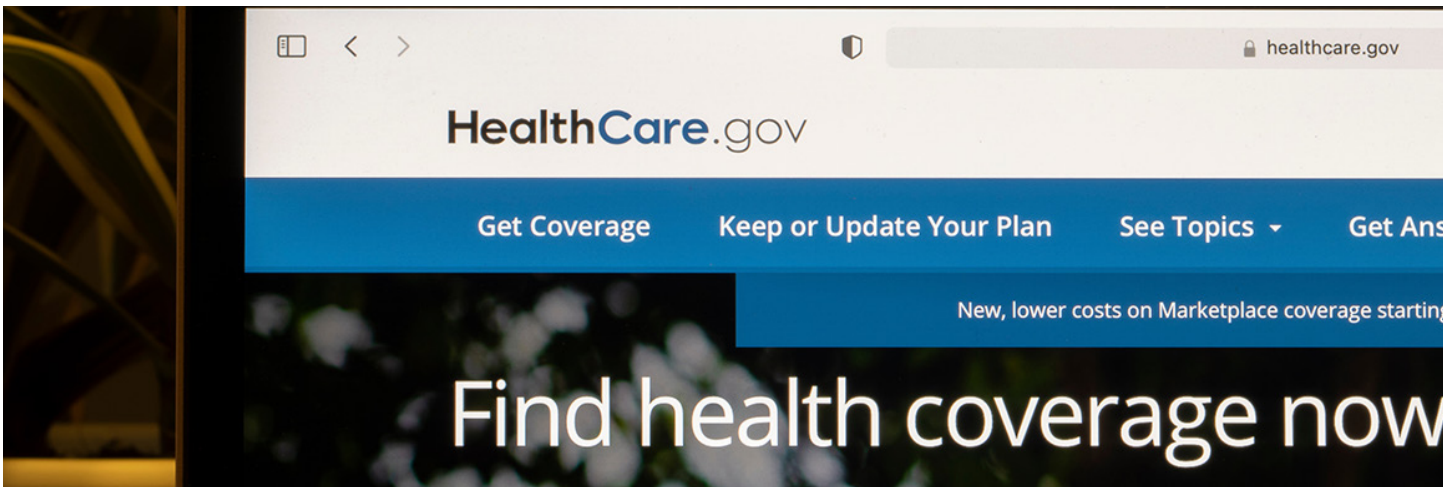
Health Plan Weekly

Rethinking Reinsurance: Study Illuminates Tradeoffs of Popular Waivers



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While reinsurance programs have become popular among states hoping to stabilize their individual insurance markets, a new study makes a compelling case that the premium reductions attributed to such programs may not be as helpful as they seem.

States can apply for and implement reinsurance programs via Section 1332 waivers, which allow them to waive certain Affordable Care Act rules in order to test marketplace innovations — provided they adhere to strict guardrails. Reinsurance works by subsidizing insurers' highest-cost claims, allowing them to charge lower premiums overall.

"As of today, 16 states have a reinsurance program; these programs are popular in red states and blue states, big states and small states, and they do a really good job at reducing premiums. However, as in everything with the ACA, there are unintended consequences," explains David Anderson, who coauthored the study published in the March issue of Health Affairs.

According to the study, those unintended consequences were significant in Georgia, one of the more recent states to implement a reinsurance program. Anderson and his colleagues estimated that the state's reinsurance program, implemented in 2022, increased the minimum cost of enrolling in subsidized marketplace coverage by approximately 30%.

Likely due to those net premium increases, Georgia's post-reinsurance marketplace enrollment declined by roughly one third among marketplace enrollees earning between 251% to 400% of the federal poverty level (FPL), which included individuals earning about $34,000 to $54,000 per year in 2022. Additionally, there was a 21.7% enrollment

dip among enrollees earning between 201% and 250% of FPL.

Those with incomes below 201% of FPL (or individuals earning about $27,000 or less annually) did not see enrollment changes after Georgia's reinsurance program took hold, although that cohort typically makes up about 70% to 80% of any given state's ACA exchange market.

Still, the reinsurance program's effect on middle-to-lower-income individuals' enrollment is concerning, since that group comprises about 25% of overall marketplace customers and is "substantially bigger than the chunk [of enrollees] that is intended to benefit from reinsurance," Anderson says. That cohort — people earning over 400% of FPL — represents about 10% of the ACA exchange market, he notes. Researchers were unable to directly assess the reinsurance program's effect on people earning above 400% of FPL, due to data limitations.

Still, if Georgia's reinsurance program is indeed causing an overall ACA exchange enrollment decline, that could also mean the state is violating one of the Section 1332 "guardrails," which specifies that waiver demonstrations cannot decrease insurance coverage.

Georgia's approved waiver application projected enrollment gains of 1,543 enrollees in 2022 and 1,838 enrollees in 2023, all from enrollees with incomes higher than 400% of FPL.

The standard length of a reinsurance waiver program is five years, says Anderson, a Ph.D. candidate at the Duke University Margolis Center for Health Care Policy. States can renew or substantially modify their programs at any time within that window, and often do.

Given the findings of the Health Affairs study, "If I were a state with a reinsurance program, I might be worrying about my renewal," remarks Sabrina Corlette, co-director of Georgetown University's Center on Health Insurance Reforms.

