

# Virginia Bureau of Insurance Overview of Reinsurance

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Joint Subcommittee on Health and Human Resources Oversight

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# Background

- Reinsurance is a mechanism for spreading the costs of expensive claims by pooling them together and paying for them through a separate financing system so that insurers do not have to price those costs into their standard premiums.
- Originally, the Affordable Care Act included a federal reinsurance program to stabilize premiums in the individual market, but this program was discontinued after 2016.
- Since then, 15 states have received federal approval to establish state-based reinsurance programs modeled on the prior federal program.

# HB 2332 – Commonwealth Health Reinsurance Program

- The 2020 Report of the Virginia Market Stability and Reinsurance Work Group examined how Virginia could establish a state reinsurance program.
- During 2021, the General Assembly passed HB 2332, the Commonwealth Health Reinsurance Program, which directs the SCC to
  - submit a 1332 waiver application specific to a reinsurance program beginning in 2023
  - establish a state-based reinsurance program (for up to 20% premium reduction)
  - maximize federal pass-through funding for that reinsurance program and use remaining funds for other uses recommended by HHR work group
- Directs the General Assembly to appropriate funds to ensure the operation of the state-based reinsurance program.

# HB 2332 – Commonwealth Health Reinsurance Program

- HB 2332 workgroup met several times in Spring/Summer 2021 to determine if any additional initiatives should be included in the waiver
  - Initiatives such as plan standardization, cost-sharing subsidies, and Basic Health Program expansion were discussed in detail.
  - Workgroup determined that no additional initiatives should be included in this waiver application because of timeline, changing federal landscape, and the fact that no state has combined reinsurance with another program to date.

# What is a Section 1332 Waiver?

- Named for section 1332 of the Affordable Care Act (ACA)
- Allows a state to modify ACA rules to pursue innovative programs to meet the unique needs of their markets and their residents.
- Importantly, a 1332 waiver allows states to receive federal “pass-through” funding for savings that the federal government may realize as a result of state initiatives.
  - Allows states to take the federal dollars currently being expended for their residents through the ACA’s financial assistance programs (premium tax credits and cost sharing reductions (CSRs)) and reallocate those funds to state-specific initiatives, such as reinsurance.

# Federal Pass-through Funding

- Allows states to take the federal dollars currently being expended for their residents through the ACA's premium tax credits (PTCs) and reallocate those funds to state-specific initiatives, such as reinsurance.
- Federal PTCs are designed to reduce premium costs to a certain percentage of an individual's income.
- Reducing baseline premium prices lowers the cost of these PTCs to the federal government
- Federal government provides these savings to the State as a "pass-through"
- For example, in 2024, a 15.6% reduction in premium price results in a \$244.5 M reduction in federal PTCs
  - This amount (\$244.5M) can be provided to Virginia as pass-through funding while remaining deficit-neutral to the federal government

# How Does Reinsurance Work?

Reinsurance Cap– Issuer is responsible for all claim costs over this amount

Coinsurance Rate – Issuer is paid a portion of claims cost within the Reinsurance band

