

Arkansas BlueCross BlueShield

Exhibit 2

as prescribed by Bulletin 6A-2011

Reason for Requesting Rate Increase

Although the actual claims experience suggests a rate increase of 79.0%, Arkansas BlueCross BlueShield is proposing a rate increase of 49.43% for our Limited Benefits block of Individual products as of January 1, 2019. With this blocks dwindling membership, it is becoming more difficult to cover the cost of increasing claims experience. These policy forms last received a rate increase of 8.70% as of January 1, 2018.

The cost of hospital services, physician services, and prescription drug coverage for our individual members continues to rise. Those increases are driven both by higher payment rates to healthcare providers as well as increased utilization of services. The higher payments to healthcare providers happen in two ways - 1) higher charges and 2) leveraging. Leveraging occurs when the overall costs go up, but a fixed element does not change.

Leverage example:

An individual has \$1,000 of allowed charges, and the individual has a \$200 deductible. As a result, the insurance company would pay \$800 and the individual pays \$200. If the charges increase 10%, then the \$1,000 becomes \$1,100. In this instance, the individual would still only pay \$200, but the insurance company would pay \$900. This means that the insurance company's cost actually went up by 12.5% (900/800). This example is one reason why health insurance trends are higher than healthcare trends.

Not enough volume exists for these Limited plans to give an effective picture of trends; therefore, we have used the trends from our closed block of comprehensive major medical plans. The data shows that for the last 12 months, medical cost trends have averaged around 5.68%.

Administrative costs consist of many items, including, but not limited to, broker commissions, claims administration, customer service, marketing, and fixed overheads. In cases where overall membership is declining and overhead costs remain fixed, this can result in an increase in per member administrative costs.

At Arkansas BlueCross BlueShield we want our members to rely on our financial strength to pay their health care claims and to protect them from financial harm due to health care costs. We are proud of our commitment to making healthcare coverage affordable for all Arkansans.