



Market Stabilization: Reinsurance and Section 1332 Waivers

July 23, 2018

Purpose of Today's Discussion

- Consider reinsurance as a potential strategy to increase stability in the individual insurance market
- Discuss Section 1332 waivers as a vehicle for state flexibility to establish a state-run reinsurance program

The National Governors Association



**Conference of Governors
The White House, 1908**

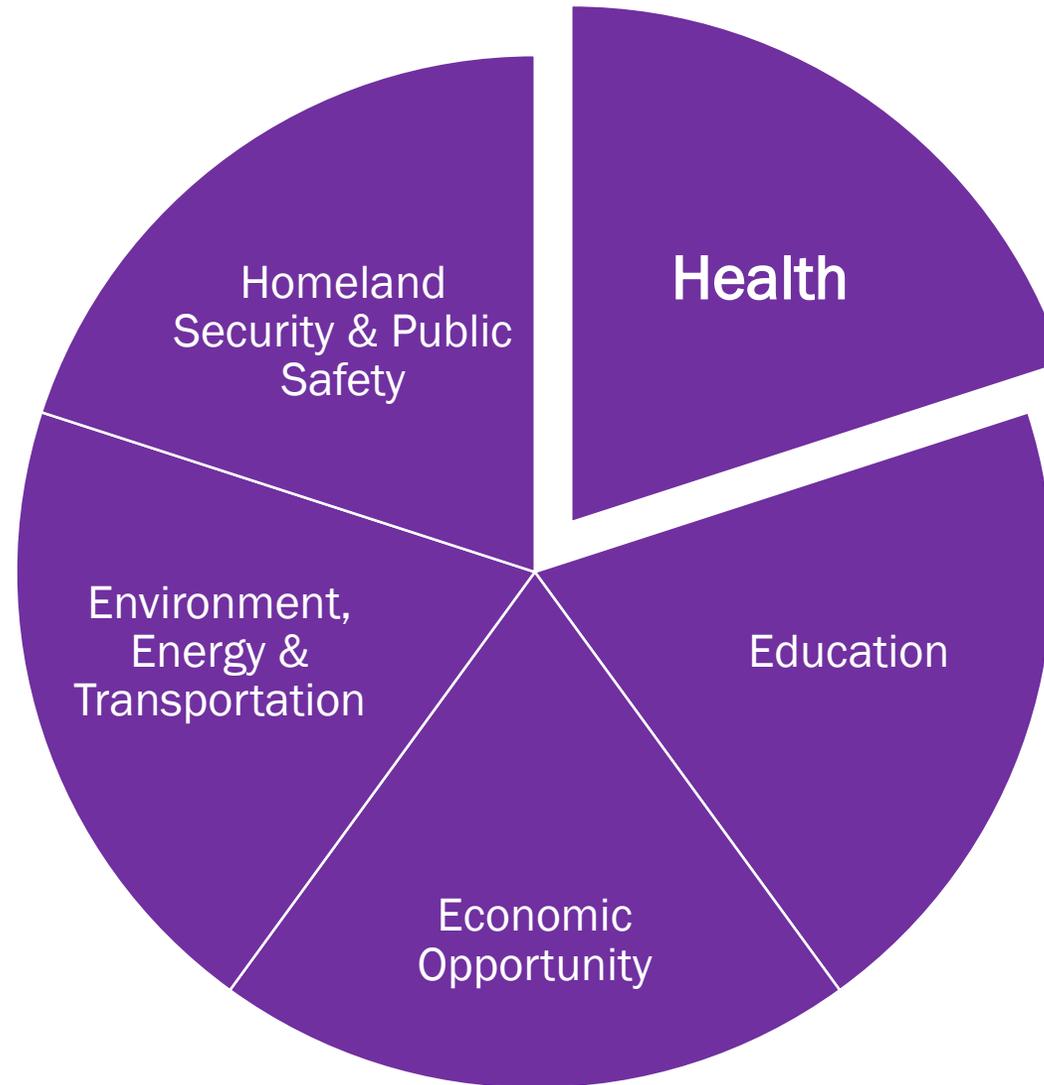
Who We Are

National Governors Association (NGA) is the bipartisan organization of the nation's governors. Through NGA, governors share best practices, speak with a collective voice on national policy and develop innovative solutions that improve state government and support the principles of federalism.

