

ARKANSAS BlueCross BlueShield

Exhibit 2

as prescribed by Bulletin 6A-2011

Reason for Requesting Rate Increase

Arkansas BlueCross and BlueShield is proposing a rate increase of 2.10% for its closed block of Individual products effective January 1, 2019. These policies were purchased beginning in 1992 and ending December 31, 2013. Currently, these products insure 41,642 individuals.

Arkansas BlueCross BlueShield projected this block of business will continue to experience increase in costs in 2019. Thus, we believe the requested rate increase is necessary to adequately support these products as well as meeting the federal Minimum Loss Ratio (MLR) requirement of the percentage of premium dollars that must be spent on medical care and making improvements to the quality of care. If the proposed premium rate results in an MLR of less than the proscribed amount, Arkansas BlueCross BlueShield will be required to issue rebates to individuals insured by the policies. However, we are confident in our projections. It is important to note that Arkansas Blue Cross has never had to issue rebates for its individual products.

The cost of hospital services, physician services, and prescription drug coverage for our individual members continues to rise. These increases are driven both by increasing costs for healthcare 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 medical costs go up, but a fixed element in the insurance contract does not change.

Leverage example:

An individual incurs medical expenses of \$1,000 and the individual's insurance policy provides a \$200 deductible. As a result, the insurance company would pay \$800 and the individual would pay the \$200 deductible. 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's cost would increase to \$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.

The data shows that for the last 12 months, medical cost trends have averaged around 6.39%.

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.