Stabilizing Risk Pools to Drive Individual Market Stability and Promote Affordable Coverage

ISSUE BRIEF

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KEY TAKEAWAYS

lower premiums, improve stability

Federally-funded, risk-sharing programs (e.g., reinsurance, risk pools, etc.) have the potential to significantly lower premiums and improve market stability.

a variety of ways to promote market security

Promoting greater market stability in the individual health insurance market can be accomplished through a variety of ways, such as: creating a new stability fund (as part of the American Health Care Act [AHCA]), reinstating the Affordable Care Act's (ACA) reinsurance program; or establishing alternative programs, such as implementing risk pooling arrangements similar to programs implemented in Alaska and other states.

PREMIUMS REDUCED BY 10 percent - 14 percent

By strengthening risk pools, these programs can help reduce uncertainty and stabilize premiums in the individual market. Actuarial estimates found that the ACA's $10 billion transitional reinsurance program helped reduce average premiums by about 10%-14%.[1]

Executive Summary

The need for greater stability and affordability in the individual health insurance market has garnered considerable attention among policymakers and other stakeholders. The individual market—which currently serves about 18 million Americans[2] both "on exchange" and outside of exchanges—has long faced challenges, and stability of the market is a major focus as Congress and the Administration debate potential legislative and regulatory reforms.

Since the implementation of the ACA marketplaces in 2014, the individual market has grown substantially[3]. At the same time, this market faces serious challenges, including substantially higher average premiums in 2017[4], fewer plan choices for consumers[5], lower-than-expected exchange enrollment[6], and risk pool challenges in certain states and markets.

Legislative and regulatory actions focused on the individual market have the potential to foster greater stability or further exacerbate problems with affordability and coverage options in the marketplace. For example, regulations recently finalized by the Administration should improve functioning of the individual market by ensuring appropriate access to special enrollment periods, promoting greater flexibility in benefit and product design, and simplifying administrative processes.[7] Likewise, certain provisions included in the House-passed AHCA—such as federal support for state risk pools via the proposed Patient and State Stability Fund—could promote greater stability in the market in the short- and long-term.

However, significant uncertainties exist in the market. Insurers still do not have certainty about funding of the cost-sharing reduction (CSR) payments and whether enforcement of the individual mandate will be loosened--driving up premiums and further reducing coverage choices for consumers. A recent study estimated that insurers would have to increase premiums by 34% in 2018 to compensate both for the lack of CSR payments and enforcement of the mandate.[8]

This issue brief focuses on options for different risk-sharing programs that could strengthen the individual market risk pool and promote market stability. Risk-sharing programs have been successfully utilized in public and private insurance programs to balance the risk and drive down costs to consumers.

For example, reinsurance programs are a proven method to protect consumers and promote stability in the market.[9] Reinsurance programs differ from high-risk pools, which assign certain individuals (usually based on health status or other criteria) to a separate, state-administered high-risk pool. Reinsurance mechanisms also typically keep enrollees within a larger risk pool and are spread across entire covered population, which helps keep costs more stable and make the program more cost-effective. As a result, they have significant potential to provide critical stability to the market, limit steep premium increases, lower costs for taxpayers and reduce adverse selection. Health plans continue to work with state and federal policymakers to ensure those individuals requiring more complex and costly care have access to affordable coverage. Several states—including Alaska and Minnesota—have implemented their own reinsurance-type programs, which has helped mitigate expected premium increases and stabilize the individual market.

Given the uncertainty present in the individual health insurance market, a commitment to provide federal funding to support risk pools would represent an important step toward stabilizing markets, strengthening risk pools, and promoting more affordable coverage options for consumers. In the short term, the most effective option would be to leverage best practices from proven programs, utilizing existing administrative processes and procedures and avoiding unnecessary complexity in administration and financing.

