

# Reinsurance and 1332 Feasibility

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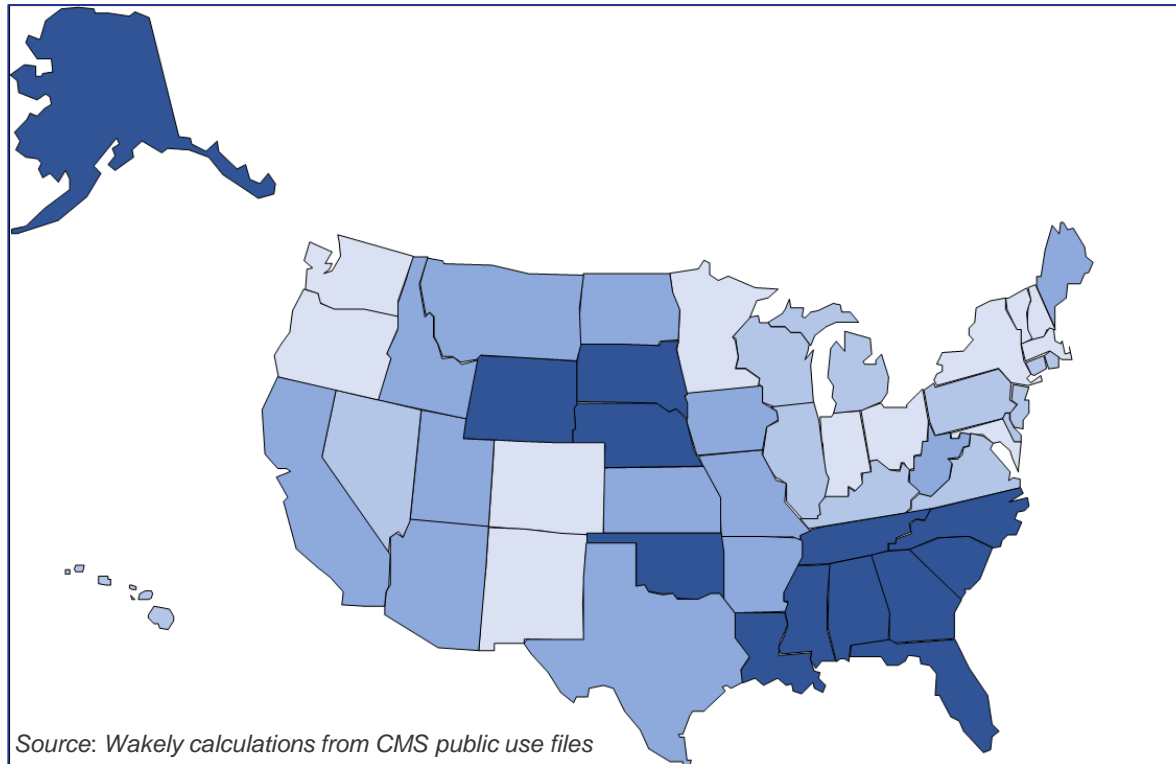
# Which States Benefit Most from a 1332

- Through a 1332 waiver, a state can receive the net Federal savings that result from lower premiums (and thus lower Advance Premium Tax Credit, or APTC, amounts) from a reinsurance program
- These “net savings” are referred to as a “pass-through”. Pass-through funds can be used by the state to pay for the reinsurance program
- Some states will have a higher percent (pass-through rate) of Federal funding than others
- The primary driver of the pass-through rate is the portion of APTC enrollees in the market and how high the APTC subsidy is on a per member per month (PMPM) basis

# Which States Benefit Most from a 1332

2016 total premium subsidies relative to total premiums

- Darker colors = greater total premium subsidies relative to total premiums
- In 2016, this ranged from 6% (DC) to 68% (AK)



- A lot has changed since 2016: Size of the market; amount of subsidies relative to total premiums; etc.

# Reinsurance Program Options

## Invisible programs

- Two primary options are claims based and condition based reinsurance
- Many hybrid options of the two exist as well

## Benefits of claims based reinsurance

- Ease of administration (both setting up and ongoing operations)
- Less complicated to coordinate with the risk adjustment program
- More “known” given the Federal transitional reinsurance program
- Covers all high cost claims, not just specific conditions

# Feasibility Analysis for Montana

- Wakely was retained to analyze the potential effects of a claims based reinsurance program on premiums for the year 2020 and the potential for a 1332 waiver, estimating the Federal pass-through amounts
- Wakely collected claims, enrollment, and premium data from Montana issuers to create a baseline of the Montana individual market
- Wakely also talked with Montana issuers to gain qualitative insights into market dynamics

