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LegisBrief
A QUICK LOOK INTO IMPORTANT ISSUES OF THE DAY
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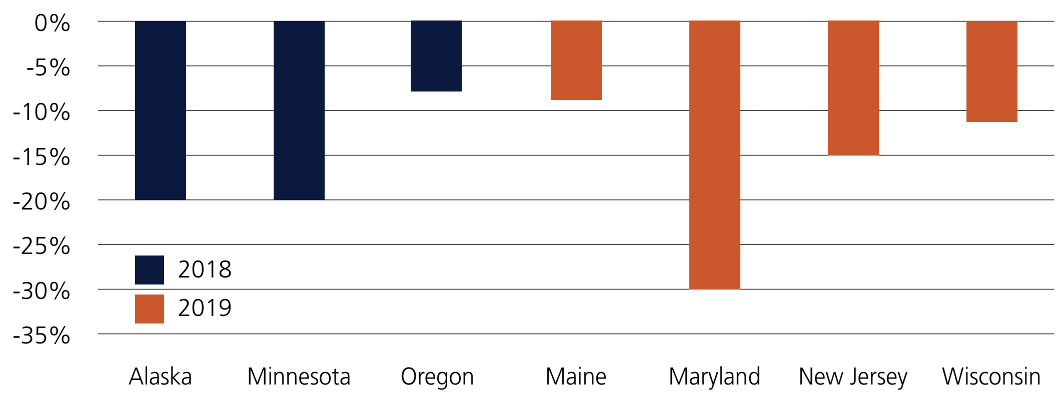
Projected Premium Changes in States with Reinsurance Waivers



Source: Centers for Medicare & Medicaid Services, Center for Consumer Information & Insurance Oversight

States Look to Reinsurance to Lower Health Insurance Costs

BY HALEY NICHOLSON AND ABBIE GRUWELL

Health insurance coverage and affordability continues to be a top issue across the country, with states increasingly taking the lead in helping more residents obtain insurance at reasonable rates. Federal waivers are one approach states can take to address the topic. One of these options, Section 1332 waivers—or State Innovation Waivers—allows states to pursue a variety of strategies, including establishing a reinsurance program.

Designed to stabilize an insurance market and make coverage more available and affordable, a reinsurance program is a reimbursement system that protects insurers from very high claims. It usually involves a third party acting as an insurer of insurance companies by paying part of a company's claims once they pass a certain amount.

A temporary reinsurance program was established under the Affordable Care Act (ACA) to help stabilize individual insurance markets when reforms were being implemented. The program ran from 2014 to 2016 and was funded by contributions from health insurers and external administrators representing self-insured group health plans. These parties contributed a set fee per enrolled person who was not part of a grandfathered plan and met eligibility requirements for reinsurance. The goal was to fund individual health insurance plans for high-cost enrollees and to work alongside other programs that would address the financial risks of adding new patients under the ACA and its coverage requirements. The funding ensured that health insurance companies would not charge higher premiums because of changes in the health care market.

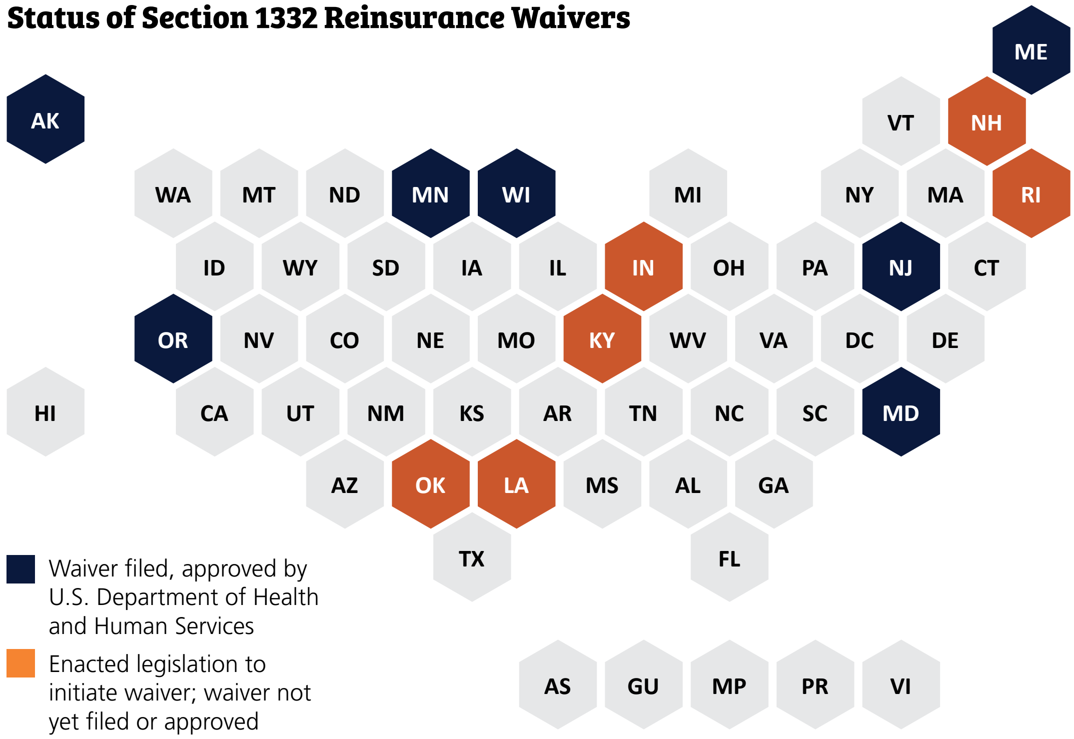
Reinsurance programs make payments for individual market plans based on actual costs rather than predicted costs. By making these payments, the programs help cover high-risk patients with ongoing and costly health care, as well as low-risk enrollees who might experience high and unexpected health care costs. As outlined in the chart above, these payments are designed to reduce premiums for working families.

