



August 1, 2017

Secretary Tom Price
Department of Health and Human Services

Administrator Seema Verma
Centers for Medicare and Medicaid Services

Re: Covered California Rate Announcement for 2018 Plan Year and Need for Clarity on Cost Sharing Reduction Payments

Dear Secretary Price and Administrator Verma,

Today, Covered California unveiled proposed rates for the 2018 individual market. Covered California remains stable with an average weighted rate change of 12.5 percent, which includes a one-time adjustment of almost 3 percent due to the end of the Health Insurance Tax “Holiday.” This means that based on changes in health care costs and risk mix, the premium increase is less than 10 percent. Consumers can reduce their potential rate increase to less than 3.3 percent if they shop for the best value and switch to the lowest-priced plan in the same metal tier.

The announcement of 2018 rates and plans comes in the midst of ongoing uncertainty at the federal level surrounding key elements of the Affordable Care Act, particularly in regards to cost-sharing reduction (CSR) payments. Given that uncertainty, Covered California instructed health insurance companies to submit their rates assuming continued direct payment to fund the CSR subsidies, but to also submit a separate CSR surcharge to “load” any costs to fund this program onto Silver-tier, on-exchange plans. As a result, Covered California’s Silver-tier consumers may see an additional “CSR surcharge” that averages 12.4 percent – and ranges from 8 percent to 27 percent on the gross price of their premiums. California will need to move forward to have health plans apply this CSR surcharge if there is not a clear and definitive commitment from the administration to directly fund these payments for over 650,000 Californians through 2018.

Cost-sharing reductions are provided directly to health insurers to help lower the cost of accessing health care for consumers with incomes below 250 percent of the federal poverty level in Silver-tier plans. If federal support for the program is discontinued, health plans would still be required to lower those costs at point of care. Health plans cannot “make up” for lost funding by increasing premiums in the middle of a plan year and some plans said that in the absence of clarity they would potentially stop participating in the individual market in California. A recent analysis by the Kaiser Family Foundation found that the increased cost to the federal government of higher premium tax credits would actually be 23% more than the savings from

eliminating cost-sharing reduction payments. For fiscal year 2018, that would result in a net increase in federal costs of \$2.3 billion. Over a ten-year period, the federal government would end up spending \$31 billion more if the CSR payments end.

While Covered California has crafted a “work-around” that will maintain health plan participation in the individual market in 2018 and protect consumers who depend on this benefit, this is far from an ideal solution. There will be consumer confusion which will likely cause some consumers to drop coverage and additional costs to the federal government. The far preferable solution would be for the Administration and Congress to provide a clear and definitive commitment to fund CSR payments through at least the end of 2018. In the absence of this clear commitment, which needs to be received this August, health insurance companies in California will be required to add the CSR surcharge onto Silver-tier rates.

More details on how we will administer the potential CSR surcharge program and on California’s proposed rates overall can be found in **Covered California’s Health Insurance Companies and Plan Rates for 2018**, which is attached and available by link: (http://www.coveredca.com/news/PDFs/CoveredCA_2018_Plans_and_Rates_8-1-2017.pdf).

Covered California will continue to look for additional ways to stabilize the market to reassure health insurance companies, provide robust competition and choice and protect consumers.

Thank you and please contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "P. Lee", with a stylized flourish at the end.

Peter V. Lee
Executive Director

CC: Diana Dooley – Chair Covered California Board of Directors, Secretary, California Health and Human Services.
Covered California Board of Directors.