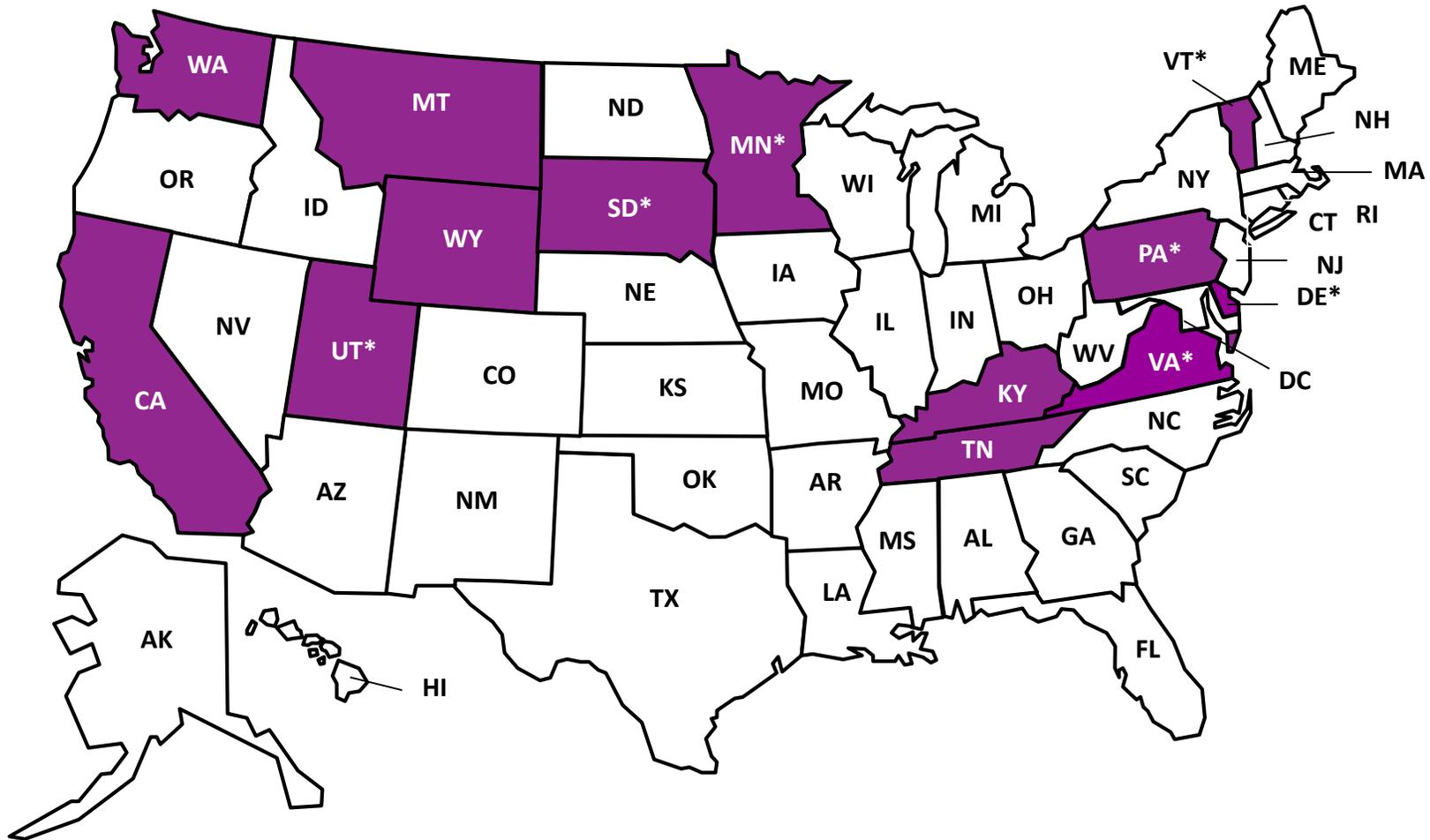
National Governors Association



NGA Center for Best Practices



Governors' Bipartisan Health Reform Learning Network



- Provides unbiased information about health reform proposals and the state impact
- Offers a forum for states to engage in dialogue with other state leaders and identify shared priorities for reform
- Released in June, [Shared Priorities from the Governors' Bipartisan Health Reform Learning Network](#) highlights priorities for Medicaid, private health insurance and public health

The Affordable Care Act's Federal Transition and Risk Mitigation Programs

Risk Adjustment (ongoing)

- Transfers money from insurers with low expected spending to insurers with high expected spending

Risk Corridors (2014 - 2016)