Reinsurance programs can also help states where insurers withdraw from their markets. Such pro-

Did You Know?

- Section 1332 of the Affordable Care Act (ACA) allows states to apply for reinsurance waivers—which can alter certain ACA requirements for health insurance plans—to help make coverage more affordable.
- As of 2017, more than 10 million people were enrolled in a health insurance plan in the individual market.
- To date, seven states have successfully adopted reinsurance programs at minimal cost to the state and have seen premiums reduced as much as 20 percent annually.

Status of Section 1332 Reinsurance Waivers



Source: NCSL, 2018

grams offer insurers incentives to come back into the market by offsetting some of the costs associated with high-risk patients. These programs can also result in reductions in health insurance premium payments.

State Action

With the temporary reinsurance program expiring in December 2016, states are now pursuing their own reinsurance programs through 1332 waivers. The waiver requires a state to ensure that as many people as possible have access to affordable health insurance under their plan as they would have without it.

Alaska was the first state to gain approval for reinsurance; its success became an informal guide for other states. With each additional approval granted—in Maine, Maryland, Minnesota, New Jersey, Oregon and Wisconsin—the task of drafting a reinsurance waiver became more streamlined. These states have successfully adopted reinsurance programs at minimal cost to the state and have seen premiums reduced by as much as 20 percent annually.

Six other states—Indiana, Kentucky, Louisiana, New Hampshire, Oklahoma and Rhode Island—have enacted legislation to apply for a reinsurance waiver but their requests have not yet been filed or approved.

Since reinsurance programs are designed to reduce premiums, they require shared financial support from the federal and state government. States interested in such programs are advised to consider their costs before applying for a waiver.

Federal Action

During the 115th congressional session, members considered bills to assist states in setting up a reinsurance program. Legislation included congressional proposals co-sponsored by Senator Lamar Alexander (R-Tenn.) and Senator Patty Murray (D-Wash.) that would have reinstated Cost Sharing Reduction (CSR) payments, improved the 1332 application process and increased state flexibility to create reinsurance programs. As any state that has applied for a waiver can attest, the application process and establishing a reinsurance program can be time-consuming. The legislation appeared to have support in the Senate and from the White House, but ultimately stalled. Congress also tried to include the proposal in a 2018 omnibus spending bill but the language was dropped from the final bill. Despite the lack of progress, reinsurance remains an important topic in Congress and within the administration, and will likely be revisited in the 116th congressional session.

Additional Resources

- Insurance Market Stabilization Stalls
- Insuring the Health Insurers—Reinsurance Explained
- States Roles Using 1332 Health Waivers
- State Health Insurance Innovations Through Section 1332 Waivers
- Explaining Health Care Reform: Risk Adjustment, Reinsurance, and Risk Corridors
- The Affordable Care Act's Risk Adjustment Program: FAQs

NCSL Contacts

Haley Nicholson
202-624-8662

Abbie Gruwell
202-624-3569

National Conference of State Legislatures | William T. Pound, Executive Director
7700 East First Place, Denver, Colorado 80230, **303-364-7700** | 444 North Capitol Street, N.W., Suite 515, Washington, D.C. 20001, **202-624-5400**