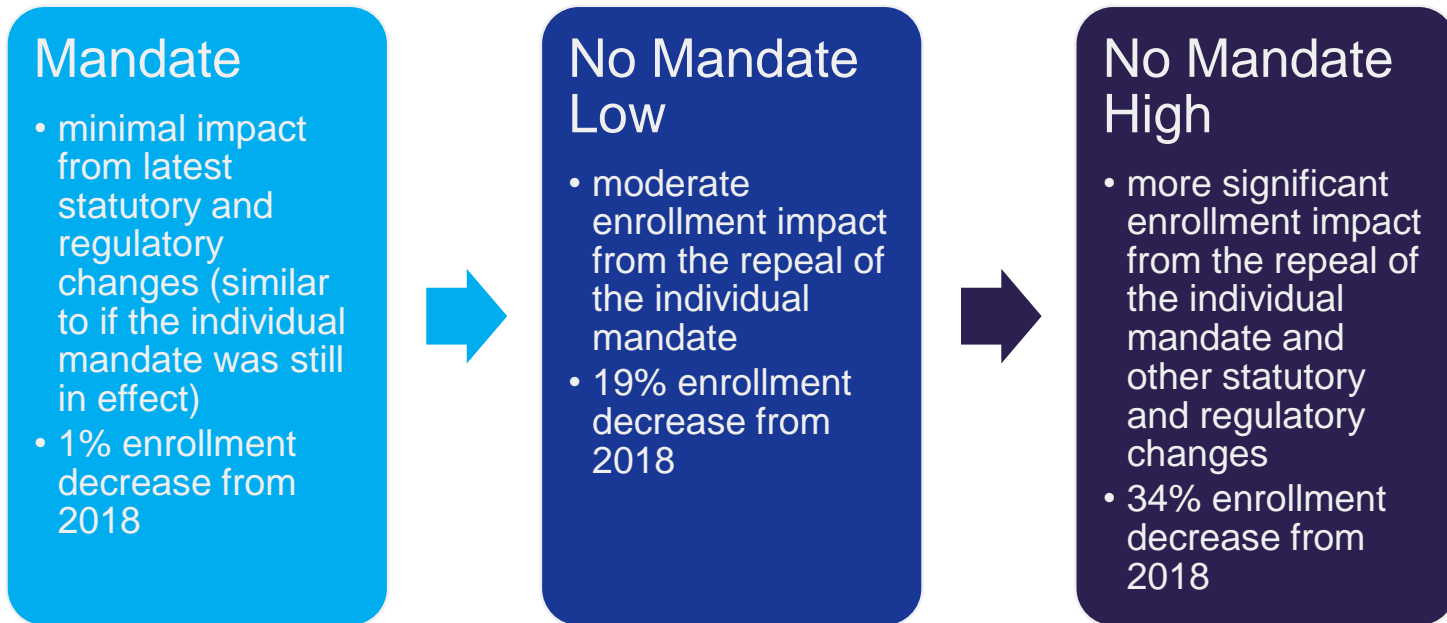
# Montana – Where we are now

- Average annual amounts for the entire Individual ACA market (all plans)
- Combined data from all Montana issuers from around April 2018
- 2018 average enrollment was adjusted for expected enrollment attrition throughout the year

Baseline	2017	2018	Change
<b>Average Annual Enrollment</b>			
Total Individual Enrollment	60,607	52,589	-13.2%
Exchange Enrollment	44,576	41,115	-7.8%
APTC Enrollment	38,812	35,860	-7.6%
Non-APTC Exchange Enrollment	5,764	5,255	-8.8%
Off-Exchange Enrollment	16,030	11,475	-28.4%
<b>Per Member Per Month (PMPM) Amounts</b>			
Total Individual Premium PMPM	\$561.61	\$638.58	13.7%
APTC PMPM	\$476.38	\$553.39	16.2%
<b>Total Annual Dollars</b>			
Total Individual Premiums	\$408,446,283	\$402,986,248	-1.3%
Total APTCs	\$221,871,384	\$238,134,029	7.3%

# Key Assumptions for 2020 Baseline

- Enrollment scenarios (also impacts premium if morbidity increases with enrollment losses)



- Premium increases
  - 2019 used the average of the filed rate increases, considering morbidity differences based on the enrollment scenario (3% to 10% overall premium increases based on the scenario)
  - 2020 assumed slightly higher than trend increases (9% to 13%) due to morbidity differences and the return of the provider fee

# Montana – 2020 Baseline

Given the regulatory and statutory uncertainty, multiple scenarios for the 2020 average annual amounts were estimated for the entire Individual ACA market (all plans)

