking Schedule Effective Rate Review-Individual:
2011-2012: Draft Subject to Change

The New Plan: Draft our own Rule!

- The Department decided to draft our own Individual Rulemaking
- Process:
 - 1. Looked at Federal Rate Increase Disclosure and Review Regulation 45 CFR Parts 154.101 to 154.301.
 - 2. Took out parts that did not make sense/did not apply to ADOI
 - 3. Added definitions unique to our rule and modified Federal Definitions to comply with current Arizona law
 - ex) Threshold Rate Increase
 - ex) Unreasonable Rate Increase
 - 4. Tightened the rule with requirement language

Preamble

- The preamble addresses the background of our rule.
- We will submit the Preamble to GRCC as part of the Draft Rule
- What are your comments on the draft rule's impact on consumers?
 - Preamble asks for ...The preliminary summary of the economic, small business, and consumer impact:

Structure of Rule

- The **focus** of the rule :
 - to require insurers to provide documentation to ADOI that is necessary to submit for a threshold rate increase
 - ADOI is a regulator for threshold rate increases under the Draft Rule . However, an insurer will still provide documentation to CMS. For example, an insurer will provide a Final Justification in response to ADOI's determination re: the rate increase.

Organization of Rule

- We are in the process of refining the Structure of the Rule and developing headings. The primary focus has been drafting the substance.
- The Draft Rule is currently divided into 4 parts :
- Part I. Applicability
- Part II. Definitions
- Part III – Disclosure requirements
- Part IV. Threshold Rate Increase Submission Requirements

Concurrent Effective Rate Review Activities

- A. Online Access to Closed Filings
- B. Transparency Improvements
- C. Transition to SERFF filing
- D. Announcement of Oral Proceedings for Individual Rulemaking

Feedback Time!

- What are the next steps for the 2011-2012 year?
- What is your feedback on current progress?
- Questions on the discussion today?

List of Attachments

- 1) 1.12.2012 Draft Individual Rulemaking
- 2) Updated Schedule for Individual Rulemaking
- 3) Minutes from 11.15.2011 Stakeholder Meeting

Thank You

- We Value Your Input & Participation - Thank You for Attending!
- Watch our Website for Information and Updates!
- Note on your calendars upcoming Oral Proceedings on Draft Rule!

ATTACHMENT D
NOTICE OF ORAL PROCEEDINGS



Department of Insurance
State of Arizona
Office of the Director
Telephone: (602) 364-2339
Telecopier: (602) 364-2175

JANICE K. BREWER
Governor

2910 North 44th Street, Suite 210
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CHRISTINA URIAS
Director of Insurance

Notice of Oral Proceedings
Arizona Department of Insurance (ADOI)
Rate Review Grant Program

The Notice of Proposed Rulemaking for Title 20, Chapter 6, Article 23, Threshold Rate Review- Individual Health Insurance (Notice) was filed with the Office of the Secretary of State on March 22, 2012. The Notice is expected to be published in the April 13, 2012 edition of the *Arizona Administrative Register (Register)*. The public comment period will begin after the Notice is published in the *Register*. The Department will take public comment from the publication date until May 24, 2012 when the record closes. The Department intends to hold oral proceedings in May 2012 as listed in item 10 of the Notice.

Oral Proceedings will take place according to the following schedule:

Tucson

Date: May 15, 2012
Time: 11:00 am
Place: Arizona Corporation Commission, Room 222
400 West Congress Street
Tucson, AZ 85745
Phone : (520)-628-6560

Phoenix

Date: May 16, 2012
Time: 10:00 am
Place: Arizona Department of Insurance, 3rd Floor Training Room
2910 N. 44th St, Suite 210
Phoenix, AZ 85018
(602)-364-2393

Flagstaff

Date: Thursday, May 17, 2012
Time: 11:00 am
Place: Arizona Game & Fish Department, Small Conference Room
3500 Lake Mary Road
Flagstaff, AZ 86001
Phone : (928)-773-8888

For more information, please contact: Steven Noble, ADOI Rate Review Grant Adm. Asst. at (602) 364-2455 or Snoble@azinsurance.gov

ATTACHMENT E–NOTICE OF COMMUNITY
MEETINGS AND AGENDA



Department of Insurance
State of Arizona
Office of the Director
Telephone: (602) 364-2339
Telecopier: (602) 364-2175

JANICE K. BREWER
Governor

2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
www.id.state.az.us

CHRISTINA URIAS
Director of Insurance

Notice of Community Meetings and Agenda
Arizona Department of Insurance (ADOI)
Rate Review Grant Program

Awareness
Disclosure of rates
Online access and opportunity to comment
Improve transparency



What do you want to know about health insurance rate increases? What is the Rate Detective? What is the Individual Rate Review Rule? Do you want to know how to find a rate increase on-line? For answers to these questions, attend the informational meetings held below! We want to show you the Rate Detective and inform you of our current Rate Review activities and plans ahead.

During the 2011-2012 year ADOI has continued its efforts on a Grant from the U.S. Department of Health and Human Services (HHS) to improve transparency of health insurance premiums for individuals and small employers. During the grant period ADOI has pursued the goals of transparency, technological efficiency, and working towards Effective Rate Review. For more information on meeting dates and locations, see *Meeting Agenda* below. The informational meeting is open to the public.

