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Building on Premium Stabilization for the Future

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By Kevin Counihan, Health Insurance Marketplace CEO

The Affordable Care Act (ACA), the Medicare Part D prescription drug benefit, and a number of states' insurance plans include reinsurance programs as a way to promote stable, affordable health coverage. Because high-cost enrollees and events are rare, they create disproportionate uncertainty in setting health insurance premiums: it is hard for any given issuer to predict how many people with very high-cost conditions will enroll, or how many expensive but unusual events will occur. By protecting against some of this risk, reinsurance programs help stabilize health insurance markets, promote issuer participation, and reduce premiums for consumers. Reinsurance programs also reduce insurers' incentives to discourage enrollment by people with very high-cost conditions, thereby helping ensure those individuals can access the care they need.

The three-year, transitional reinsurance program established under the ACA was designed to buffer the new individual market as new federal reforms were implemented, enrollment grew, and issuers gained experience pricing and planning for new consumers. New data (https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/Final-Risk-Pool-Analysis-8_11_16.pdf)released today show that per-enrollee costs in the ACA individual market were essentially unchanged from 2014 to 2015, falling by 0.1 percent, even as per-enrollee costs in the broader health insurance market grew by at least 3 percent.

This finding suggests a year-over-year improvement in the ACA individual risk pool, with the Marketplaces gaining healthier, lower-cost consumers as it expanded. Meanwhile, independent researchers recently estimated that 2016 Marketplace premiums are between 12 percent (http://kff.org/health-reform/perspective/how-aca-marketplace-premiums-measure-up-to-expectations/) and 20 percent (http://healthaffairs.org/blog/2016/07/21/obamacare-premiums-are-lower-than-you-think/) below what the Congressional Budget Office (CBO) initially predicted. At the same time, the Health Insurance Marketplace remains a young, maturing market, one where all participants – insurers, consumers, providers, states, and we as federal regulators – are still learning.

Given this evolution and as part of our ongoing (https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-06-21.html) efforts (https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-02-24.html) to strengthen (https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-06-08.html) the Marketplace, we are exploring options to modify the ACA's permanent risk adjustment program to better adjust for the highest-cost enrollees and their actuarial risk, which would achieve some of the same risk-sharing benefits as the reinsurance program. The ACA's risk adjustment program plays an important role in distributing the costs of sicker, more expensive enrollees, and data show (https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/June-30-2016-RA-and-RI-Summary-Report-5CR-063016.pdf) that the program worked as intended in its first two years.

But as described in a white paper (https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/RA-March-31-White-Paper-032416.pdf) released this spring, the current HHS risk adjustment methodology cannot easily adjust for certain high-cost enrollees. In future rulemaking, we plan to propose modifying the risk adjustment program to absorb some of the cost for claims above a certain threshold (e.g. $2 million), funded by a small payment from all issuers. This type of risk sharing would reduce uncertainty for issuers who are not yet able to reliably predict the prevalence and nature of high-cost cases in their Marketplace business, while also protecting access to robust coverage options for people with very high-cost conditions.

Some states are also considering creating their own reinsurance programs to help stabilize and strengthen their markets. Recently, Alaska enacted a law (https://www.healthinsurance.org/alaska-state-health-insurance-exchange/) to allocate $55 million from an existing premium tax to provide reinsurance for the individual market and to pursue a State Innovation Waiver under the ACA. Alaska had previously collected funds for the state's high-risk pool that is no longer needed because the ACA guarantees coverage to individuals with pre-existing conditions; about 35 states had high-risk pools (http://www.ncsl.org/research/health/high-risk-pools-for-health-coverage.aspx) prior to the ACA as well and may have similar opportunities.

Alaska's health insurance market has struggled for many years with the highest health care costs in the country, low levels of insurance market competition, and other challenges, which are likely related, at least in part, to its very low population density and unique geography. But after Alaska's governor signed the reinsurance bill into law, Premera, the state's Blue Cross Blue Shield plan, reduced its requested 2017 rate increase to 9.8 percent (http://stateofreform.com/featured/2016/07/premera-requests-9-8-rate-increase-individual-plans-alaska/), less than the previous two years' increases, well below the 40 percent increase the company had previously considered. According to media reports, this difference reflected the fact that nearly a quarter of Premera's claims costs in the first half of 2015 came from just 37 high-cost enrollees (https://www.healthinsurance.org/alaska-state-health-insurance-exchange/) and the plan expects these high claims costs to be partially covered under the state's reinsurance program.

Alaska's reinsurance legislation also includes authority for Alaska to seek a State Innovation Waiver from CMS. Innovation Waivers may be granted for changes that waive specific existing ACA policies and meet four statutory guardrails (https://www.federalregister.gov/articles/2015/12/16/2015-31563/waivers-for-state-innovation): maintaining or improving access to coverage, affordability of coverage, comprehensiveness of coverage, and not adding to federal deficits.

While the details of Alaska's waiver will not be clear until the state submits an application, a reinsurance program has the potential to improve access and affordability by strengthening the state's insurance market and buffering risk for insurers. In addition, to the extent a reinsurance program reduces individual market premiums, it could also reduce federal costs for the Premium Tax Credit. If an Innovation Waiver is approved, the state may receive federal pass-through funding based on any savings realized in Marketplace financial assistance. Thus, a waiver – in Alaska or other states considering creating state reinsurance programs – could potentially provide pass-through funding that would in effect cover part of the cost of a reinsurance program.

Our door is always open to new ideas that help spread the risk of providing coverage for people with significant health care needs. These ideas contribute to our ongoing work in promoting Marketplace stability and help ensure affordable options for consumers.

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