**Supporting Risk Stabilization and Potential Positive Impact on Reducing Federal Spending for Advanced Premium Tax Credits by Funding Reinsurance**

The American Health Care Act (AHCA) recognized the need to help stabilize the individual health insurance market, mitigate rate increases and encourage enrollment. The AHCA proposed a $15 billion Stability Fund for 2018 and 2019, when the existing Advanced Premium Tax Credit structure would remain in place. The need for market stabilization funding is clear.  What is not well understood, however, is the fact that if such funding were provided in the form of reinsurance – which could be readily administered and reliably budgeted for by carriers – such funding would reduce 2018 premiums by on average 15 percent but the cost to the federal government would be less than $5 billion because the fund would lead to a reduction in tax credit payments.

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-Exchange (and those who do and do not receive a subsidy). These impacts are important as they directly address moderating health care costs for millions of Americans who do not now benefit from the ACA subsidies.

For purpose of market stability in 2018, it is likely that only a reinsurance program could be adopted and implemented quickly enough to have an impact on insurers and premium rate proposals that are due in June 2017 for the 2018 Calendar Year. Reinsurance is not only the most practical alternative, but because it has direct and easily measured impacts on the premium subsidy (the APTC), the federal spending needed to have the positive impact is much smaller than the nominal amount of funding. What follows is a step-by-step review of the assumptions and logic behind the federal costs of using a risk stabilization reinsurance mechanism funded at $15 billion for 2018 and 2019 being less than one-third of their nominal costs.

**Critical Steps to Assessing Federal Spending 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 $10 billion level.

2. Based on that experience, what follow are key assumptions that would impact costs/benefits of implementing a reinsurance Risk Stabilization program:
    a. Direct federal funding of the Cost Sharing Reductions (CSRs) would be continued (not directly funding CSR's would require plans to add to premiums to cover their costs and lead to different experience in different states and 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 impact premiums in dramatic but unpredictable ways);
    c. CMS would continue to make use of the existing EDGE server mechanism to distribute the reinsurance to insurers both on- and off-Exchange in 2018 (consistent with the 2014 experience, reducing premium for both individuals who do and do not receive the APTC); and
    d. Underlying insurance trend between 2014 and 2018 has been 7% per year (as reported to Wall Street for the general health insurance markets).

3. Based on amounts received in the 2014 first year of the Transitional Reinsurance program and with the baseline of total Individual market premiums trended forward to 2018, $15 billion would reduce premiums on- and off-Exchange in the range of 12 to 18%, depending on the circumstances of each state's enrollment and risk profile.

4. A premium reduction of 15% (a reasonable average of the range of potential reductions) would also reduce the 2$^{nd}$ Lowest Silver Plan, the benchmark for the APTC, on average by some equivalent amount. The entire $15 billion would not all go towards reducing the APTC amount because:
    a. Some of the plans that qualify for the 2$^{nd}$ Lowest Silver Plan are more "efficient" than the average plan, so their reduction in premium from reinsurance is actually lower than the 15% average reduction for all plans; and
    b. Some of the $15 billion goes to off-Exchange plans and to individuals on-Exchange who are unsubsidized, which has no effect on the APTC (although it benefits unsubsidized consumers).

5. Taking into account the two reduction factors in 4(a) and 4(b) above, modeling shows that between 67% and 75% of the Reinsurance Fund would contribute to a reduction in APTC funding (lowering the 2$^{nd}$ Lowest Silver Plan). Thus, on a national level, if funding for all states is $15 billion per year, then the net impact nationally on the Treasury is net spending of only $3.75 billion to $5 billion per year after the APTC reduction is taken into account.

**April 14, 2017**