- Transferred money from insurers with low *unexpected* spending to insurers with high *unexpected* spending

Reinsurance (2014 - 2016)

- Provided subsidies to individual market plans for enrollees incurring high actual spending

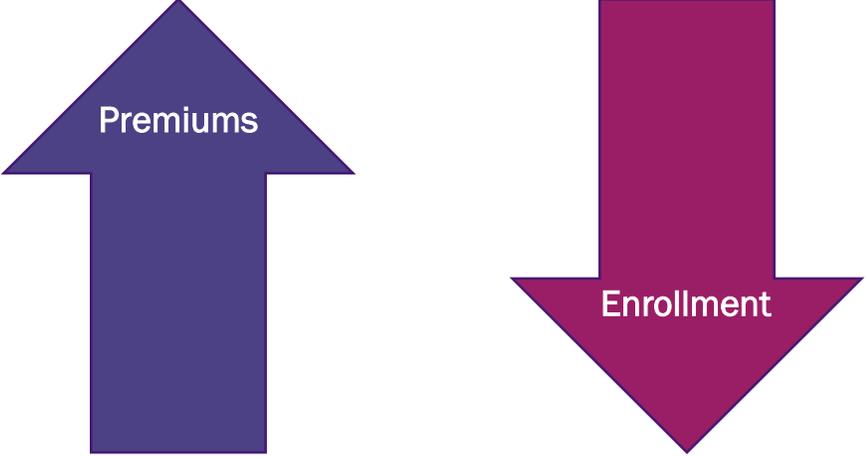
Traditional High Risk Pools (2010 - 2014)

- Provided health insurance to those that had been denied coverage by private health insurance companies because of a pre-existing condition

How Reinsurance Programs Work

States are interested in reinsurance programs as one strategy for lowering premiums and increasing enrollment in the individual insurance market

Without Reinsurance



Premiums increase to compensate for risk pools with high-cost enrollees

Enrollment in private health insurance market decreases as individuals are priced out of market

With Reinsurance



Insurers offer lower premiums because their risk of covering high-cost enrollees is offset by the reinsurance

Enrollment in private health insurance market increases as more individuals are able to afford lower premiums

