Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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State-Operated Individual Market Reinsurance Programs

This issue brief is in response to a request from the Joint Fiscal Committee asking for information on Minnesota's state-operated reinsurance program and potential implications for Vermont should the State pursue a similar program. While such state-subsidized programs can provide meaningful reductions to individual market premiums, they are unlikely to affect the underlying costs in the health care system and will shift costs to the state and the tax payers. At least four states – Minnesota, Alaska, Oregon, and Iowa – have sought ***1332 innovation waivers under the Affordable Care Act*** (ACA) for the purposes of creating state-operated reinsurance programs to stabilize their individual health insurance markets after periods of significant and unsustainable premium increases.

Summary of State-Operated Individual Market Reinsurance Programs

State	Reinsurance Benefit	Est. Premium Impact	Estimated Cost	Revenue Source	1332 Waiver Status
Minnesota	Coverage for 80% of claims costs between $50,000 and $250,000.	20%	$271 million	General Fund, 1% premium tax, and federal dollars	Approved
Alaska	Coverage for claims of one or more of 33 identified high-cost health conditions.	20%	$59 million	2.7% premium tax and federal dollars.	Approved
Oregon	Coverage for 50% of claims costs between an attachment point (yet to be determined) and a $1 million cap.	7%	$120 million	0.3% premium tax and federal dollars.	Approved
Iowa	Coverage for 85% of claims between $100,000 and $3 million.	N/A	$80 million	Federal dollars only.	Withdrawn

Minnesota

The Minnesota Premium Security Act (MPSA) is a state-operated reinsurance program created to stabilize premiums in Minnesota's individual health insurance market starting in 2018.[1] The law authorizes $271 million per year for the program in 2018 and 2019 to reimburse health insurers partially for especially high cost claims in the individual market.

Specifically, the reinsurance program will cover 80% of an individual's annual claims costs between $50,000 and $250,000. This is intended to reduce premiums for all consumers in Minnesota's individual health insurance market – approximately 170,000 Minnesotans. In 2017, some plans saw premium increases as high as 67%. Without the reinsurance program, carriers say they would have to increase individual market premiums by 3% to 32% to account for expected costs.[2] The

[1] Minnesota State Legislature. Minnesota H.F. No. 5. http://www.house.leg.state.mn.us/bills/billnum.asp?ls_year=90&session_year=2017&session_number=0&billnumber=HF%205

[2] Minnesota Public Radio. Minnesota's health insurance rates set to stabilize for 2018. https://www.mprnews.org/story/2017/07/31/shoppers-get-first-glimpse-insurance-rates

Minnesota Commerce Department estimates this program would decrease premiums by 20% compared to what they would have been in the absence of the program.[3]

To pay for this, the state is using a combination of general fund dollars and half the revenues from an existing 2% premium tax.[4] The state will also receive federal matching dollars which required a 1332 state innovation waiver which was approved in October.[5] Uncertain of whether the federal government would approve the waiver request insurance carriers initially filed two sets of rates: one set with the effects of the new reinsurance program and one set without the program.

Alaska

In 2016, Alaska, which was also seeing significant double-digit premium increases in its individual health insurance market, passed a law creating the Alaska Reinsurance Program (ARP). The ARP is a state-operated reinsurance program which covers claims in the individual market for individuals with one or more of 33 identified high-cost conditions in an attempt to help stabilize premiums and keep the sole remaining insurer, Premera, operating in the individual market.[6] The program was initially funded for two years through an existing broad-based 2.7% premium tax on all insurers (not just health insurers) and administered by the State of Alaska and the Alaska Comprehensive Health Insurance Association (ACHIA).[7] The law also authorized the state to seek a 1332 state innovation waiver, which was approved in July 2017 and will be effective January 1, 2018 through December 31, 2022.

Alaska projects that under the ARP, individual market premiums will be 20% lower on average in 2018 than they would have been in the absence of the program. It is also anticipated to help stabilize the individual market, resulting in approximately 1,600 additional individuals having health insurance. Finally, the lower premiums, including the cost of the benchmark second lowest cost silver plan, are expected to result in the federal government spending less in premium tax credits. As such, the state will receive pass-through funding for the amount that otherwise would have been spent on premium tax credits had the benchmark premium not been reduced.[8] The program is expected to cost $59 million in 2018, of which CMS will provide $48.4 million and Alaska the rest.

Oregon

Over the past several years, individual market plans in Oregon have seen significant premium increases and a narrowing of provider networks. Several insurers had withdrawn from Oregon's individual health insurance market or shrunk their geographical footprint and there had been widespread concern that the remaining insurers would abandon some of Oregon's rural counties

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[3] Minnesota Department of Commerce. Minnesota Premium Security Plan & Section 1332 State Innovation Waiver Fact Sheet. http://mn.gov/commerce-stat/pdfs/1332-waiver.pdf

[4] Minnesota already had a 2% premium tax. This law diverts 1% (half) of the premium into a new "premium security account" in the special revenue fund.

[5] Section 1332 of the Affordable Care Act permits a state to apply for a State Innovation waiver to pursue innovative strategies to improve access to more affordable health insurance while retaining basic protections of the Affordable Care Act.

[6] Saving the Individual Market in Alaska: The Alaska Reinsurance Program. January 11, 2017 Powerpoint Presentation. See slide 10 for the 33 identified high cost conditions. https://www.wship.org/Docs/WSHIP%20Alaska%20Reinsurance%20Program%20Presentation%202017%2001%2011%20FINAL.pdf

[7] The Alaska Comprehensive Health Insurance Association (ACHIA) was created by the Alaska Legislature to provide access to health insurance coverage to all residents of the state who are unable to obtain individual health insurance and meet certain eligibility criteria.

