Fact Sheet

High Risk Reinsurance

SB17-300 directed the Division of Insurance (DOI) to study solutions to rising individual health insurance costs, especially the reimbursement for services for high cost medical conditions. The DOI held a stakeholder process over the summer which resulted in a report published October 2, 2017. A copy of the report is available on the DOI's website here.

- Purpose of establishing a high risk reinsurance program Foster competition among health insurance companies and provide more choice for consumers to develop market stability.
  - A high risk coverage program reduces premiums by providing funds to counterbalance the highest cost claims. This will benefit consumers through reduced premiums with the most benefit received by consumers not eligible for the advance premium tax credits (APTC) or employer provided coverage.
  - A reduction in overall individual market premiums creates a more stable individual insurance coverage market. Market stability encourages insurers to remain in all areas of the state, while also attracting carrier competitors to underserved areas.

What is a high risk reinsurance program?

- Reinsurance is insurance for insurance companies against risks for unusually expensive claims. It is a mechanism to spread the risk of high cost conditions so they do not threaten market stability. It encourages competition across the state and may provide an incentive for carriers to provide coverage in areas with few options.
  - Health care services costs are a significant driver of premium increases in Colorado. In recent years, the average medical loss ratio (MLR) for carriers in the individual market has exceeded 100%; meaning carriers are spending more on medical services than they are taking in through premiums. High loss ratios necessitate carrier decisions to increase premiums or withdraw from market areas.

Establishing a high risk reinsurance program for CO

- Decisions which the General Assembly would have to make to establish a program are:
  - whether to authorize the establishment of a high risk reinsurance program;
  - establish general operational requirements for the program including choice of model, governance and funding authority; and
  - authorize the state to seek a federal 1332 waiver.

Options for paying for the program

- The stakeholder process identified multiple potential funding options including but not limited to assessments on carriers based on covered lives, a federal funds including a federal waiver (1332 waiver) or high risk program grants; foundation grants, social impact bonds, provider fees, and premium tax diversion. The DOI recommends using a package of multiple options to spread the risk among as many resources as possible to realize premium reductions.
    - For example, the estimated cost of the program for a 4% premium reduction would be \$59 million while a premium reduction of 22% would cost \$346 million. By lowering insurance premiums, a reinsurance program in turn reduces the amount of money the federal government would otherwise contribute to the program through tax credits.

Note: To assist in the analysis of the costs and benefits of establishing a high risk reinsurance program in Colorado, the DOI engaged an actuarial firm to study and provide options. A copy of their report is available on the Division's website here.

Who else has done this (in order of chronology)?

- Alaska established a reinsurance program for 2017 that reduced premium increases from 42% to a little over 7% (35% reduction) at a cost of \$55 million. For 2018, they received a federal waiver to recoup the federal tax credit savings of \$48.5 million (81%) on a total cost of \$59.5 million. For 2018, Alaska's reinsurance program resulted in a 26.5 percent reduction in health insurance rates in the individual market. Funding for Alaska's program is a premium tax diversion appropriated by the Legislature.

- Minnesota received a federal waiver for 2018 estimated to result in a 20% lower premium with between \$139 - \$167 million in APTC savings, and an enrollment increase of 50,000 on a total estimated cost of \$271 million. For this, Minnesota is using an existing health fund and appropriation.

- Oregon's 1332 waiver for 2018 has been approved for a reinsurance program with estimated net premium decreases of 7.2% in 2018 and 7.0% in 2019, an annual cost of \$90 million, and an estimated \$32 million federal APTC offset. Initial funding is provided by a 0.3% premium assessment.

Note: Several other states are exploring and preparing waiver requests for 2019.

For more information please contact Senator Kent Lambert (303.866.9990), Representative Chris Kennedy (303.886.2951) or Ginny Brown (303.241.0894).