Reinsurance Program Design Options

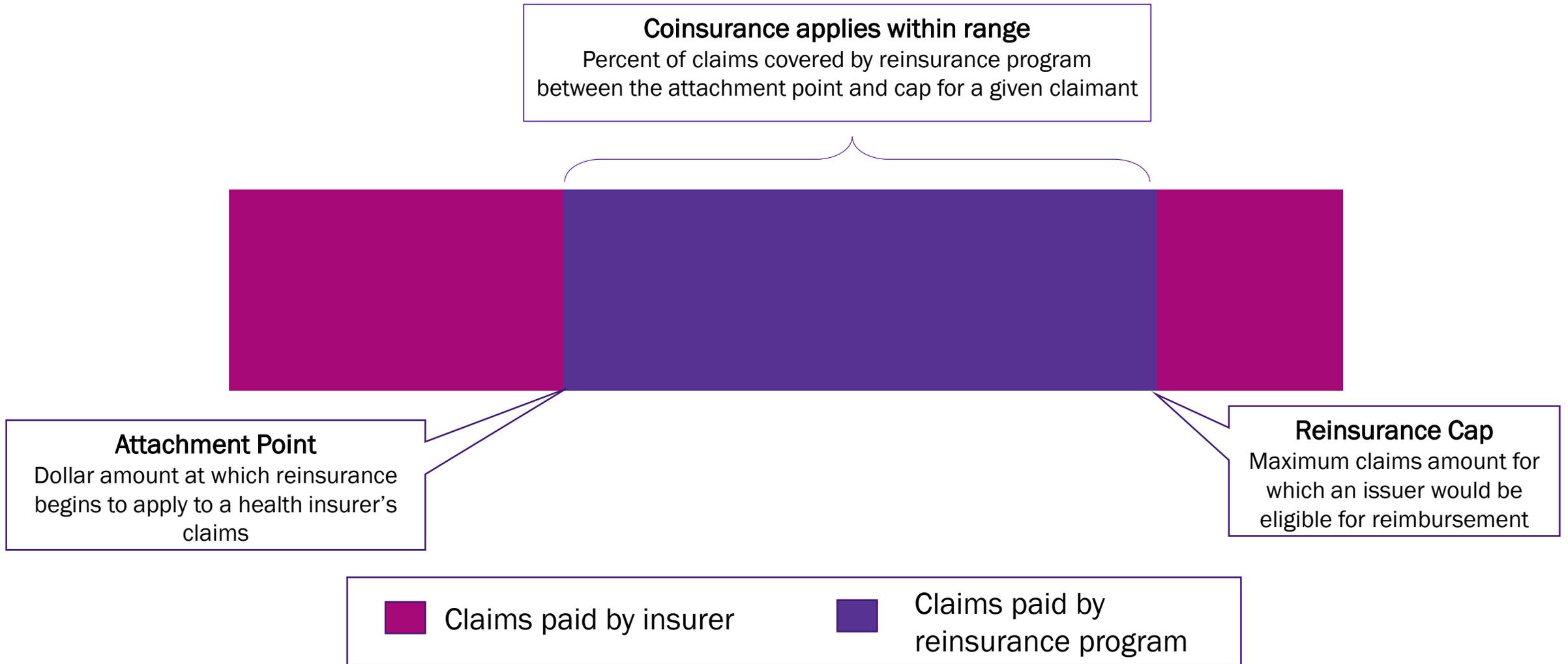
Claims-based

- Insurers are repaid for a portion of all high-cost claims incurred
- Claims do not need to be associated with any particular condition
- Insurers do not cede premiums to receive reinsurance payments
- Increases predictability for insurers regarding financial accountability by helping pay for high cost claims
- Payment is between reinsurance entity and insurer; consumers are not involved regardless of their health status or cost of claims

Conditions-based

- Insurers are paid for all claims associated with individuals diagnosed with certain high-cost conditions in exchange for giving premiums to reinsurance pool
- All claims for individual are paid to insurer regardless of whether they are associated with the high-cost condition
- Members do not know that their premiums have been ceded to the reinsurance pool
- Payment is between reinsurance entity and insurer; consumers are not involved regardless of their health status or cost of claims

Operational Variables of Reinsurance Programs



Section 1332 Waiver Basics

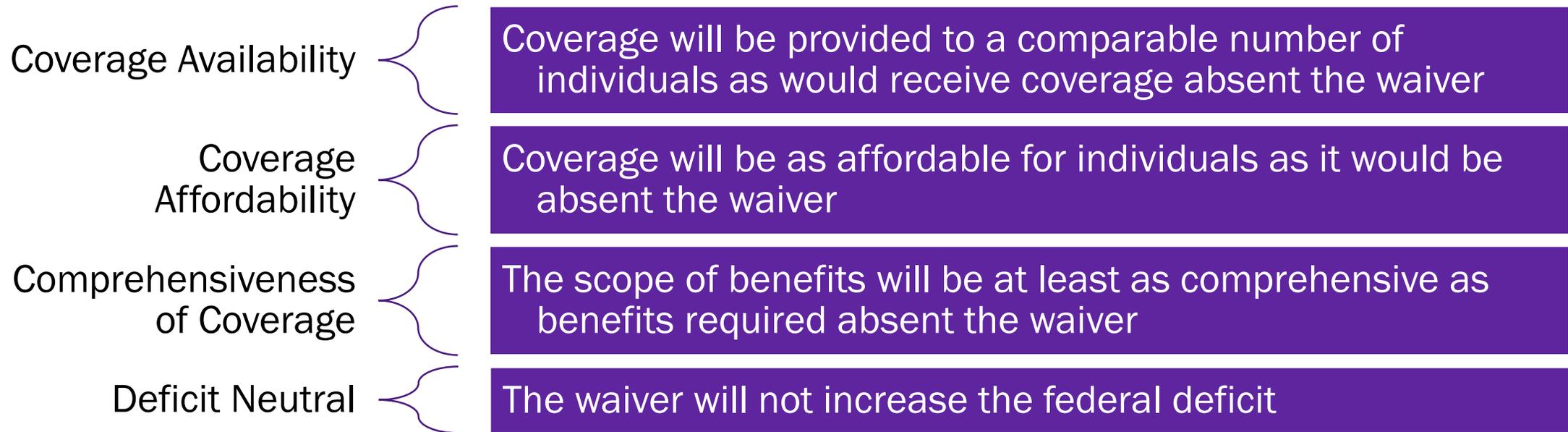
Section 1332 waivers are a vehicle for states to waive certain provisions of the Affordable Care Act, including:

- The establishment of qualified health plans and exchanges
- Individual and employer mandates
- Benefits and subsidies for consumers
- The establishment of a single risk pool