Implement A New Risk Pooling Program Featuring a Reinsurance-Type Mechanism

The AHCA (as passed by the House of Representatives) includes a stabilization program designated as the Patient and State Stability Fund (PSSF). The stabilization fund includes annual state grant funding of $10 billion to $15 billion over 2018-2026 to improve individual market stability and enhance state flexibility. The Better Care Reconciliation legislation—recently introduced in the Senate—includes a similarly designed stabilization fund.[10]

For states that may not have the capacity to create and operate a state-based program in the short-term, they may choose to use a default federal safeguard option established in the legislation. Under this option, any stabilization funds that would have otherwise been allocated to the state are used to establish a reinsurance program in the state. The reinsurance program will help offset a portion of the costs for individuals with very high medical expenses, mitigating premiums and market disruption for the larger enrolled population. The program would be established working closely with the state's insurance commissioner and the U.S. Department of Health and Human Services (HHS).

The AHCA included the establishment of the PSSF for its ability to substantially lower premiums in the individual market, recognizing many consumers face fewer plan choices and significant increases in average premiums. The Congressional Budget Office (CBO) found that the stabilization fund "would reduce premiums for insurance in the nongroup market in many states" and "exert substantial downward pressure on premiums in the nongroup market in 2020 and later years and would help encourage participation in the market by insurers."[11] A key factor driving CBO's conclusion is the assumption that states would use the grants "mostly to reimburse insurers for some of the costs of enrollees with claims above a threshold."[12]

However, the parameters outlined in the legislation for the stability fund are broad, and the effectiveness of the stabilization fund in reducing premiums will depend on how states choose to utilize the funds, including whether they opt for the default federal safeguard and if they can make the matching contributions beginning in 2020.[13]

Reinstating the Transitional Reinsurance Program

The ACA included a series of market stabilizers aimed at reducing the potential for adverse selection, establishing a level playing field and fair competition among competing plans, and ensuring more affordable coverage options—particularly for patients with chronic and high-cost medical conditions. These programs included a transitional reinsurance program for the 2014-2016 plan years.

The transitional reinsurance program helped stabilize the individual market by offsetting a portion of the cost for high-risk and high-cost patients, such as patients with chronic health care conditions. This program was successful in reducing premiums in the early years of implementation. However, the program expired last year, resulting in an upward pressure on premiums in 2017. A report by the American Academy of Actuaries found that the expiration of the transitional reinsurance program was a key component of the higher premiums for 2017—driving up costs by 4%-7%.[14]

Reinstating the transitional reinsurance program would likely have a stabilizing effect[15] by reducing uncertainty in insurance risk and helping to offset the cost of higher-need and higher-cost patients. The program could be made permanent—similar to the Medicare Part D reinsurance program—or extended for a period of time in order to promote

market stability. Several states—including Alaska and Minnesota—have implemented their own reinsurance-type program, which has helped mitigate expected premium increases and stabilize the individual market.

Advantages of this approach include utilizing an existing administrative infrastructure that can be implemented relatively quickly and efficiently and a program design that succeeded in delivering the intended stabilizing effect on premiums. Given that the financing for the ACA reinsurance program (e.g., annual contribution fee assessed on individual and group insurance) has expired, direct federal funding would avoid the administrative costs and challenges involved with estimating and collecting fees from group plans and provide more predictability in the market. Further, if a premium-based tax credit continues for individual health coverage (rather than a flat dollar credit), significant portion of reinsurance funding would be offset through lower federal spending for premium tax credit subsidies across the market.[16]

Other Risk Pool Approaches—Condition-Based Risk Pool Reimbursement and High-Risk Pools

While adopting risk pooling mechanisms based on cost (such as implementing a similar program to the AHCA's Patient and State Stability Fund or reinstating the ACA's transitional reinsurance program) have the potential to stabilize markets and reduce premiums, other options are also being considered by policymakers—including condition-based risk pool programs and high-risk pool programs.

Condition-Based Risk Pool Programs

Another approach to stabilizing risk pools is to establish a program that reimburses plans based on what types of enrollees they cover and their current and future health needs. Similar to a cost-based reinsurance program, this approach would offset costs of higher risk patients. However, specific reimbursement would depend on the enrollee being diagnosed with one or more specified health conditions, as opposed to having medical claims that exceed a given threshold (e.g. reinsurance).