*Light refreshments will be provided at each meeting.

Meeting Schedule

Phoenix

Date: April 16, 2012
Time: 6:00 pm – 8:00 pm
Place: ASU Mercado
502 E. Monroe St., Building C, Room C145
Phoenix, AZ 85004 ([map](#))
Phone : (602)-496-1500

Tucson

Date: April 19, 2012
Time: 6:00 pm – 8:00 pm
Place: River Park Inn, Cactus Ballroom
350 S. Freeway
Tucson, AZ 85745 ([map](#))
Phone : (520)-239-2300

Flagstaff

Date: April 24, 2012
Time: 6:00 pm – 8:00 pm
Place: Radisson Woodlands Hotel, San Francisco Room
1175 West Route 66
Flagstaff, AZ 86001 ([map](#))
Phone : (928)-773-8888

Showlow

Date: May 3, 2012
Time: 6:00 pm – 8:00 pm
Place: Hampton Inn and Suites, Creek View Room
1501 E. Woolford Road
Showlow, AZ 85901 ([map](#))
Phone : (928)-532-4444

For more information, please contact: Steven Noble, ADOI Rate Review Grant Adm. Asst. at (602) 364-2455 or Snoble@azinsurance.gov

**ATTACHMENT F-MEETING MINUTES FOR
2.27.2012 SMALL GROUP MEETING**

**Arizona Department of Insurance
Meeting with Stakeholders
Regarding Small Group Rulemaking and Effective Rate Review Progress**

**February 27, 2012, 9:00am-11:00pm
ADOI Offices, 2910 N. 44th Street, Phoenix, 3rd Floor Training Room**

MEETING MINUTES:

1. Arizona Department of Insurance (ADOI) held a work group meeting with Stakeholders on Monday February 27, 2012 from 9:00am -11:00 am. The meeting was held at the Arizona Department of Insurance (ADOI).
2. The purpose of the workgroup was stated.
3. The purpose of this meeting was to update Health Insurers and Consumers on ADOI's progress with its Rate Review Grant Activities, specifically Effective Rate Review and the timeline of a Small Group Rulemaking
4. Alexandra Shafer, ADOI Asst. Director – Life & Health began the meeting with an update on the Small Group filing forms. These forms included a template for Annual Certification and a Template for Base Premium and Index Rates.
5. After discussion of Arizona Filing requirements and forms, the focus of the meeting was on the implementation and timeline of a Small Group Rulemaking.
6. The status of ADOI's Individual Rulemaking was given and any updates on the timeline. The anticipated effective implementation date of an individual Rulemaking will be between 9.11.2012 and 11.10.2012. Oral proceeding dates were discussed.
7. The timeline of a small rulemaking was introduced. The anticipated effective date of a small group rulemaking will be in Fall 2013.
8. A Discussion of the different requirements expected on the Individual vs. Small Group side took place.
9. A discussion of the definition of Associations took place.
10. A Discussion on the structure of a draft small group rule took place. Rebecca Donsky, Rate Review Grant Manager, provided an overview of the structure of the Individual Rulemaking.
11. The structure of the small group rule will model after the Individual Rule. The statutory definitions of the small group rule will model after the Individual rule.
12. Questions and answers from meeting participants took place as well as feedback on the discussion. Questions came up regarding the timing of the small group rule. A draft timeline was discussed.
13. Homework was assigned to the work group. A deadline of March 27, 2012 for comments and questions on the issues discussed ADOI was given to the group. ADOI requested feedback on the small group filing forms as well as suggestions on the templates that have been drafted on the small group side.

**ATTACHMENT G-UPDATED SCHEDULE FOR
INDIVIDUAL RULEMAKING**

**Rulemaking Schedule (subject to change)
Effective Rate Review – Individual
2011 - 2012**

10/21/11	Notice of Rulemaking Docket Opening published in Arizona Administrative Register (AAR). Vol. 17, Issue 42, page 2103	Effective for 1 year if no Notice of Proposed Rulemaking filed
10/27 /11	Notice of Formal Advisory Group filed with SOS	
10/21/11 - 2/15/12	informal meetings and drafting	
1/18/11	Informal public meeting on draft	9:00 am at ADOI
by 3/23/12	File Notice of Proposed Rulemaking with SOS	
4/13/12	Notice of Proposed Rulemaking Published in AAR	Can receive written comments during this period; Must wait 30 days after publication to hold oral proceeding;
5/14/12	Begin holding oral proceedings to take oral public comments on the rulemaking	
5/24/12	Close record ending comment period	
5/24/12 – 7/12/12	Review comments, draft responses to comments, make any changes in response to comments, prepare Notice of Final Rulemaking	DOI has up to 120 days from close of record to submit to GRRC (schedule assumes DOI taking 53 days)
by 7/1/12	If any FTEs are required as result of rulemaking, file notification with JLBC of number of FTEs necessary to implement and enforce rule.	
7/12/12	File Notice of Final Rulemaking with GRRC	Must be filed with GRRC at least 60 days before GRRC meeting
7/16/12 – 8/15/12	Period during which GRRC staff will review and comment on rules and might require revisions; DOI makes revisions and get back to GRRC	Any revisions due to GRRC by 8/15/12
8/28/12	GRRC informal pre-meeting study session - agency appears to answer GRRC member questions on rulemaking	
9/11/12	Rulemaking heard at GRRC meeting	
9/11/12	If approved, rulemaking filed with SOS; immediate effective date	
11/10/12	Effective date (if not immediate)	

