SUPPORT STABILIZATION OF THE INDIVIDUAL INSURANCE MARKET THROUGH RESINSURANCE PROGRAMS

THE COUNCIL
The Council of Insurance Agents & Brokers

THE ISSUE

The individual insurance market is critical in accessing and preserving health insurance coverage during times of economic uncertainty. Strengthened by the passage of the Affordable Care Act (ACA), it serves as a safety net for over 20 million Americans who are between jobs, in early retirement, or need adequate financial protection.

Any erosion of the individual market would risk undermining the cost-containment strengths and affordability of the employer-sponsored insurance system, onto which much financial pressure is already placed. Employers and private insurers paid hospitals, on average, 247% of what Medicare paid for the same services in 2018.

A critical element of the ACA is the ability for states to implement plan and network design strategies specific to their populations and budgets. The Section 1332 waiver process, established through the ACA, grants states the flexibility to shore up fragile insurance markets, address unique state insurance market issues, or experiment with alternative models of providing coverage to state residents. These solutions reduce insurance carriers' risks by covering the most expensive claims in the individual market. In return, participating insurance companies agree to reduce the premiums they charge consumers. Without reinsurance, insurers would charge higher premiums due to concerns about less healthy, higher-risk individuals enrolling in their plans.

OUR POSITION

On March 19, 2018, Senators Lamar Alexander (R-TN) and Susan Collins (R-ME), along with Representatives Greg Walden (R-OR) and Ryan Costello (R-PA), released draft text of an individual market stabilization package. The package largely builds off of a bipartisan deal struck by Senators Alexander and Patty Murray (D-WA) ("Alexander-Murray"), while incorporating parts of reinsurance measures introduced by Senator Collins and Representative Costello. As a reflection of those efforts and to continue to aid states in establishing reinsurance programs, The Council supports:

- Allowing states to receive funds through two methods—(1) amounts received through grants offered by Treasury to support the establishment or maintenance of such programs; or (2) pass-through funding provided if a state has received a 1332 waiver—to fund such invisible high-risk pools or reinsurance programs
- Using previously-established successful models to structure future programs, such as:
    - An invisible high-risk pool under which issuers (with respect to designated high-risk individuals enrolled in the individual market) cede risk to the pool without affecting the premium paid by the individuals or their terms of coverage.
    - A reinsurance program that assumes a portion of the risk for high-cost claims with the state.
    - A new reinsurance program established by the state.
    - A program based on another state's reinsurance program (must either be a program that meets one of the above requirements or was implemented before September 1, 2017).
- The ability for states to tailor to their specific budgetary and population needs and/or to make adjustments to the reinsurance model based on actual premium and enrollment outcomes;
- Establishing a mechanism for expedited approval if certain requirements are met (e.g., uses a template form provided by CMS)—under such expedited approval, a determination must be made within 90 days;
- The appropriation of adequate dedicated funds to support these state programs and, when states don't have these programs, to fund a federal backstop to serve this purpose.

ABOUT US

The Council of Insurance Agents & Brokers is the premier association for the top regional, national and international commercial insurance and employee benefits brokerage firms worldwide. Council members are market leaders who annually place 85 percent of U.S. commercial property/casualty insurance, and millions in employee benefits premiums.

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PRINCIPLES OF A SUCCESSFUL REINSURANCE PROGRAM

I. PROGRAM DESIGN:

Nearly all state reinsurance programs follow a claims-based model where qualifying health insurance companies are reimbursed a percentage (i.e., the coinsurance rate) of all high-cost claims that exceed a specified threshold (i.e., the attachment point), up to a cap.

It is worthwhile to consider structuring state reinsurance programs to have the greatest impact in areas that face the highest healthcare and premium costs. Coinsurance rates would be adjusted by region. Thus, in the most expensive areas, the state picks up a larger share of eligible claims.

In contrast, condition-based models, like Alaska's, under which insurers are reimbursed for the costs of enrollees with specified high-cost health conditions are worth exploring depending on the policy outcomes states would like to achieve. One state (Maine) uses a hybrid of the claims and condition-based models.

II. FUNDING:

The majority of states currently operating a reinsurance program rely partly on federal pass-through funding and partly on state funding. The state portion relies on a combination of insurer and/or hospital assessments to finance their obligations as well as general fund appropriations and premium tax revenues.

States seek federal pass-through funds in the amount of the federal savings for the premium tax credit that would be realized if a reinsurance program was implemented. Calculations are made using issuer-provided claims data from certain plan years, adjusted to reflect projected plan year cost levels and enrollment volumes, and reflect a projected distribution of claim expenses consistent with assumed market-wide morbidity levels.

Federal pass-through funding provides support toward subsidizing the state market's premiums by a certain percentage, or in a dollar range per person per month.

AVERAGE PERCENTAGE-POINT REDUCTION IN UNSUBSIDIZED PREMIUM RATES BECAUSE OF REINSURANCE

State	2018	2019	2020
Alaska	30.2%	34.0%	37.1%
Colorado	—	—	22.4%
Delaware	—	—	13.8%
Maine	—	13.9%	7.2%
Maryland	—	39.6%	35.8%
Minnesota	16.8%	20.2%	21.3%
Montana	—	—	8.9%
New Jersey	—	15.5%	16.9%
North Dakota	—	—	20.0%
Oregon	7.2%	6.7%	8.0%
Rhode Island	—	—	3.8%
Wisconsin	—	9.9%	11.0%

Source: Justin Giovannelli et al., The Benefits and Limitations of State-Run Individual Market Reinsurance (Commonwealth Fund, Nov. 2020). https://doi.org/10.26099/q2z8-nv33
Note: Data collected on states that established reinsurance programs prior to 2021

CURRENTLY OPERATING STATE REINSURANCE PROGRAMS

State (year established)	Program design	Total planned program cost	Attachment point	Coinsurance rate	Cap	Individual mandate	Other
Alaska (2018)	Condition based	$60m				No	Program covers all claims costs for 33 specified conditions
Colorado (2020)	Claims-based	$250m	$30,000	Tier 1: 45%; Tier 2: 50%; Tier 3: 85%	$400,000	No	
Delaware (2020)	Claims-based	$27m	$65,000	75%	$215,000	No	
Maine (2019)	Hybrid	$93m	$47,000	$47,000–$77,000: 90%; >$77,000: 100%	None	No	Payment parameters apply to: 1) all policies covering an individual with one of eight specified conditions; and 2) other policies ceded to the program by the insurer
Maryland (2019)	Claims-based	$462m	$20,000	80%	$250,000	Considering	
Minnesota (2018)	Claims-based	$136m	$50,000	80%	$250,000	Considering	
Montana (2020)	Claims-based	$35m	$40,000	60%	$101,750	No	
New Jersey (2019)	Claims-based	$295m	$40,000	60%	$215,000	Yes	
North Dakota (2020)	Claims-based	$47m	$100,000	75%	$1m	No	
Oregon (2018)	Claims-based	$90m	$95,000	59%	$1m	No	
Pennsylvania (2021)	Claims-based	$139.3m	$60,000	60%	$100,000	No	
Rhode Island (2020)	Claims-based	$15m	$40,000	50%	$97,000	Yes	
Wisconsin (2019)	Claims-based	$200m	$50,000	50%	$250,000	No	
Georgia (2022)*	Claims-based	$398m	$20,000	Low-cost regions: 15% Mid-cost regions: 45% High-cost regions: 80%	$500,000	No	

** Georgia's reinsurance program would begin in plan year 2022 while the broader changes would begin in plan year 2023*