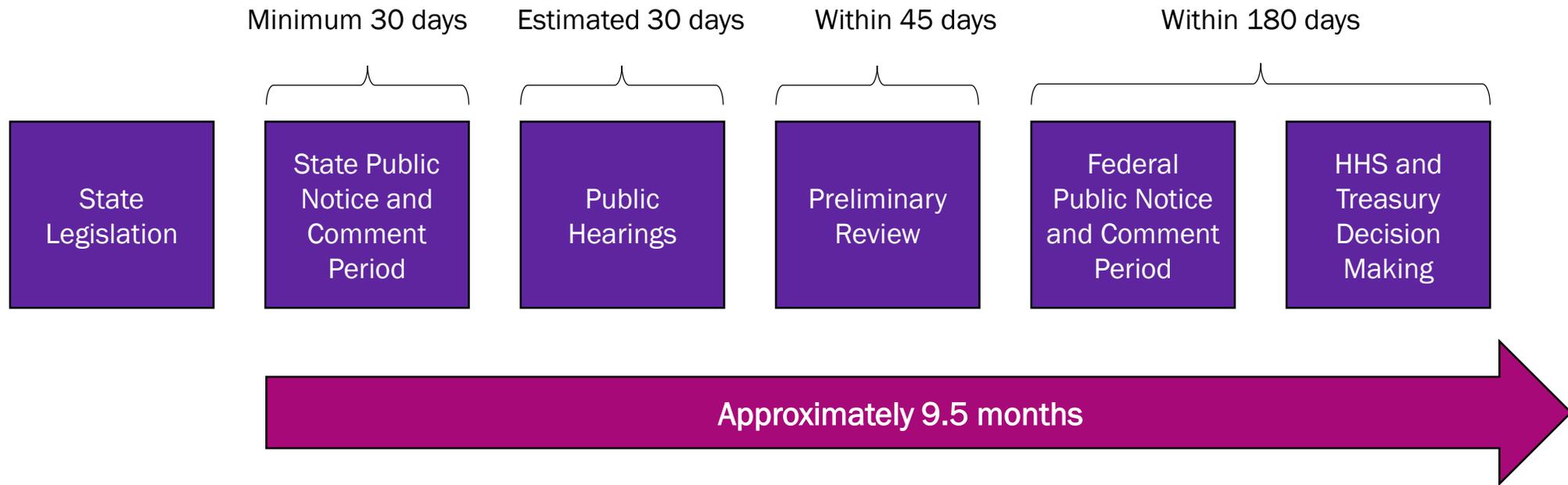
States may receive a “pass-through” of federal funds that would have otherwise been applied to premium tax credits or cost-sharing reductions had the state not received the waiver

Section 1332 Guardrails

All Section 1332 waivers must satisfy the following guardrails:



Section 1332 Waiver Process Timeline



Section 1332 Checklist

Applications
must
include:

- List of provisions being waived
 - Proposed waiver implementation plan and timeline
 - Actuarial and economic analysis and 10-year budget plan
 - Data, assumptions, targets and other information related to the impact of the waiver on the four guardrails
 - State legislation authorizing the application that includes language that program is contingent upon federal approval of the waiver
 - Public communications documenting the public hearings and notice of public comment period
 - Communications documenting consultation with Tribal entities in state
 - Written comments received during the notice and comment period
 - Funding strategy for state portion (which may require legislative action)
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State Financial Share and Legislative Requirements