**ATTACHMENT H- NOTICE OF PROPOSED
RULEMAKING: ARTICLE 23 THRESHOLD
RATE REVIEW INDIVIDUAL HEALTH
INSURANCE**

NOTICE OF PROPOSED RULEMAKING

TITLE 20. COMMERCE, FINANCIAL INSTITUTIONS, AND INSURANCE

CHAPTER 6. DEPARTMENT OF INSURANCE

PREAMBLE

1. Article, Part, or Section Affected (as applicable) Rulemaking Action

Article 23	New Article
R20-6-2301	New Section
R20-6-2302	New Section
R20-6-2303	New Section
R20-6-2304	New Section
R20-6-2305	New Section

2. Citations to the agency’s statutory rulemaking authority to include the authorizing statute (general) and the implementing statute (specific):

Authorizing statutes: A.R.S. §§ 20-142 and 20-143(A)

Implementing statutes: A.R.S. §§ 20-1342.02 and 20-1054(A)(2)

3. Citations to all related notices published in the Register as specified in R1-1-409(A) that pertain to the record of the proposed rule:

Notice of Rulemaking Docket Opening: 17 A.A.R. 2103, October 21, 2011

Notice of Formal Rulemaking Advisory Committee: 17 A.A.R. 2388, November 25, 2011

4. The agency's contact person who can answer questions about the rulemaking:

Name: Margaret McClelland

Address: Arizona Department of Insurance
2910 North 44th Street
Phoenix, AZ 85018

Telephone: (602)364-2393

Fax: (602)364-2175

E-mail: mmclelland@azinsurance.gov

Web site: <http://www.id.state.az.us/>

5. An agency's justification and reason why a rule should be made, amended, repealed or renumbered, to include an explanation about the rulemaking:

The Arizona Department of Insurance (Department) proposes this rulemaking to meet requirements established under the Patient Protection and Affordable Care Act (Pub. L. 111-148) (Affordable Care Act) so that Arizona can be designated by the federal Centers for Medicare & Medicaid Services (CMS) as a state that conducts effective review of individual health insurance rate increases. This designation would allow Arizona, rather than the federal government, to have oversight of proposed health insurance rate increases.

The Affordable Care Act, enacted on March 23, 2010, amends, and adds to the provisions of Part A of title XXVII of the Public Health Service Act (PHS Act) relating to group health plans and health insurance issuers in the group and individual markets. Section 1003 of the Affordable Care

Act adds a new section 2794 of the PHS Act which directs the Secretary of the Department of Health and Human Services (the Secretary), in conjunction with the States, to establish a process for the annual review of “unreasonable increases in premiums for health insurance coverage.” The statute provides that this process shall require health insurance issuers to submit to the Secretary and the applicable State justifications for unreasonable premium increases prior to the implementation of the increases. This provision is intended to help to moderate premium increases to individuals, families, and businesses who buy health insurance in these markets and to furnish information to consumers about why their premiums have increased.

On May 23, 2011, CMS issued a final regulation for Rate Increase Disclosure and Review, codified at 45 C.F.R. §§ 154.101-154.301 (the Federal regulations), under which a proposed rate increase of 10 percent or more, known as a threshold rate increase, is subject to the effective rate review disclosure requirements specified in the Federal regulations. The Federal regulations provide that, as of September 1, 2011 CMS, will conduct the review of threshold rate increases, except that CMS may defer to the results of review conducted by a state, if the state process and standards meet the effective rate review requirements established in the Federal regulations .

On June 24, 2011, CMS and the Center for Consumer Information and Insurance Oversight (CCIIO) determined that Arizona does not meet the effective rate requirements in either the individual or small group health insurance markets. As a result, since September 1, 2011 CMS has reviewed threshold rate increases in Arizona and will continue to review threshold rate increases for as long as Arizona does not meet the effective rate review requirements.

In August 2010, the Department received a \$1 million rate review grant from the U.S. Department of Health and Human Services (HHS). Such grants were made available to all states to help states create or enhance their premium rate review programs by ensuring that proposed rate hikes are comprehensively reviewed, bringing greater transparency and openness to the rating process. Under the grant, the Department held nine public meetings around the state with insurance industry and consumer group representatives to educate them on state rate review processes and to

update them on the Department's progress under the grant. The Department explored issues involving transparency, technology, and compliance related to regulation of individual and small group health insurance rates. The Department also gathered information about what would be helpful in improving the Department's procedures and processes for regulating health insurance rates.

In September 2011, the Department received an extension of the federal grant to gain additional time to complete the activities initiated under the 2010 rate review grant and to explore options for meeting the federal effective rate review standards. The Department then focused on completing the tasks initiated during the original grant period and completing a rulemaking necessary for Arizona to become an effective rate review state, beginning with individual health insurance and, later, small group health insurance.