An amendment to the AHCA included such an approach—via a separate funding stream in the PSSF for a Federal Invisible Risk-Sharing Program (the program). This program, administered by the Centers for Medicare and Medicaid Services (CMS), designates individuals with specific conditions for inclusion in a reinsurance / high-risk pool hybrid model between health plans, CMS, and participating states. $15 billion is allocated for administration of the program over 2018-2026, and states may be able to utilize additional funds from the larger $100 billion in grant funding towards this program.

While a condition-specific reimbursement program could help stabilize markets—a similar program implemented in Maine was credited with reducing premiums in that state's individual health insurance market prior to the ACA[17]—states would need time and flexibility to transition and administer a new program. Given key details of the program are not specified in the legislation, HHS would be required to establish program rules and fill-in critical details via the rulemaking on short notice. The amendment to the AHCA requires HHS to establish parameters for 2018 within 60 days of enactment.

Beyond timing considerations, concerns about how this program would operate within the new AHCA framework have been raised by various policy experts and actuaries. For example, it is unclear how the federal invisible risk sharing program would interact with other market stabilizers included under the legislation and whether the funding for this initiative is adequate.[18] Given the time constraints and immediate challenges facing the individual health

insurance market, the invisible risk sharing program is unlikely to be a feasible option to deliver market stability, at least in the short-term.

Traditional High-Risk Pools

High-risk pools existed in 35 states prior to the ACA as a way to provide health insurance coverage to individuals with pre-existing conditions. However, these arrangements were challenging for states to effectively implement[19] and did little to address many of the access and affordability barriers faced by individuals with chronic conditions in the pre-ACA individual market. In 2011, state high-risk pools covered 226,000 individuals at a total cost of $2.6 billion.[20]

There is a high likelihood that re-instating high-risk pools would fragment and not stabilize insurance markets—especially if high-risk pools are coupled with reforms that seek to weaken protections for individuals with pre-existing conditions, such as community rating requirements or essential health benefit standards. According to some analysts, such an approach would fracture and segment risk pools and is at odds with the principle that stable insurance markets work best by promoting broad-participation and through "pooling lower cost with higher cost people."[21]

Principles to Strengthen Risk Pools:

As policymakers debate and consider ways to promote risk pool stability, below are our principles to strengthen risk pools and promote more affordable coverage options for consumers—including specific recommendations for strengthening the Patient and State Stability Fund framework, as included in the AHCA and the State Stability and Innovation Program, as included under the proposed BCRA.

- **In the short-term, risk pool programs must be administratively feasible to implement in a timely manner in order to achieve market stability.** Programs that can leverage existing administrative processes and procedures have the greatest potential to achieve market stabilizing goals in an efficient and cost-effective manner.

- **Proposals to strengthen risk pools require adequate funding to achieve market stabilizing effects and lower premiums.** Actuaries and other policy experts agree that external funding is necessary to achieve lower premiums under risk pooling programs—whether through the cost-based reinsurance program or an alternative approach.[22] Under the ACA transitional reinsurance program, $10 billion was made available in 2014 to help stabilize the market—which was credited with reducing premiums by about 10%-14%. Moreover, a recent analysis estimated that a$15 billion stabilization program—modeled on a reinsurance-type approach—would reduce premiums by about 15% on average.[23]

- **A stabilization fund must be well-designed in order to maximize the potential impact to consumers.** Risk pooling approaches should build on programs that have a proven track record and avoid unnecessary complexity in administration and financing. Moreover, federal initiatives to achieve stability should target uses that have the highest potential to achieve individual market stability and affordability. As an example, the CBO recognized the potential for the AHCA's stabilization fund to exert downward pressure on premiums through reinsurance programs but cautioned that, "if those funds were devoted to other purposes, then premium reductions would be smaller."[24]

- **Risk pool program(s) should avoid fragmentation in insurance markets and weakening protections for individuals with pre-existing conditions.** Reinsurance-type approaches have the advantage of delivering market stability while avoiding unnecessary and disruptive changes that could make

coverage unaffordable for patients—especially those with chronic and/or expensive medical conditions.

