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Reducing Premiums and Maximizing the Stabilization of Individual Markets for 2019 and Beyond: State Invisible High-Risk Pools/Reinsurance

One of the best routes to lower premiums for consumers and give improved stability to insurance carriers is to provide adequate federal funding for invisible high risk pools or reinsurance (hereafter "reinsurance"). The following three critical elements would help ensure carrier participation and substantially lower premiums.

1. **Programs should be adequately funded for at least two years, with recognition of the leveraging effects of net federal spending due to a reduction of premiums.**

   Proposals to fund reinsurance with net federal funding of $5 billion would result in a gross reinsurance amount of between $12 and $15 billion depending on the claims experience for the given year. This net funding would reduce consumer premiums by on average 12 percent with an expected state-specific range of 9 to 16 percent depending on the circumstances of each state's enrollment and risk profile. Such premium relief is critically needed given the removal of the individual mandate. Legislation prescribing the nature and level of federal funding for reinsurance could address this by explicitly providing that the appropriated funding is the "net" amount (e.g., the "scorable" amount after reductions in federal spending from decreased spending for Advanced Premium Tax Credits due to reductions in premiums).

2. **Provisions should allow for state-based initiatives and state flexibility while providing a commonly administered reinsurance program for non-applying states.**

   Fostering and encouraging state-based solutions is vital. At the same time, where states do not have the ability to manage and implement a reinsurance program, the states' residents should still benefit from the premium reductions and market stability that results from reinsurance-type mechanisms. Assuring that all Americans benefit from this program could be done by including legislative protections for residents of states that do not opt to submit for funding under the 1332 waiver process. A reinsurance program for states that do not apply, similar to that used for the reinsurance program administered for states in 2014, could assure that the residents of those states would still benefit from lower premiums and more plan competition.

3. **A single risk pool should be maintained to avoid risk selection and a return to insurance markets with care that is unaffordable or unavailable to many consumers.**

   Implementation of reinsurance programs should be done within each state's single risk pool for the individual market to ensure that health plans balance their risk mix with healthy and sick individuals from all of their products. Otherwise, insurance carriers could return to focusing on risk selection as the way to succeed in the individual market, instead of succeeding by providing high-value health care. Prior to 2014, carriers segregated high-risk consumers into separate risk pools that experienced substantial annual rate increases. Because the single risk pool requires carriers to consider the cost of all their enrollees, sicker consumers are protected from facing a major premium increase.

ADDENDUM: Reinsurance or High-Risk Pools as Cost Effective Paths to Promote Market Stabilization

Reinsurance, state-based high risk pools or similar types of risk-spreading mechanisms have been recognized by both Republicans and Democrats as potentially critical tools to promote stability in the individual health insurance market. In 2014, a temporary federal reinsurance program with approximately $8 billion in nominal funding had the effect of lowering premiums approximately 10 to 12 percent below what they would have been otherwise. This funding helped offset the higher costs of the known worse health risk in the non-group market and also helped "prime the pump" by encouraging more people to sign up for coverage given the lower rates.

Bipartisan legislation introduced in the Senate (S. 1835 Collins-Nelson) would fund state-based invisible high-risk pools or reinsurance programs. Policies such as these would provide state flexibility and stability to the market directly benefiting the entire individual market, both on- and off-exchange (for enrollees who do and do not receive a subsidy). This would stabilize the insurance market and reduce premiums for millions of Americans who do not benefit directly from the Affordable Care Act's subsidies now. In addition, these mechanisms could partially offset the likely premium spikes that would result from the repeal of the mandate penalty — impacts that will be primarily felt by middle class Americans who do not qualify for tax credits that can help make insurance more affordable. Market-stabilization funds would increase the likelihood that plans would stay in the individual market.

This analysis describes the cost to the federal government, the impacts on premiums and the mechanics that would be involved if stability funding is provided to the carriers. The descriptions that follow model the potential premium and budget impacts of an annual $5 billion "net" federal funding for risk stabilization in 2019 and 2020. This would translate into a nominal (before the reduction APTC subsidies) risk-stabilization fund of between $12 billion and $15 billion per year. The total two-year $10 billion cost to the federal government is less than the nominal funding amount because it would reduce premiums and thus similarly reduce federal payments for Advanced Premium Tax Credits (APTC).

Reinsurance funded at the net (after APTC offsets) $5 billion level would reduce 2019 premiums by an average of 12 percent with an expected state-specific range of 9 to 16 percent depending on the circumstances of each state's enrollment and risk profile. What follows is a step-by-step review of the assumptions and logic behind the benefits and federal costs of using the risk-stabilization reinsurance mechanism:

Critical Steps to Assessing Federal Spending Risk Stabilization Using Reinsurance:

1. Consistent with the 2014 reinsurance program trended forward to 2019, $5 billion in net funding (the "scorable" amount of increased federal spending after taking into account premium reduction and associated decline in APTC subsidies) would lead to an average reduction in premiums on- and off-exchange of approximately 12 percent, depending on the circumstances of each state's enrollment and risk profile.

2. A premium reduction of 12 percent would reduce the second lowest-cost Silver plan, the benchmark for the APTC and its associated subsidy costs by an equivalent amount. The entire nominal reinsurance funding would not all go toward reducing the APTC amount because:

    a. Some of the plans that qualify for the second-lowest-cost Silver plan are more "efficient" than the average plan, so their reduction in premium from reinsurance is actually lower than the 12 percent average reduction for all plans.

    b. Some of the reinsurance goes to off-exchange plans and to individuals on-exchange who are unsubsidized, which has no direct effect on the APTC (although it benefits unsubsidized consumers).

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3. Taking into account the two reduction factors in 2(a) and 2(b) above, modeling shows that between 67 and 75 percent of the risk stabilization fund would contribute to a reduction in APTC funding (lowering the second-lowest-cost Silver plan).

Note that the reinsurance analysis above is independent of other premium factors, such as policies for funding cost-sharing reductions and enforcement of the individual mandate. The penalty has distinct positive effect of promoting enrollment and improving the risk mix of the individual market, leading to lower premiums. Given estimates that non-enforcement of the penalty could itself result in premium increases of 8 percent to over 13 percent depending on the carrier and state local circumstances, reinsurance funding at the level described above could greatly mitigate the premium impacts of that policy change. It is likely that state-based high-risk pool mechanisms would have a similar impact, but separate modeling for the magnitude of their effect may be needed.

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