In preparation for proposal of this rulemaking, the Department held two stakeholder meetings attended by representatives of the regulated industry and consumer organizations. A formal advisory committee was established and the committee participated in the rule drafting process. The Department held publicly noticed meetings to discuss the draft rulemaking and received both oral and written comments on the draft rules during this informal rulemaking process. The Department incorporated feedback received on the rulemaking to the extent possible without making this rulemaking more stringent than the Federal regulations. Consequently, these rules closely mirror the requirements established in 45 CFR 154 regarding disclosure and review of health insurer rate increases with minor adjustments made to tailor the rulemaking to requirements in the Administrative Procedure Act in A.R.S. Title 41, Chapter 6 and rule drafting requirements in A.A.C. Title 1, Chapter 1, Article 4. See cross-reference Table A below.

This proposed rulemaking is supported by both the regulated industry and consumer groups who participated in the rule drafting process. The regulated industry supports state-level regulation by the Department, as opposed to regulation by the federal government. This will allow for communication with state regulators to address issues and concerns at the state level. The

consistency of the proposed state rules with the Federal regulations will provide for consistency with state-to-state requirements with which the companies must comply, easing their compliance burden. Consumer groups also support the provisions in the rules for transparency that will provide more information to consumers about the rates that they are paying for health insurance premiums and accountability by insurers to local regulators. Consumers also will continue to have access at the state level, through the Department, for information and redress of issues and concerns regarding health insurance rates. A draft of this rulemaking has been reviewed by CMS and the Department has received feedback indicating support for the rulemaking and the Department's efforts to become an effective rate review state.

The Department continues to enforce Arizona's laws regarding rate increases that are not threshold rate increases under the Federal regulation. Consequently, both the Department and CMS regulate specific aspects of certain rate increases in Arizona. If Arizona is designated as an effective rate review state as a result of this rulemaking, Arizona will have regulatory authority to regulate threshold rate increases in Arizona.

To date, at least forty-four states, the District of Columbia and three territories have been determined by CMS to have met the requirements of the Federal regulations for effective rate review and are the regulators for threshold rate increases in their jurisdictions. In order to be allowed to review threshold rate increases in Arizona, it is necessary that the Department promulgate this rulemaking so that Arizona can be designated by CMS as an effective rate review state for individual health insurance.

Table A

Effective Rate Review – Article 23

Cross-Reference to Federal Regulations

Title 20, Chapter 6, Article 23	45 CFR §
R20-6-2301(A)	154-101(b)
R20-6-2301(A)(1)	154-101(b)
R20-6-2301(B)(3)	154-102
R20-6-2301(B)(4)	154-102
R20-6-2301(B)(9)	154-102
R20-6-2301(B)(10)	154-215(b)
R20-6-2301(B)(11)	154-102
R20-6-2301(B)(12)	154-102
R20-6-2301(B)(13)	154-200
R20-6-2301(B)(15)	154-102, 154-205
R20-6-2301(B)(15)(a)	154-205(b)(1)
R20-6-2301(B)(15)(b)	154-205(b)(2)
R20-6-2301(B)(15)(c)	154-205(b)(3)
R20-6-2301(B)(15)(d)	154-205(c)
R20-6-2301(B)(15)(e)	154-205(d)
R20-6-2302(A)	154-215(b)
R20-6-2302(A)(1)	154-215(e)
R20-6-2302(A)(2)	154-215(f)
R20-6-2302(A)(2)(a)	154-215(f)(i)
R20-6-2302(A)(2)(b)	154-215(f)(2)
R20-6-2302(B)	154-215(d)

R20-6-2303(A)	154-220(a)
R20-6-2303(B)	154-220(b)
R20-6-2304	154.230(a)
R20-6-2304(1)	154.230(a)
R20-6-2304(2)	154.230(a)
R20-6-2304(2)(a)	154.230(b)
R20-6-2304(2)(b)	154.230(b)
R20-6-2304(2)(c)	154.230(b)
R20-6-2304(3)	154.230(c)
R20-6-2304(3)(a)	154.230(c)(1)
R20-6-2304(3)(b)	154.230(c)(2)
R20-6-2304(3)(b)(i)	154.230(c)(2)(ii)
R20-6-2304(3)(b)(ii)	154.230(c)(2)(iii)
R20-6-2304(3)(c)	154.230(c)(3)
R20-6-2305(A)	154.301
R20-6-2305(A)(1)	154.301(a)(3)(i)
R20-6-2305(A)(2)	154.301(a)(3)(ii)
R20-6-2305(B)	154.301(a)(4)
R20-6-2305(B)(1)	154.301(a)(4)(i)
R20-6-2305(B)(2)	154.301(a)(4)(ii)
R20-6-2305(B)(3)	154.301(a)(4)(iii)
R20-6-2305(B)(4)	154.301(a)(4)(iv)
R20-6-2305(B)(5)	154.301(a)(4)(v)
R20-6-2305(B)(6)	154.301(a)(4)(vi)
R20-6-2305(B)(7)	154.301(a)(4)(vii)
R20-6-2305(B)(8)	154.301(a)(4)(viii)
R20-6-2305(B)(9)	154.301(a)(4)(ix)

R20-6-2305(B)(10)	154.301(a)(4)(x)
R20-6-2305(B)(11)	154.301(a)(4)(xi)
R20-6-2305(B)(12)	154.301(a)(4)(xii)

6. A reference to any study relevant to the rule that the agency reviewed and proposes either to rely on or not to rely on in its evaluation of or justification for the rule, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material:

Oliver Wyman Study Regarding Effective Rate Review in Arizona’s Individual Market, October 17, 2011

7. A showing of good cause why the rulemaking is necessary to promote a statewide interest if the rulemaking will diminish a previous grant of authority of a political subdivision of this state:

Not applicable.