- Below are the baseline enrollment/premium estimates, before reinsurance

Baseline – Before Reinsurance	2018	2020 Mandate	2020 No Mandate Low	2020 No Mandate High
<b>Average Annual Enrollment</b>				
Total Individual Enrollment	52,589	51,993	42,579	34,856
Exchange Enrollment	41,115	40,928	34,783	29,909
APTC Enrollment	35,860	35,860	31,213	27,644
Non-APTC Exchange Enrollment	5,255	5,068	3,570	2,265
Off-Exchange Enrollment	11,475	11,066	7,795	4,946
<b>Per Member Per Month (PMPM) Amounts</b>				
Total Individual Premium	\$638.58	\$717.20	\$755.72	\$791.85
APTC	\$553.39	\$650.81	\$691.51	\$729.68
<b>Total Annual Dollars</b>				
Total Individual Premiums	\$402,986,248	\$447,476,736	\$386,130,329	\$331,204,587
Total APTCs	\$238,134,029	\$280,054,909	\$259,005,996	\$242,052,620



# Scenarios for Reinsurance Impact

- Scenarios with a 1% and 2% assessment were analyzed
  - This assessment would be on all health insurance products in Montana
  - Assessment increases premiums
- Three different total funding levels were also analyzed (i.e., includes both the Federal and Montana portions of the funding)



# Key Findings (Impact on Premiums)

- Different assumptions on the size of the individual market, health of the individual market, and the assessment used to fund the program results in a reinsurance program having different levels of effects
- Reductions in premiums are estimated to increase enrollment by 1% to 2% compared to the baseline
- Premium Impacts\*:

Funding Level	\$50 Million		\$75 Million		\$100 Million		
	Carrier Assessment	1%	2%	1%	2%	1%	2%
Mandate		-10.5%	-9.6%	-16.3%	-15.4%	-22.0%	-21.2%
No Mandate Low		-12.3%	-11.4%	-19.0%	-18.1%	-25.6%	-24.8%
No Mandate High		-14.5%	-13.6%	-22.2%	-21.4%	-29.9%	-29.2%

\* The premium impacts represent how much lower premiums would be due to reinsurance relative to what they otherwise would have been. They do not show 2020 premium changes relative to 2019.

# Key Findings (Funding)

- Different assumptions will also impact the estimated pass-through (Federal dollars)
- The greater the pass-through, the less state funding is needed
- Estimated Federal pass-through rates:

Funding Level	\$50 Million		\$75 Million		\$100 Million	
	1%	2%	1%	2%	1%	2%
Mandate	66.1%	60.2%	68.2%	64.5%	69.2%	66.7%
No Mandate Low	71.0%	65.7%	72.9%	69.7%	73.8%	71.6%
No Mandate High	77.4%	72.7%	79.2%	76.3%	80.0%	78.1%

# Key Findings (Summary)

- Higher total funding means more state dollars would be needed on an absolute basis, but less on a percent basis

Funding Level	\$50 Million	\$75 Million	\$100 Million
Premium Impact	-9.6% to -14.5%	-15.4% to -22.2%	-21.2% to -29.9%
Federal Pass-Through \$s	\$30 to \$39 Million	\$48 to \$59 Million	\$67 to \$80 Million
Needed State Funding	\$11 to \$20 Million	\$16 to \$27 Million	\$20 to \$33 Million
Federal Pass-Through %	60.2% to 77.4%	64.5% to 79.2%	66.7% to 80.0%

# Key Findings (Parameters)

- Using \$75 million funding, the no mandate low scenario, and 1% assessment, potential reinsurance parameters were created
- Note Wakely used “rules of thumb” to maintain incentives to control costs to produce the parameters
  - No overlap with other reinsurance programs
  - Coinsurance less than 100%

Funding Level	Attachment Point	Cap	Coinsurance
\$75M	\$30,000	\$1,000,000	50%
\$75M	\$60,000	\$500,000	80%
\$75M	\$45,000	\$250,000	80%

**Attachment Point** - Point at which reinsurance begins to cover claims

**Cap** - Point at which reinsurance stops covering claims

**Coinsurance** - Percent of claims covered between attachment point and cap

# Limitations and Next Steps

## Estimates May Change

- ACA world forever changing
- Latest data and policy considerations should be updated before a waiver is submitted

## Pass-Through Uncertainty

- Ultimately the Federal Government (Treasury Department) calculates pass-through amounts
- Different assumptions by Treasury may alter actual amounts

## Issuer Pricing

- Ultimately how issuers price reinsurance determines impact
- Understanding their concerns and considerations is paramount