



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**Department of Commerce, Community,
and Economic Development**

DIVISION OF INSURANCE

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Title: Alaska Comprehensive Health Insurance Association (ACHIA) reinsurer legislation.

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. Premera and Moda are thus now seeking to reduce their future risk through a supplemental reinsurance program by amending the ACHIA program.

Summary: 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.

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 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.

ACHIA contracted an actuarial firm to analyze the impact of a reinsurance program on the premiums for 2017. Because of the ending of the federal reinsurance program, the impact on the rates would be muted, as the federal reinsurance program has previously reduced premium by an estimate 8%. The study analyzed the claims history for the major medical issuers within the individual market and has resulted in a variety of condition lists that could be removed from the individual pool and reinsured by ACHIA, but any reinsurance cap amount would need to be defined in regulation.

Proposed Solutions: The Governor will introduce a bill to the legislature that would amend Chapter 55 of Title 21, giving ACHIA authority to develop a reinsurance program and establishing in statute an assessment cap. Believing that the best way to make this program successful is to spread costs amongst the greatest pool of insured persons possible. We make this recommendation recognizing ACA's shortcomings, but acknowledging Alaska's responsibility to take care of her own citizen's. 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.

Factual Basis for Recommendation: Without action, premium rates will increase in a manner similar or greater than in recent years. A reinsurance program will not eliminate rate increases entirely, it should moderate rates to benefit consumers and assist insurance companies to deal with a new level of risk moving into 2017.

Because the federal government pays a significant portion of the premium on the Marketplace, the majority of consumers are minimally affected by rate increases. Based on the 2016 plan selection data provided by CMS, the average monthly subsidy or advanced premium tax credit (APTC) is \$737. The average monthly premium prior to APTC is \$863.

Number of Individuals:

Premera	5902	5253	1936	2585
Moda	13031	11598	1794	3227
Assurant*	0	0	1430	1430
Aetna*	0	0	103	103
Totals	18933	16851	5263	7345

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*Assurant and Aetna ceased coverage at end of 2015, enrollees would have had to move to Premera or Moda or find other coverage (employer, health care sharing ministry) for 2016. Some may have moved to an on-exchange plan if they qualified for subsidies.

In-Exchange + Out-of-Exchange = Total ACA individual plans (24,196)

Subsidy + No-Subsidy = Total ACA individual plans

Other Comments: Implementing the ACHIA reinsurance for the high-cost individuals is a sharing mechanism across a larger pool. With each year, the impact of the program will be reduced unless the assessment grows at the same amount as Alaska premium increases.

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