Funding Reinsurance to Support Risk Stabilization and Potentially Reduce Federal Spending on Advanced Premium Tax Credits

Introduction

The need for reinsurance or a similar type of market-stabilization funding has been recognized by both Republicans and Democrats. Reinsurance was one of the "three R's" that was part of the initial launch of the Patient Protection and Affordable Care Act. In 2014, the total pool spent on reinsurance was $7.9 billion, and it 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 that the non-group market and also helped "prime the pump" by encouraging more people to sign up for coverage given the lower rates.

In the past four months, both the U.S. Senate's Better Care Reconciliation Act (BCRA) and House of Representatives' American Health Care Act (AHCA) included provisions to support stability funding for 2018 and 2019 — years in which both proposals assumed that the existing Advanced Premium Tax Credit and cost-sharing reduction structures would remain in place. The BCRA and the AHCA both proposed stability funding of $15 billion for 2018. For 2019, the AHCA proposed continuing the same $15 billion, while the BCRA proposed a total of $23 billion (divided between $15 billion in "short-term" funding and $8 billion in "long-term" funding).

This policy brief describes the cost to the federal government, the impacts on premiums and the mechanics that would be involved if stability funding were provided in the form of reinsurance, which could be readily administered and reliably budgeted for by carriers. The descriptions that follow model the potential impacts of there being a $20 billion risk-stabilization fund used for reinsurance for 2018 and 2019. Such funding would reduce 2018 premiums by an average of 15 percent, depending on the circumstances of each state's enrollment and risk profile. The reduction in premiums would be less in future years as health care costs increase if the stability fund remained at a constant level. The cost to the federal government, however, would be less than one-third of

Highlights:

- The role of and need for reinsurance or market-stabilization funding is clear. The funding helped offset the higher costs of higher-use consumers and helped lower premiums by approximately 10 to 12 percent below what they would have been otherwise for all consumers in 2014 alone.
- A national reinsurance program implemented in 2018 would have a significant positive effect on rates. However, for this to have the intended benefit, insurers would need to know with certainty by August 2017 that such a program is being implemented.
- A risk-stabilization fund of $20 billion used for reinsurance funding — within the range of funding proposed by the AHCA and the BCRA — would reduce premiums for both subsidized and unsubsidized Americans in the range of 12 to 18 percent.
- Since more than two-thirds of the reinsurance fund would contribute to a reduction in the Advanced Premium Tax Credit funding — reducing the cost to taxpayers as a whole — the federal cost of funding $20 billion in reinsurance would be less than $7 billion.

This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally.

the face value of the reinsurance, at less than $7 billion, because the fund would lead to a direct reduction in the federal payments for Advanced Premium Tax Credits (APTC).

Proposals to provide stability to the market through high-risk pools, reinsurance and other risk-stabilization policies directly benefit the entire individual market, both on and off the exchange (benefiting those who do and do not receive a subsidy). These impacts are important because they directly address moderating health care costs for millions of Americans who do not benefit from the Affordable Care Act's subsidies now.

For 2018, a national reinsurance program is the only proposal that could be adopted and implemented quickly enough for insurers to factor into their rates. For this to have the intended benefit, insurers (and the regulators who need to approve the rates) would need to know with certainty that such a program would be implemented by Sept. 1 at the very latest. What follows is a step-by-step review of the assumptions and logic behind the benefits and federal costs of using a risk-stabilization reinsurance mechanism funded at $20 billion for 2018 and 2019.

Considerations in Assessing Federal Spending on Risk Stabilization Using Reinsurance:

1. There is direct experience with the costs and benefits of nationally funded reinsurance from the 2014 transitional reinsurance year, which funded reinsurance at a $7.9 billion level.

2. Based on that experience, the following are key assumptions that would affect the costs and benefits of implementing a reinsurance risk-stabilization program:

    a. Direct federal funding of the cost-sharing reductions (CSRs) would be continued. (Not directly funding CSRs would require plans to increase premiums to cover their costs and lead to different experiences in different states, and would not be comparable to the 2014 reference year.)

    b. The individual mandate and its fee would continue to be enforced. (Non-enforcement would lead to additional adverse selection effects on premiums that affect premiums in dramatic and unpredictable ways.)

    c. The Centers for Medicare and Medicaid Services (CMS) would continue to make use of the existing EDGE server mechanism to distribute the reinsurance to insurers both on and off the exchange in 2018 and 2019.

    d. The underlying insurance trend between 2014 and 2017 has been 7 percent per year (as reported to Wall Street for the general health insurance markets), and this would likely continue for 2018 and 2019.

3. Based on amounts received in 2014, the first year of the transitional reinsurance program, and with the baseline of total individual-market premiums trended forward to 2018, $20 billion would reduce premiums on and off the exchange in the range of 12 to 18 percent, depending on the circumstances of each state's enrollment and risk profile.

4. A premium reduction of 15 percent (a reasonable average of the range of potential reductions) would reduce the second-lowest-cost Silver plan, the benchmark for the APTC, on average by some equivalent amount. The entire $20 billion 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 15 percent average reduction for all plans.

    b. Some of the $20 billion benefs people in off-exchange plans and individuals on the exchange who are unsubsidized, which has no effect on the APTC.

5. Taking into account the two reduction factors in 4(a) and 4(b) above, it is likely that between 67 percent and 75 percent of the reinsurance fund would contribute to a reduction in APTC funding (lowering the second-lowest-cost Silver plan). Thus, on a national level, if funding for all states is $20 billion per year, then the net impact nationally on the Treasury is a net spending of only $5 billion to $6.7 billion per year after the APTC reduction is taken into account.

About Covered California

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