



## HB 374

### Reinsurance Program; Health Insurance Waivers

**Legislation Overview:** HB 374 would amend Chapter 55 of Title 21, giving ACHIA authority to develop a reinsurance program.

In addition the bill will provide enabling legislation for the director of the Division of Insurance to make an application to the Secretary of the United States Department of Health and Human Services for an innovation waiver, commonly referred to as a Section 1332 waiver. The applicable provisions of Pub. L. 111-148 (Patient Protection and Affordable Care) under 42 U.S.C. 18052 apply to health insurance coverage within the state for plan years beginning on or after January 1, 2017.

**Issue:** As Alaska's only insurers with current enrollees in individual healthcare plans, Premera and Moda each experienced significant losses in 2014 and 2015, filing average rate increases of 37.2% and 38.7% and 27.3% and 39.6%, respectively. Early claim experience for 2016 indicates losses continue and rate increases for 2017 likely will again exceed 25%. Such increases are unsustainable and are dramatically impacting Alaskan consumers, especially those without federal subsidies.

The unaffordability of the individual healthcare market has alarming implications. If healthy individuals leave the market, choosing to be uninsured premiums, rates will only continue to increase.

Previously, high-cost individuals were covered through the Alaska Comprehensive Health Insurance Association (ACHIA), which spread risk among all ACHIA member insurers. Data suggest that many of these individuals migrated to traditional health insurance coverage made available by the guaranteed issue provision of the ACA. Future risk could be reduced through a supplemental reinsurance program by amending the ACHIA program.

**Background:** Provisions of the ACA were intended to serve cost containment and recovery functions, so that insurers could then no longer reject high-cost individuals. To provide some balance and cost control for the increase in claims, ACA created three mechanisms (Risk Adjustment, Reinsurance, and Risk Corridors – known as the 3Rs) to reduce risk and stabilize premiums in the individual insurance market. Risk Adjustment is the only permanent mechanism. Unfortunately, an underestimation of the cost of the new entrants to the market and congressional actions to restrict the 3Rs, among other factors, resulted in a failure of these programs to stabilize costs.

After consultation with the insurers in the individual market and DCCED, the Governor is proposing that the state amend the ACHIA statutes and regulations to provide reinsurance to insurers in the individual market beyond what is available through the ACA reinsurance program. This proposal would revise existing statutory language to eliminate the requirement that a person be unable to obtain coverage similar to a person considered a standard risk and to specify that the tax credit for companies who pay ACHIA assessments is limited to the high-risk pool only.

Under this proposal, a new assessment would be paid into ACHIA to cover the reinsurance program. This assessment may be passed along to the consumers in the form of a rate increase from any or all of ACHIA's assessed insurers. Assessed insurers include those who provide major medical – including Medicare Supplement plans - or stop loss premium in the previous year.

While the assessments would be made against the insurers the actual assessment will be calculated on a number of “covered lives” basis to equally distribute the additional cost that may be passed on in the form of a rate increase, to consumers. This is a change from the current manner in which ACHIA assesses its member insurers.

<i>No. of Covered Lives</i>	<i>Market</i>
17,216	Single Employers 1-50
11,914	Single Employers 51-100
18,133	Single Employers 100+
7,617	Med Supp
150,652	Stop Loss
4,228	MEWA
316	Other Groups
820	Assn. in Individual Market
22,105	Direct Individual Market
3,754	Individual Med Supp
24	Trust
236,779	Total Covered Lives

The individual healthcare market has a relatively small pool and is vulnerable to premium variability with relatively few high-cost claims. A reinsurance program could be an opportunity to provide relief for this group. As the need for the original ACHIA diminishes with guaranteed issuance for major medical coverage, the program could serve as a mechanism to utilize associated funds for another purpose.

**Consumer Impact:** Under the proposed ACHIA reinsurance program, the consumer would purchase an individual health plan and pay their premiums to their insurer. The insurer would then pay claims. When the company became aware of a condition considered high cost (such as cancer) through a claim, all of the claims for that individual would be submitted to ACHIA for reinsurance. The insurer would also be required to submit the individual's entire premium amount to ACHIA to share in the reinsurance.

The current federal reinsurance program expires this year. The 2016 estimated taxes that fund this program is a 3 percent rate, which equates to approximately a \$30 per member per month charge on individual plans, and an \$18 per member per month charge for those in group plans. With the expiration of this program, the charges – which consumers have been paying the last three years – are set to end.

The proposed reinsurance plan would collect \$55,000,000 for the reinsurance pool. Spread across 236,779 “covered lives” (see table below), would result in a surcharge of \$19.36 per member per month. Because the federal tax is set to expire, this new surcharge would replace it, rather than being an additional cost to consumers. This level of reinsurance should reduce future premium increases by 15 to 18 percent.

Please contact Micaela Fowler, Legislative Liaison, if you have additional questions at 907-465-2503 or [micaela.fowler@alaska.gov](mailto:micaela.fowler@alaska.gov).