8. The preliminary summary of the economic, small business, and consumer impact:

Businesses

The businesses that will be directly impacted by this rulemaking are health insurers that offer individual health insurance products in Arizona. This rulemaking will have minimal economic impact on these businesses, as it will not have any new requirements for health insurers that the existing federal regulations do not already have, other than to file documentation and communicate with the Department, instead of with the federal government. The rulemaking will not add any filing-submission costs for health insurers. However, state review may cost health insurers more than federal review costs them because the insurers will have to pay for actuarial review of each filing filed with the state. The federal government does not charge the insurer for

the required actuarial review. However, the Department does not employ, nor does it intend to employ, actuaries to review the filings. Instead, the Department intends to use contracted external actuaries to do the reviews and the Department bill health insurers for the cost of the review.

Small Businesses

Small businesses may be impacted by these rules to the extent that small businesses are consumers of health insurance, as described below.

Consumers

Consumers of health insurance will be impacted by this rulemaking. This rulemaking does not regulate consumers and will have no negative regulatory economic impact on consumers.

However, the rules will result in non-quantifiable benefits as a result of oversight by state regulators who understand the state health insurance market and have an effective and efficient regulatory relationship with the industry. The Department also expects non-quantifiable benefits as a result of greater disclosure of information and transparency regarding health insurance rate increases. Some disclosure and transparency improvements already exist under the federal regulations, but the Department expects to enhance those through its ability to reach out and respond at the state level to Arizona consumers. It is possible that insurers might increase premiums in order to pass on to consumers the cost of added disclosure and transparency requirements, but these are already required under the Federal regulations.

Other State Agencies

This rulemaking will have no economic impact on other agencies.

The Department

In 2010, the Department received a \$1 million federal grant for conducting activities associated with having Arizona become an effective rate review state, including promulgating this

rulemaking. The Department hired two staff members under the grant who are participating in activities related to promulgating this rulemaking. The grant funding and those positions are temporary and will end September 30, 2012. When the rulemaking becomes effective and Arizona is designated by CMS an effective rate review state, the Department will have responsibility for conducting review of threshold rate increases. The Department anticipates that this will not result in a need to hire additional FTEs, although some existing staff time will be required to implement a process for referring filings to contracted actuaries conduct the actuarial reviews. The Department also incurred costs for promulgation of this rulemaking.

9. The agency's contact person who can answer questions about the economic, small business and consumer impact statement:

Name: Margaret McClelland

Address: Arizona Department of Insurance
2910 North 44th Street
Phoenix, AZ 85018

Telephone: (602)364-2393

Fax: (602)364-2175

E-mail: mmclelland@azinsurance.gov

Web site: <http://www.id.state.az.us/>

10. The time, place, and nature of the proceedings to make, amend, repeal, or renumber the rule, or if no proceeding is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

Date: Tuesday, May 15, 2012

Time: 11:00 a.m.

Location: State Office Building
400 West Congress Road
Arizona Corporation Commission Hearing Room
Tucson, AZ 85701

Nature: Oral proceeding on proposed rulemaking

Date: Wednesday, May 16, 2012

Time: 10:00 a.m.

Location: Arizona Department of Insurance
2910 North 44th Street
Training Room, Third Floor
Phoenix, Arizona 85018

Nature: Oral proceeding on proposed rulemaking

Date: Thursday, May 17, 2012

Time: 11:00 a.m.

Location: Arizona Department of Game and Fish
3500 South Lake Mary Road

Flagstaff, AZ 86001

Nature: Oral proceeding

Close of Record: 5:00 p.m., Thursday May 24, 2012

11. All agencies shall list other matters prescribed by statute applicable to the specific agency or to any specific rule or class of rules. Additionally, an agency subject to Council review under A.R.S. §§ 41-1052 and 41-1055 shall respond to the following questions:

Not applicable

a. Whether the rule requires a permit, whether a general permit is used and if not, the reasons why a general permit is not used:

The rule does not require a permit. This rulemaking governs review of rates and does not involve permitting.

b. Whether a federal law is applicable to the subject of the rule, whether the rule is more stringent than federal law and if so, citation to the statutory authority to exceed the requirements of federal law:

Federal law applies to the subject of the rule. The rule conforms to federal law and is not more stringent than federal law.

c. Whether a person submitted an analysis to the agency that compares the rule's impact of the competitiveness of business in this state to the impact on business in other states:

No analysis was submitted.