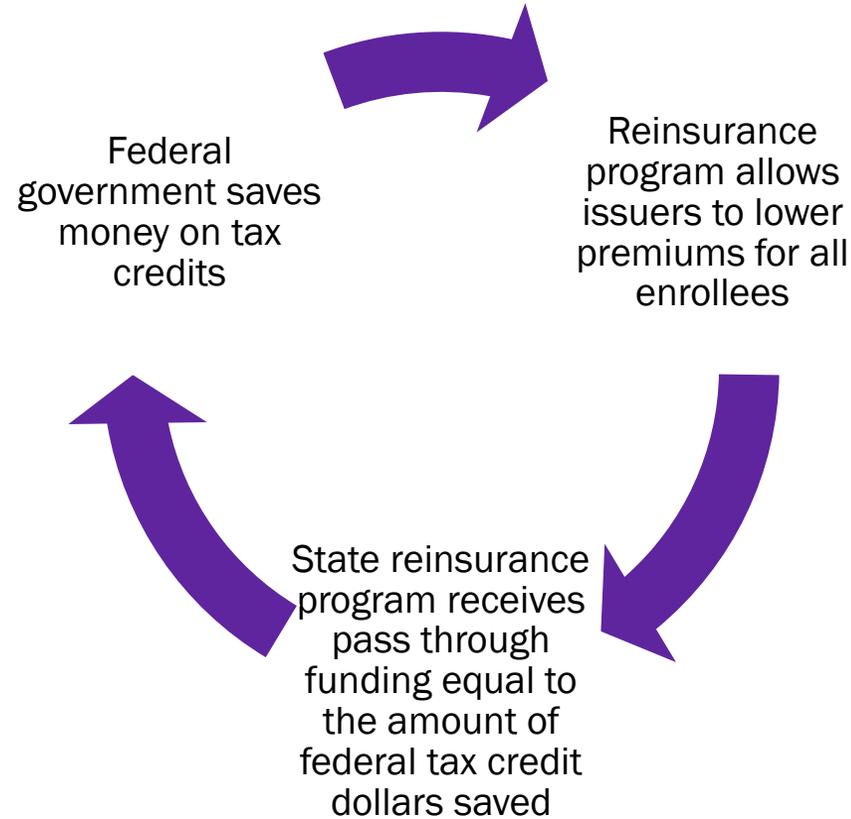
State Financial Share

- States must provide a funding strategy that would cover the cost of the difference between the federal pass-through dollars and the total cost of the reinsurance programs
- Funding needed varies based on range of issues, including demographics and cost of insurance
- In states with 1332 reinsurance programs, the state share has come from several places, including:
 - State General Fund dollars
 - Legislative dollars set aside for health access programs
 - Assessments on insurers