[8] Center for Consumer Information and Insurance Oversight (CCIIO), Center for Medicare and Medicaid Services (CMS). Alaska: State Innovation Waiver under section 1332 of the PPACA Fact Sheet. 7/11/17.

leaving beneficiaries in those counties without any options for purchasing plans on the exchange. In June 2017, Oregon passed a law creating the Oregon Reinsurance Program (ORP) in an effort to stabilize the individual health insurance market. This program required a 1332 innovation waiver, which was approved by CMS on October 19, 2017. The program will be partially funded through a 0.3% tax on health insurance premiums, which is expected to raise $87.1 million, and an estimated $30 million in federal funds, which is equivalent to the anticipated annual savings generated by reducing federal premium tax credits which will be passed through to the state.[9] The ORP will operate like a traditional reinsurance program by reimbursing qualifying individual health insurers for 50% of beneficiaries' claims between an attachment point (still to be determined) and a $3 million cap. The attachment point will be set such that the total estimated reinsurance dollars match the available funding.[10] The Department of Consumer and Business Services (DCBS) estimates this program will result in a net premium decrease of 7.1% in 2018 and 6.5% in 2019.[11]

Iowa

In Iowa, Medica, the only remaining health insurer in the individual exchange market for the 2018 enrollment period, reportedly filed for average rate increases of 43 to 56%, which state officials estimated would drive 18,000 to 22,000 Iowans out of the individual health insurance market. In June 2017, Iowa submitted a 1332 waiver application, called the "Iowa Stopgap Measure"[12] which proposed to allow only a single standard plan (by any participating carrier) in the individual market and redistribute the estimated $421 million currently used to fund the federal advanced premium tax credits (APTC) in Iowa, between a reinsurance program and per-member per-month premium tax credits which would be adjusted based on age and income.[13] The reinsurance program, which was estimated to cost $80 million, proposed to cover 85% of claims between $100,000 and $3 million. At least one insurer, Wellmark of Iowa, said it would enter the 2018 market if the Stopgap measure was approved.[14] Unlike the Minnesota and Alaska plans that contribute state funding, the Iowa plan relied solely on the pass through federal dollars without any state contribution. In late October 2017, Iowa withdrew its 1332 waiver application for what appeared to be both technical and political reasons. According to a Washington Post article, in late August, President Trump personally called the top administrator at CMS, Seema Verma, and told her to reject Iowa's waiver application.[15] Further, while the waiver application claimed broad authority to pursue the waiver, it is unclear whether state officials had the legislative authority required under the ACA to file the 1332 waiver application.[16]

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[9] House Bill 2391 levied a 1.5% tax on health insurance premiums of which 0.3% (or 20% of the revenue) will go towards funding the reinsurance program.

[10] "Attachment point" is defined in HB2391 (Section 19) as the threshold dollar amount for claims costs incurred by a reinsurance eligible health benefit plan for which claims costs are eligible for reinsurance payments. https://olis.leg.state.or.us/liz/2017R1/Downloads/MeasureDocument/HB2391/A-Engrossed

[11] Oregon 1332 Draft Waiver Application, August 31, 2017. http://healthcare.oregon.gov/DocResources/1332-application.pdf

[12] Iowa Insurance Division, Iowa Stopgap Measure website: https://iid.iowa.gov/documents/state-of-iowa-1332-waiver-submission

[13] Iowa Stopgap Measure, waiver submission. https://iid.iowa.gov/documents/state-of-iowa-1332-waiver-submission

[14] Omaha World Herald, October 23, 2017. http://www.omaha.com/livewellnebraska/officials-to-announce-decision-today-on-obamacare-stopgap-measure-in/article_31779b70-b813-11e7-8567-7b5658b00691.html

[15] Washington Post, October 5. https://www.washingtonpost.com/politics/as-aca-enrollment-nears-administration-keeps-cutting-federal-support-of-the-law/2017/10/05/cc5995a2-a50e-11e7-b14f-f41773cd5a14_story.html?utm_term=.5fa893481089

[16] Iowa Stopgap Measure Application, Appendix E, item 3, Iowa comments "Iowa requests DHHS waive specific legislative recognition of Section 1332 waiver as providing health coverage for Iowans is far more essential than the structure of the authorizing legislation. Iowa's legislature has recessed for its 2017 session."

Vermont Implications

The implications of a state-sponsored reinsurance program on both premiums and enrollment in Vermont would depend on how such a program is designed, and specifically on how much such a program would cover. For instance, Alaska's program covers the costs related to specific conditions, whereas the Minnesota and Oregon programs act more like traditional reinsurance programs covering a percentage of costs within identified spending ranges. In addition, both planning and estimation of such a program would require the state to retain actuarial services.

In addition, all of the 1332 waivers that have been approved to date have incorporated state funding to their proposed programs. Should Vermont pursue such a plan, a state funding source would need to be identified. Minnesota and Alaska used existing taxes on premiums to help fund their reinsurance programs. Vermont currently has a 2% premium tax (on all insurers) which brings in about $57 million per year. However, significant portions of both BlueCross and BlueShield of Vermont and MVP Health's businesses are not-for-profits and not subject to the premium tax. Because these two insurers make up the overwhelming majority of the health insurance market, it is likely that very little of the premium tax revenues come from health insurance premiums.[17]

Finally, while such a reinsurance program could have a noticeable impact on insurance premiums, would likely be eligible for federal pass through funds, and provide an additional state-subsidy whereby Vermonters in the individual (and possibly the small group) market would benefit, it is unlikely to reduce underlying health care costs in Vermont.

[17] It is estimated that less than $5 million of the premium tax revenues come from health insurance premiums.