12. A list of any incorporated by reference material as specified in A.R.S. § 41-1028 and its location in the rules:

Not applicable

13. The full text of the rules follows:

TITLE 20. COMMERCE, FINANCIAL INSTITUTIONS, AND INSURANCE

CHAPTER 6. DEPARTMENT OF INSURANCE

**ARTICLE 23. THRESHOLD RATE REVIEW – INDIVIDUAL HEALTH
INSURANCE**

Section

- R20-6-2301. Applicability; Definitions
- R20-6-2302. Disclosure of Preliminary Justification
- R20-6-2303. Timing for Submission of Preliminary Justification
- R20-6-2304. Response to Unreasonableness Determination
- R20-6-2305. Threshold Rate Increase Submission Requirements

ARTICLE 23. THRESHOLD RATE REVIEW – INDIVIDUAL HEALTH INSURANCE

R20-6-2301. Applicability; Definitions

- A. This Article applies to rates charged by health insurers for individual health insurance. This Article does not apply to rates charged by health insurers for the following:
 - 1. Health insurance that a health insurer issues to an employer or to any group described in either A.R.S. § 20-1401 or A.R.S. § 20-1404(A);
 - 2. Grandfathered health plan coverage as defined in 45 CFR 147.140; or
 - 3. Health insurance that covers excepted benefits as described in section 2791(c) of the PHS Act, 42 USC 300gg-91(c).

B. In this Article, the following definitions apply:

1. “Department” means the Arizona Department of Insurance.
2. “Blanket disability insurance” has the meaning prescribed in A.R.S. § 20-1404(A).
3. “CMS” means the Centers for Medicare & Medicaid Services.
4. “Federal medical loss ratio standard” means the applicable medical loss ratio standard determined under 45 CFR 158, Subpart B.
5. “Health insurance” means disability insurance as defined in A.R.S. § 20-253, a health care plan as defined in A.R.S. § 20-1051(5) and disability insurance or a health care plan offered by a hospital service corporation, medical service corporation or hospital, medical, dental and optometric service corporation as defined in A.R.S. § 20-822(3).
6. “Health insurer” means an insurer, as that term is defined in A.R.S. § 20-104, authorized to transact disability insurance in Arizona, a health care services organization as defined in A.R.S. § 20-1051(7) or a hospital service corporation, medical service corporation or hospital, medical, dental and optometric service corporation as defined in A.R.S. § 20-822(3).
7. “Individual health insurance” means health insurance that a health insurer issues to either:
 - a. An individual, to cover:
 - i. The individual, or
 - ii. The individual’s dependents, or
 - iii. The individual and the individual’s dependents.

- b. An association or its individual members to cover the individual members and their dependents, and which the Department would regulate under A.R.S. Title 20, Chapter 6 as individual health insurance if the health insurer did not issue it to an association or individual members of an association.

- 8. “PHS Act” means Part A of title XXVII of the Public Health Service Act, 42 U.S.C. Chapter 6A.

- 9. “Product” means a package of health insurance benefits with a discrete set of rating and pricing methodologies that a health insurer offers as individual insurance in Arizona.

- 10. “Preliminary justification” means a justification that consists of the parts described in R20-6-2302(A).

- 11. “Rate increase” means an increase of the rates for an individual health insurance product that a health insurer offers in Arizona that:
 - a. Results from a change to the underlying rate structure of the product;
and
 - b. May result in premium changes for the product.

- 12. “Secretary” means the Secretary of the United States Department of Health and Human Services.

- 13. “Threshold rate increase” means a rate increase that meets or exceeds an Arizona-specific threshold as noticed by the Secretary in 45 CFR 154.200, provided:
 - a. The average increase for all enrollees weighted by premium volume meets or exceeds the applicable threshold; and

- b. If a rate increase that does not otherwise meet or exceed the Arizona-specific threshold meets or exceeds the Arizona-specific threshold when combined with a previous increase or increases during the 12-month period preceding the date on which the rate increase would become effective, then the rate increase must be considered to meet or exceed the Arizona-specific threshold and is subject to threshold rate review that shall include a review of the aggregate rate increases during the applicable 12-month period.
14. “Threshold rate review” means the review by the Department under this Article of a threshold rate increase.
15. “Unreasonable rate increase” means a rate increase that results in benefits that are not reasonable in relation to the premium the health insurer charges for the product. The following factors are relevant in determining whether a rate increase results in benefits that are unreasonable in relation to premium:
- a. The rate increase results in a projected medical loss ratio below the federal medical loss ratio standard after accounting for any adjustments allowable under federal law;
 - b. One or more of the assumptions on which the health insurer based the rate increase is not supported by sound actuarial reasoning, data and analysis;
 - c. The choice of assumptions or combination of assumptions on which the insurer based the rate increase is unreasonable;
 - d. The health issuer provides data or documentation that is incomplete, inadequate or otherwise does not provide a basis upon which the Department can determine the reasonableness of a rate increase; or

- e. The increase results in premium differences between insureds within similar risk categories that are unfairly discriminatory under A.R.S. Title 20, Chapter 2, Article 6.