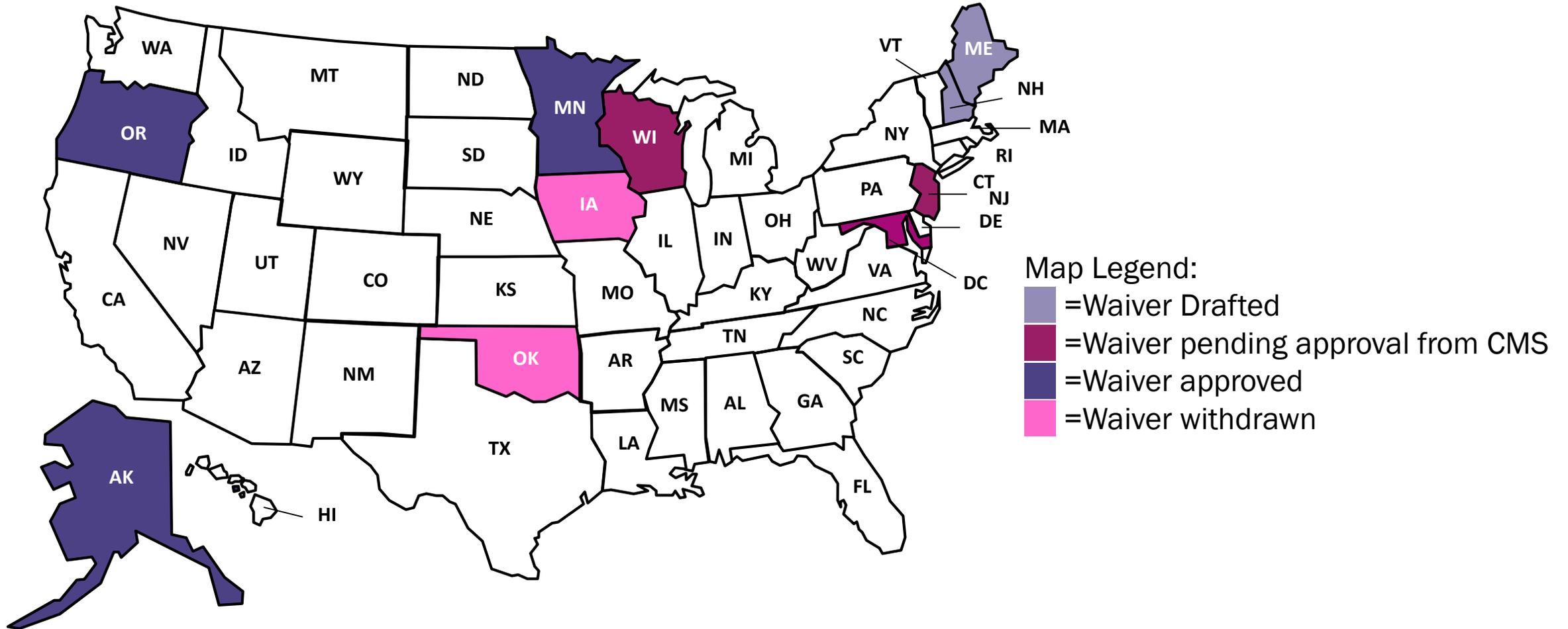
Legislation

- Legislation related to a Section 1332 reinsurance waiver must:
 - Specifically authorize or instruct the state to submit a waiver application
 - Demonstrate legal authority to manage a reinsurance program
 - Provide that the state reinsurance program is contingent upon federal approval of the waiver (or will become effective only if the Section 1332 waiver is approved)