Attachment point – Issuer is responsible for all claim costs up to this amount

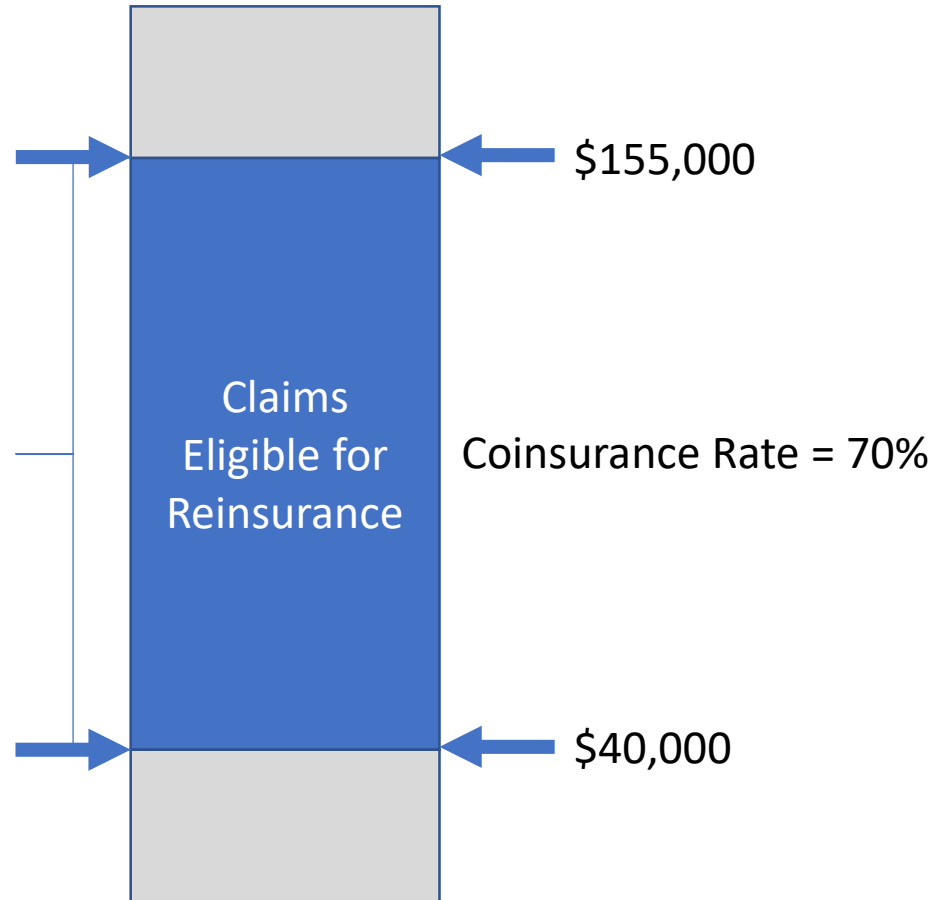


# Payment Parameters in Current Proposal

Reinsurance Cap– Issuer is responsible for all claim costs up over this amount

Coinsurance Rate – Issuer is paid a portion of claims cost within the Reinsurance band

Attachment point – Issuer is responsible for all claim costs up to this amount



These amounts are total annual medical expenditures on any covered individual for 2023



# Projected Reinsurance Program Impact

- The proposed reinsurance program is projected to reduce premium rates by 15.6% (15% due to lower costs and .6% due to improved morbidity in the risk pool.)
- Subsidized individuals on the Exchange will see, on average, minimal difference in out of pocket because their premium tax credits will be reduced in line with the reduction in premium rates.
- Unsubsidized individuals who benefit from premium reduction are expected to move onto the Exchange (from off-exchange plans or being uninsured.)
  - enrollment in the individual ACA market is expected to be approximately 2.9% higher than baseline enrollment levels each year of the proposed program.
  - increase in enrollment driven primarily by uninsured individuals expected to enter the individual ACA market as a result of lower gross premium rates

# Projected Reinsurance Program Funding

	2022	2023	2024	2025	2026	2027	2028
Cost of Reinsurance Program (millions)	\$0.00	\$292.50	\$308.50	\$325.70	\$343.80	\$362.90	\$383.10
Federal Pass Through Funding (millions)	\$0.00	\$223.90	\$244.50	\$258.40	\$273.10	\$288.60	\$305.00
State Funding (millions)	\$0.00	\$68.60	\$64.00	\$67.30	\$70.70	\$74.30	\$78.10

- Estimated costs for 2023 range from \$60.8M-\$83.3M based on scenarios of how membership, premium price, and medical costs are impacted
- State share of Reinsurance Funding for the 2023 plan year is 23.5%.
- These estimates assume that the enhanced premium subsidies under the American Rescue Plan Act (ARPA) expire at the end of the 2022 plan year.
- If enhanced subsidies are funded past 2022, it would result in substantially lower state costs.

# Timeline of Approval and Funding

Date	
3/31/2021	HB 2332 signed into law
10/1/2021 – 11/1/2021	Draft Waiver Application published for public comment
10/14/2021	Public Hearings on proposed reinsurance program (federal requirement)
1/1/2022	Section 1332 waiver application is submitted to the federal government
4/1/2022	Federal approval of waiver application
5/1/2022	Virginia finalizes 2023 reinsurance parameters
5/2022	Issuers submit 2023 rates including reinsurance impact
8/2022	BOI approves 2023 rates
1/1/2023	Reinsurance program begins
4/1/2023	Federal pass-through funding for 2023 awarded
4/30/2024	Final deadline for issuers to submit reinsurance claims for the 2023 plan year
<b>9/30/2024</b>	<b>BOI notifies issuers of their reinsurance payment amount</b>
11/15/2024	Payment to issuers for reinsurance claims incurred during the 2023 plan year

# Reinsurance Program Considerations

- Reinsurance payment parameters will need to be locked in prior to issuers submitting premium rates for approval. (May of 2022 for 2023 plan year)
- Any uncertainty will reduce the impact of reinsurance.
- Payments are not scheduled to be made until FY 2025 for 2023 plan year
- Reduced premiums will result in a reduction in revenue for the Virginia Health Benefit Exchange as those revenues are based on a percentage of total premiums.