R20-6-2302. Disclosure of Preliminary Justification

A. Preliminary Justification. For each threshold rate increase for each affected product, a health insurer shall submit to the Department and to CMS, on a form and in the manner prescribed by the Secretary in 45 CFR 154.215, a preliminary justification that contains all of the following:

- 1. Preliminary Justification Part I. A summary of the content of the threshold rate increase that includes:
 - a. Historical and projected claims experience;
 - b. Trend projections related to utilization, and service or unit cost;
 - c. Any claims assumptions related to benefit changes;
 - d. Allocation of the overall rate increase to claims and non-claims costs;
 - e. Per enrollee per month allocation of current and projected premium; and
 - f. Three year history of rate increases for the product associated with the rate increase.
- 2. Preliminary Justification Part II. A written description that justifies the rate increase and that contains a simple and brief narrative describing the data and assumptions the health insurer used to develop the rate increase, and includes the following:

- a. An explanation of the most significant factors causing the rate increase, including a brief description of the relevant claims and non-claims expense increases reported in subsection (A)(1); and
 - b. A brief description of the overall experience of the policy, including historical and projected expenses, and loss ratios.
- B.** A health insurer may submit a single, combined preliminary justification that contains all the information in subsections (A)(1) and (A)(2) for threshold rate increases that affect more than one product if the health insurer has aggregated the claims experience of all products to calculate the rate increases and the rate increases are the same for all products.

R20-6-2303. Timing for Submission of Preliminary Justification

- A.** If R20-6-607 applies to a threshold rate increase, the health insurer shall submit its preliminary justification to the Department and to CMS on the date on which the health insurer files the rate increase request under R20-6-607.
- B.** If R20-6-607 does not apply to a threshold rate increase, the health insurer shall submit the preliminary justification to the Department and to CMS at least 60 days prior to the date the health insurer intends to implement the threshold rate increase in Arizona.

R20-6-2304. Response to Unreasonableness Determination

If the health insurer receives from CMS a notice that the Department has determined that the health insurer's threshold rate increase is unreasonable, the health insurer shall select one of the following three options:

- 1. Option to not implement the rate increase determined unreasonable. Within 30 days of receiving from CMS the Department's determination, the health insurer shall notify the Department and

CMS that it will not implement the rate increase and request the Department to withdraw the rate increase request;

2. Option to implement a smaller rate increase than the rate determined unreasonable. Within 30 days of receiving from CMS the Department's determination, the health insurer shall notify the Department and CMS, on a form and in the manner prescribed by the Secretary, that it intends to implement a rate increase that is smaller than the one determined unreasonable. One of the following shall apply to this option:
 - a. If the health insurer selects this option and the smaller rate increase is not a threshold rate increase, the smaller rate increase is not subject to this Article;
 - b. If the health insurer selects this option, and R20-6-607 applied to the rate increase the Department determined to be unreasonable, the health insurer shall revise the rate increase filing to reflect the smaller rate increase or file a new rate increase. If the smaller rate increase is a threshold rate increase, the health insurer shall submit a new preliminary justification on the date the health insurer revises the rate increase filing or files a new rate increase; or
 - c. If the health insurer selects this option, and R20-6-607 did not apply to the rate increase the Department determined to be unreasonable, and the smaller increase is a threshold rate increase, the health insurer shall submit to the Department and to CMS a new preliminary justification at least 60 days prior to the date the health insurer intends to implement the smaller increase in Arizona.

3. Option to implement the rate increase determined unreasonable. Within 10 business days after the health insurer either implements the rate increase that the Department determined unreasonable, or receives from CMS the Department's determination, the health insurer shall:
 - a. Submit, to the Department and to CMS, a final justification in response to the Department's determination. The information in the final justification shall be the same

as the information submitted by the insurer under R20-6-2302(A)(1) and (A)(2) in the preliminary justification supporting the rate increase; and

- b. Prominently post on its website, on a form and in the manner prescribed by the Secretary under 45 CFR 154.230 the following information:
 - i. The Department's determination that the rate increase is unreasonable and Department's explanation of the Department's analysis of the relevant factors set forth in R20-6-2305(A)(1) and (A)(2), and
 - ii. The health insurer's final justification for implementing the rate increase.
- c. Continue to make the information in subsection (3)(b) available to the public on its website for at least three years.

R20-6-2305. Threshold Rate Increase Documentation Requirements

- A.** For a threshold rate increase, a health insurer shall submit to the Department documentation that is sufficient to allow the Department to assess:
 - 1. The reasonableness of the assumptions used by the health insurer to develop the proposed rate increase and the validity of the historical data underlying the assumptions; and
 - 2. The health insurer's data related to past projections and actual experience.
- B.** To the extent applicable to the submission under review by the Department, the health insurer shall submit documentation that includes all of the following:
 - 1. The impact of medical trend changes by major service categories;
 - 2. The impact of utilization changes by major service categories;

3. The impact of cost-sharing changes by major service categories;
 4. The impact of benefit changes;
 5. The impact of changes in enrollee risk profile;
 6. The impact of any overestimate or underestimate of medical trend for prior year periods related to the rate increase;
 7. The impact of changes in reserve needs;
 8. The impact of changes in administrative costs related to programs that improve health care quality;
 9. The impact of changes in other administrative costs;
 10. The impact of changes in applicable taxes, licensing or regulatory fees;
 11. Medical loss ratio;
 12. The health insurance insurer's capital and surplus; and
 13. Other relevant documentation at the discretion of the Director.
- C.** A health insurer shall submit all documentation required under subsection (A) or (B) at the same time that:
1. The health insurer submits the preliminary justification required under R20-6-2302; or
 2. The health insurer submits any new preliminary justification required under R20-6-2304(2)(b) and (2)(c).