How Reinsurance Works as Part of a Section 1332 Waiver

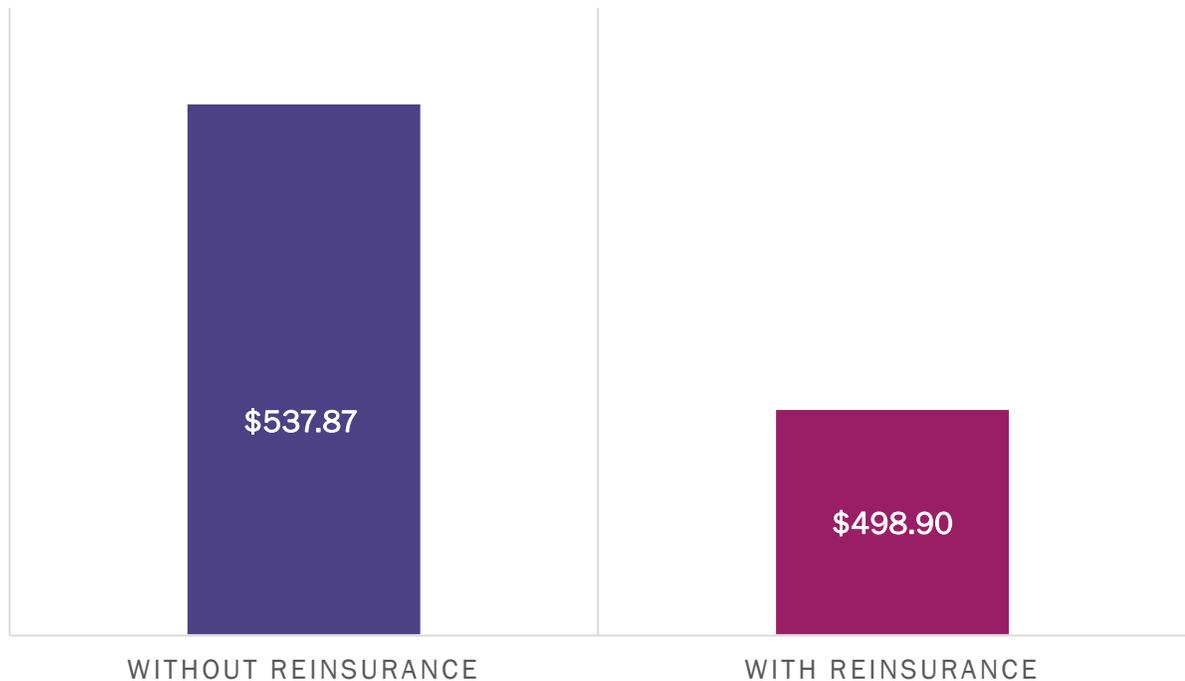


State Section 1332 Reinsurance Waiver Activity to Date

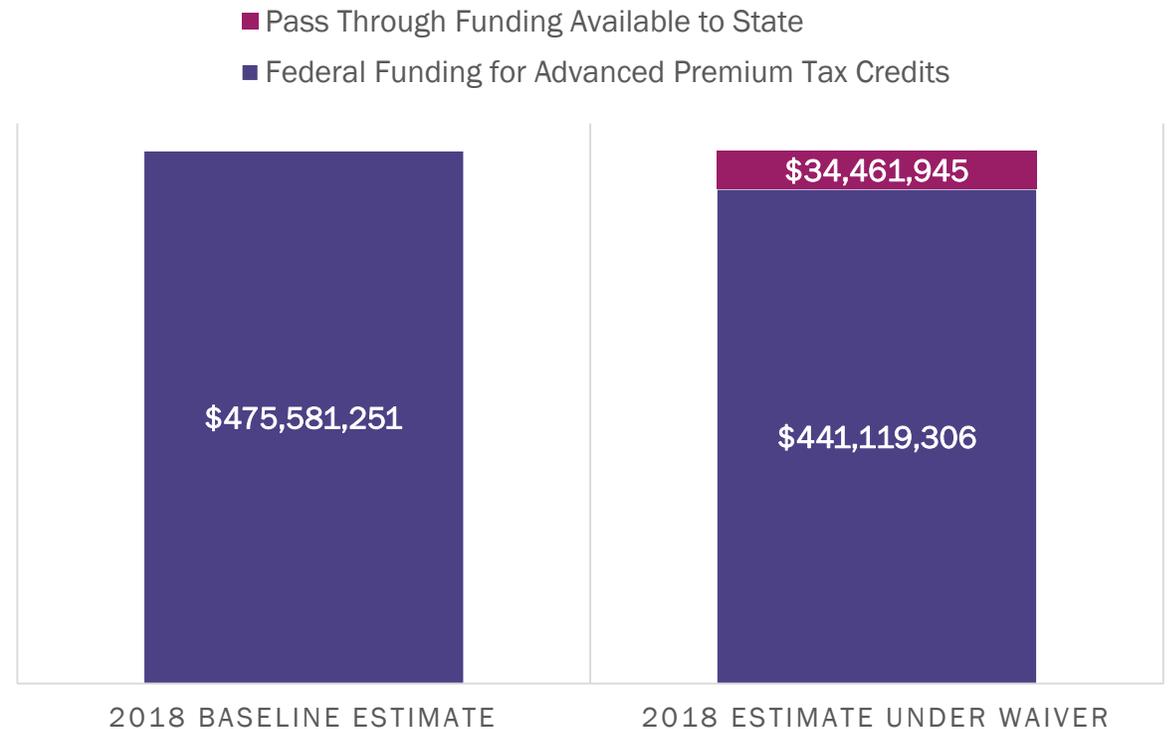


Example: Oregon Reinsurance Program's Impact on Premiums

EXPECTED AVERAGE EXCHANGE PER MEMBER PER MONTH PREMIUM FOR 2018



EXPECTED FEDERAL SPENDING ON ADVANCED PREMIUM TAX CREDITS FOR 2018



Key Decision Points and Considerations

Decision Points:

- **Operational Variables:** Attachment point, cap, coinsurance
- **State funding:** Assessment, general fund dollars, ceded premiums

Key Considerations:

- What will be the impact on premiums and enrollment?
- How much state and federal funding will be needed?
- How will state fund its portion of the program?
- Who will administer the program for the state?

Questions?

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Appendix

States That Have Existing Reinsurance Programs through 1332 Waivers

State	Attachment Point	Reinsurance Cap	Coinsurance	Estimated reinsurance funding	Source of state funds
Alaska	N/A	N/A	100%	2017: \$55M in state dollars from premium tax 2018: \$50.5M in federal funding approved \$25M contribution from Premara	Premium tax on all health insurers
Minnesota	\$50,000	\$250,000	80%	\$132M in state funding \$139M in federal funding approved	State General Fund and Health Care Access Fund
Oregon	Not yet determined	\$1,000,000	50%	\$90M in state funding \$35M in federal funding approved	1.5 % Premium assessment on fully insured commercial major medical plans

States That Are Considering Section 1332 Waiver Reinsurance Programs

State	Attachment Point	Reinsurance Cap	Coinsurance	Estimated reinsurance funding	Source of state funds
New Jersey	\$40,000	\$215,000	60%	\$105.8 million in state funding \$218 million in federal funding requested	Revenue from state shared responsibility tax and appropriation from the State General Fund
Wisconsin	\$50,000	\$250,000	TBD (between 50%-80%)	\$30 million in state funding \$170 million in federal funding requested	State general fund
Maine	\$47,000	N/A	90% for claims between \$47,000 100% for claims above \$77,000	\$60 million in state funding \$33 million in federal funding	Organizational and Base market assessments on health insurers and third party administrators and ceded premiums for participating enrollees
Maryland	TBD	\$250,000	80%	\$365 million in state funding \$280 million in federal funding	2.75 percent assessment on health insurance plans and state regulated Medicaid managed care plans