

Improving the Health Insurance Marketplace: Reinsurance

The American Medical Association (AMA) believes that reinsurance provides an equitable, fair and cost-effective mechanism to subsidize the costs of high-risk and high-cost patients, and protects patients with pre-existing conditions. State and federal reinsurance programs have been shown to be effective in yielding premium reductions, in comparison to what they otherwise would have been.

The three R's: reinsurance, risk adjustment and risk corridors

Reinsurance provides payments to plans that enroll higher-cost individuals whose costs exceed a certain threshold, also known as an attachment point, up to a defined reinsurance cap. Insurers can either identify individuals they expect will incur high claims at the time of enrollment (“invisible high-risk pool”) or higher-cost individuals can be identified once they actually incur high claims. Either way it is structured, reinsurance plays a role in stabilizing premiums by reducing the incentive for insurers to charge higher premiums across the board in anticipation of higher-risk people enrolling in coverage.

Risk adjustment transfers funds from plans with lower-risk enrollees to plans with higher-risk enrollees, thereby removing insurer incentives to “cherry pick” healthier enrollees.

Risk corridors limit health plan losses and profits beyond an allowable range, playing a role in stabilizing premiums while also promoting more accurate premium-setting by insurers.

Success of reinsurance in stabilizing premiums

ACA's temporary reinsurance program

The temporary reinsurance program in place during the early years of Affordable Care Act

(ACA) implementation – 2014-16 – helped stabilize premiums in the individual health insurance marketplace. To fund the ACA's transitional reinsurance program, insurers and third party administrators paid \$63 per enrollee per year in 2014, \$44 in 2015 and \$27 in 2016. These investments in reinsurance yielded significant premium reductions.

For example, in 2014, insurers received reinsurance payments once an enrollee's costs exceeded \$45,000 (attachment point), covering 80 percent of enrollee costs up to \$250,000 (reinsurance cap). The \$10 billion reinsurance fund for 2014, the result of the \$63 per enrollee per year contributions, was estimated to reduce premiums by 10 to 14 percent.

Section 1332 waivers: state reinsurance initiatives

Section 1332 waivers have also been approved to provide funding for state reinsurance programs. As a result, premiums are lower in 2018 in the individual market in these states than what they otherwise would have been. For example, the **Oregon Reinsurance Program** reduced individual market rates by six percent, while the **Alaska Reinsurance Program** caused premiums to be 20 percent lower than they otherwise would have been.

Strategies to foster healthy markets

The AMA supports the principle that health insurance coverage of high-risk patients be subsidized through direct risk-based subsidies, such as reinsurance, rather than through indirect methods that rely heavily on market regulation. Considering the success of the ACA's reinsurance program, as well as state reinsurance programs, the AMA believes that, in light of finite resources, that resources should be directed to reinsurance programs.