**ATTACHMENT I-RATE DETECTIVE AGENDA
FOR DEMO PRESENTATIONS**

The Rate Detective Agenda

1. A typical Consumer Search

2. Roadblocks in the Investigation

3. Clues on providing an Effective Search
 -Instructions

4. Suggestions for de-coding the Rate Detective Mystery!



**ATTACHMENT J-TENTATIVE TIMELINE FOR
SMALL GROUP RULE**

Draft Timeline for ERR Small Group Rule

Timeline for Small Group Rule

1. By **2.15.2012**, hold informal stakeholder meeting re first draft of small group ERR rule.
2. By **4.15.2012**, hold informal stakeholder meeting re second draft of small group ERR rule.
3. By **6.15.2012**, hold informal stakeholder meeting re third draft of small group ERR rule.
4. By **12.15.2012**, file Notice of Proposed Rulemaking for small group ERR rule
5. By **3.15.2013**, hold public hearings for small group ERR rule.
6. By **5.15.2013**, close comment on proposed small group.
7. By **6.15.2013**, file final proposed rule with GRRC for small group ERR.
8. By **9.04.2013**: Estimated GRRC public hearing on small group ERR rule.
9. By **9.04.2013**: Estimated immediate implementation date for small group ERR rule.
10. By **11.04.2013**: Estimated regular implementation date for small group ERR rule.

**ATTACHMENT K UPDATED BUDGET
SPREADSHEET**



STATE OF ARIZONA-GENERAL ACCOUNTING OFFICE CASH FLOW REPORT

FY

2012

Agency Name: Arizona Department of Insurance
 Fund Name: Federal Grants Fund - RATE REVIEW GRANT
 Fund Number: 2,000

Prepared by: Scott B. Greenberg
 Date: April 6, 2012 Phone: (602) 364-3764
 E-Mail: sgreenberg@azinsurance.gov

OBJT	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June	13th mo.	Total
Beginning Cash Balance	24.07	(116.82)	-	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)	14.50	-	-	-	24.07
Beginning Claims Payable	(0.98)	-	-	-	-	-	-	-	-	-	-	-	-	(0.98)
Revenues:														
Taxes 4100														-
Intergovernmental 4200	58,728.97	12,989.25	21,396.70	17,498.03	15,301.85	75,245.68	10,159.60	24,753.81	30,245.90	32,755.02	32,769.52	56,269.53	5,170.69	393,284.55
Sales & Charges for Services 4300														-
Licenses, Permits & Fees 4400														-
Fines, Forfeitures & Penalties 4500														-
Other 4600														-
Other Non-Revenue Cash Increases														-
Total Revenues	58,728.97	12,989.25	21,396.70	17,498.03	15,301.85	75,245.68	10,159.60	24,753.81	30,245.90	32,755.02	32,769.52	56,269.53	5,170.69	393,284.55
Expenditures:														
Personal Services 6000	6,942.19	10,538.34	7,307.61	7,307.62	7,307.60	10,961.44	7,307.61	7,307.62	7,278.76	7,307.70	7,307.70	7,307.70	3,653.85	97,835.74
Employee Related 6100	2,664.04	2,211.27	1,548.06	2,412.05	2,749.25	4,123.89	2,731.54	2,731.54	2,725.45	2,733.54	2,733.54	2,733.54	1,416.84	33,514.55
Professional & Outside Svcs 6200	48,932.50	-	12,420.00	7,577.50	5,245.00	59,927.50	-	8,290.00	19,987.50	20,000.00	20,000.00	45,000.00	-	247,380.00
Travel In State 6500			-	-	-	-				500.00	500.00	1,000.00	-	2,000.00
Travel Out of State 6600														-
Food 6700														-
Aid to Organizations 6800														-
Operating 7000	121.68	122.82	121.03	200.86	-	232.85	120.45		239.69	2,228.28	2,228.28	228.29	100.00	5,944.23
Capital Outlay 8100														-
Capital Equipment 8400								6,424.65						6,424.65
Non Capital Equipment 8500	208.47													208.47
Debt Service 8600														-
Cost Allocation 9000														-
Other Non-Expenditure Cash Reductions														-
Total Expenditures	58,868.88	12,872.43	21,396.70	17,498.03	15,301.85	75,245.68	10,159.60	24,753.81	30,231.40	32,769.52	32,769.52	56,269.53	5,170.69	393,307.64
Transfers In 4900														-
Transfers Out 9100														-
Transfers Out - Legislative 9100														-
Ending Cash Balance	(116.82)	-	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)	14.50	-	-	-	-	-
AFIS 65A Cash + Pmt Out + Clm Pay														
TOTAL FOR QUARTER			93,138.99			108,045.56			65,144.81			126,979.26		
CUMULATIVE TOTAL FOR GRANT PERIOD	245,282.28		338,421.27			446,466.83			511,611.64			638,590.90		