Specific Recommendations for Improving House and Senate Stabilization Funds:

- **Narrow the permitted uses of the stabilization fund to those that reduce premiums or out-of-pocket costs for consumers in the individual market.** Under the AHCA and BCRA, states may apply to use stabilization funds for a broad range of purposes—including making payments to health care providers. To effectively lower health insurance costs for consumers, the stabilization fund should instead be structured to specifically target funds towards programs that will directly reduce individual market premiums (i.e., through a reinsurance program, or similar risk-sharing mechanism). The CBO recognized the potential for the AHCA's stabilization fund to exert downward pressure on premiums through reinsurance programs, and cautioned that, "if those funds were devoted to other purposes, then premium reductions would be smaller."[25]

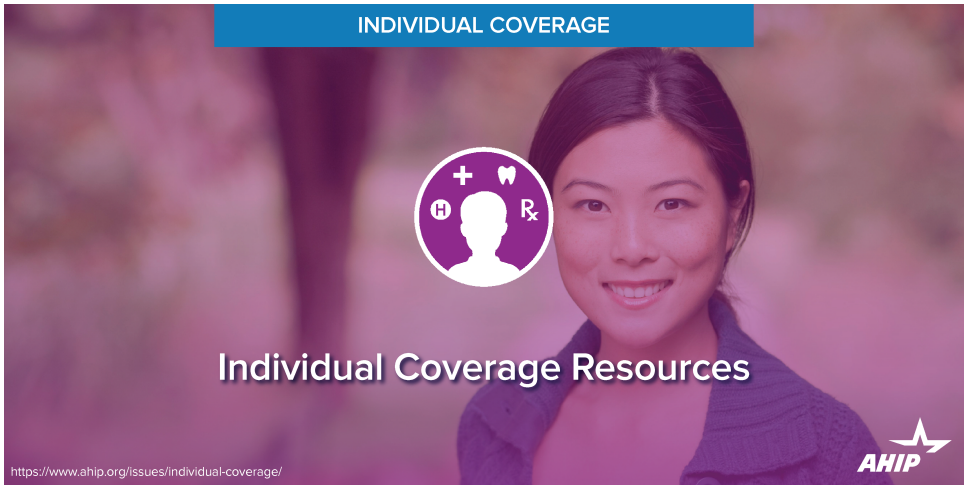
- **Simplify the state allocation formula.** The state allocation formula should be simplified to use uniform federal payment parameters established under the default federal safeguard—as is the case under the short-term reinsurance program included in the BCRA. If a state establishes its own risk-sharing program, HHS could make federal funds available based on the amount the state would have received under the default federal safeguard.

- **Incentivize state participation.** States should be incentivized to use funds to reduce premiums and out-of-pocket costs for consumers. The state match requirement requires states to make matching funding contributions beginning in 2020 (under AHCA) and 2022 (under BCRA). Given state fiscal challenges, this requirement may preclude many states from participating and thus prevent consumers from realizing the benefits of the stabilization fund. To meet a matching requirement, states with more limited budgets may be forced to impose premium or provider taxes, which would likely result in higher premiums and be counterproductive to reducing overall health care costs. Elimination or significant reforms to the state match requirement will reduce these burdens and incentivize state participation in the program.

Conclusion

Amid an environment of considerable uncertainty and instability in the individual health insurance market, providing federal support for risk pools has been discussed by policymakers as one way to help bring greater stability and affordability to a market that 18 million Americans rely on for their health and financial security. Well-designed programs that build on existing administrative procedures and processes—such as cost-based reinsurance mechanisms—hold promise in delivering premium reduction and enhancing the goals of market stability and consumer affordability. By reducing uncertainty in insurance risk and helping to offset the cost of patients with higher health costs or chronic conditions, this approach can achieve significant reductions in premiums without creating parallel markets or separate risk pools that could otherwise de-stabilize markets through adverse selection. Sufficient federal funding is critical to ensuring that programs aimed at strengthening risk pools can deliver its intended market stabilizing effects.

Related Topic



Endnotes

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