'Premium Spreads' Are To Blame

In their study, Anderson and his colleagues detail how the complicated calculus of reinsurance programs can decrease premiums overall but also increase the net cost of subsidized marketplace coverage — causing some enrollees to ditch their plans.

Under the ACA, everyone below 400% of FPL qualifies for subsidies that help reduce the cost of their monthly premiums. Through provisions implemented as part of the American Rescue Plan Act in 2021— and extended through 2025 by the Inflation Reduction Act — premium subsidy availability was expanded to people with incomes above 400% of FPL, so long as the "benchmark" premium (associated with the second-lowest cost silver plan) is greater than 8.5% of their household income.

The level of premium subsidy that enrollees qualify for is assessed on a sliding scale according to their income. But that's not the only factor influencing enrollees' monthly insurance bill. The lowest possible price for subsidized marketplace coverage depends on the "premium spread" between the benchmark plan and the lowest-premium plan available.

When the premium spread is large, people eligible for subsidies can enroll in health plans for free or for very little per month. But when the premium spread is small — which can happen when a reinsurance program reduces overall, pre-subsidy premiums — the minimum cost of subsidized marketplace coverage increases. Basically, Anderson explains, when gross premiums go down, it reduces the purchasing power for enrollees who receive subsidies.

Why Haven't States Taken Notice?

The confusing dynamic created by the ACA's price-linked subsidies could help explain why so many states have embraced reinsurance programs without fully understanding the downsides, health policy experts say.

"Low premiums are bad for subsidized buyers, which is really weird," Anderson tells AIS Health, a division of MMIT. "Every time I try to explain that to a policymaker, the ones who get it still have a minute or two of, 'You're talking crazy.' Then they get it, but it takes a minute to translate. Some of them just don't get it at all."

Texas lawmakers once considered authorizing a reinsurance program, based in part on the idea that "other people have done it; let's do it too," weighs in Charles Miller, senior policy adviser at the think tank Texas 2036. "But the actual dynamics," including the inherent tradeoffs, "are often misunderstood."

"I'm just not sure that the impact of price-linked subsidies is widely understood by policymakers, Miller adds. "It's a complex interaction that is really counterintuitive to a lot of what we would expect, and I only really started to understand it after hanging out with actuaries for an extended period of time, which is not a very exciting activity."

In preparation for Texas' 2021 legislative session, when a reinsurance program was being considered, Miller's organization hired an actuarial firm to examine how such a program would impact the state's individual insurance market. The group found that "for the subsidized populations, the lowest cost of bronze premiums was going to mostly increase." (ACA plans are categorized, from lowest to highest premiums, as bronze, silver, gold and platinum.)

The analysis did find that a reinsurance program would substantially decrease premiums for people who aren't eligible for subsidies, which includes those making below 100% of FPL and those making 400% of FPL or above, Miller says. "But because people are now eligible for subsidies over 400% of the federal poverty level, there's almost nobody who would practically benefit," he adds, referring to the expanded ACA subsidies.

And while it's true that reinsurance would theoretically help people earning 100% of FPL or less, unsubsidized ACA plan premiums "are still so much higher than we would anticipate would be affordable for somebody living below the poverty level," Miller adds.

Expanded Subsidies Are Set To Expire

While the findings of the actuarial analysis led Texas to table its plans for a reinsurance program, Miller says he understands why states that have already enacted such programs aren't ready to give them up.

He points out that the expanded ACA subsidies that reduce the utility of a reinsurance program are set to expire after 2025 — and there's no guarantee that they'll be renewed. "People who already have a program like this set up may not want to scuttle it and take that action until there's longer-term certainty," Miller says.

Corlette makes a similar point, noting that industry stakeholders and consumer advocates are gearing up for "a big fight" to get the expanded subsidies renewed beyond 2025.

In their study, Anderson and his colleagues caution that "our results do not necessarily imply that reinsurance should be abandoned." For example, without reinsurance, "every insurer has every motivation to be as ugly as they can be" to avoid paying ultra-high claims like those associated with gene therapies, Anderson tells AIS Health.

The study also suggested that "if there were changes to the design of the marketplace price-linked subsidies, reinsurance may be more effective at decreasing the minimum cost of coverage." Anderson says that could look something like Medicare Advantage's premium subsidy program, which is based upon the expected average Medicare fee-for-service spending in a given area.

Ultimately, the study concludes, "we believe that CMS and states should consider the distributional consequences of reinsurance programs in future program design and as criteria for these programs' approval."

In Nevada, state officials have applied for a "Market Stabilization Program" that would include a state-based reinsurance program — which would be "the first in the nation to be fully funded by the federal government." CMS on Feb. 13 notified the state that its 1332 waiver application was complete and opened a 30-day comment period.

Contact Anderson at david.m.anderson@duke.edu, Miller via John Reynolds at john.reynolds@texas2036.org, and Corlette at sabrina.corlette@georgetown.edu.

Leslie Small

Leslie has been working in journalism since 2009 and reporting on the health care industry since 2014. She has covered the many ups and downs of the Affordable Care Act exchanges, the failed health insurer megamergers, and hundreds of other storylines spanning subjects such as Medicaid managed care, Medicare Advantage, employer-sponsored insurance, and prescription drug coverage.