



June 6, 2017

Ms. Seema Verma  
Administrator, Centers for Medicare and Medicaid Services  
U.S. Department of Health & Human Services  
200 Independence Avenue, SW  
Washington, D.C. 20201

**RE: Supplemental Guidance on Funding Cost Sharing Reduction in the Event of Change of Federal Policy to Directly Support**

Administrator Verma,

Attached please find an update to the guidance Covered California is providing to its health plans regarding the issue of cost-sharing reduction subsidies (CSRs). Absent a clear and reliable commitment that the federal government will continue to directly fund these obligations, health plans must increase premiums to cover these costs. As more fully detailed previously, these increases will be included only on the Silver qualified health plans to receive the benefit of premium tax credits as provided by law. This supplemental guidance clarifies the timing for final rate decisions for the 2018 plan year.

Adding the CSR costs to the premium rates is not the preferred option. By far, the best approach would be for the federal government to continue to make these payments directly to the plans. Health plans are required under federal law to provide the CSR benefits which are critically important to more than half of Covered California's consumers. Currently, health plans are facing great uncertainty regarding the future payments they may or may not receive from the federal government. If the decision to fund CSR payments continues to be made on a "month-to-month" basis, we will have no alternative but to have plans implement targeted premium increases to cover these costs through 2018. These increased costs will be borne by the federal government through increased Advanced Premium Tax Credit payments, and will be significantly more than the federal government would pay if it continued making direct payments for CSRs.

As set forth in the May 31 and June 6 guidance to plans, final proposed premium rates must be submitted to Covered California by June 30 in two ways: with and without the on-going costs of CSR included. Final negotiated rates will be publicly released on July 18 after they are submitted to state regulators for review. There is a very narrow window of time thereafter during which changes to the rates could be made before rates are finalized for the 2018 plan year.

We sincerely hope it will not be necessary to proceed under these contingency arrangements. We will continue to work with health plans, regulators, and our state and federal partners to resolve this uncertainty before rates must be finalized. Failing to continue the CSR payments to the plans would be disruptive and increase federal spending. The best solution for short-term market stabilization is for the federal government to affirm it will continue these payments through the next plan year. As always, please do not hesitate to reach out to us if you have questions.

Sincerely,



Peter V. Lee  
Executive Director

Attachment: Covered California: Supplemental Guidance on Rate Filing Instructions Related to the Cost-Sharing Reduction Program, June 6, 2017

cc: The Honorable Dave Jones, California Insurance Commissioner  
Diana Dooley, Secretary, California Health & Human Services Agency, Covered California Board Chair  
Shelley Rouillard, Director, California Department of Managed Health Care  
Randall Pate, Director, Center for Consumer Information and Insurance Oversight