

## Results of Interim Report §1332 Actuarial and Economic Analysis (Dec. 13, 2017)

### Background

Washington State's individual health insurance market has seen a trend of increasing premiums and insurance companies pulling back from offering health plans in counties. As a result, the Office of the Insurance Commissioner (OIC) and the Washington Health Benefit Exchange (HBE) engaged Wakely to perform an analysis of state-based options to stabilize the individual market for 2019. This analysis focused on a claims-based reinsurance program that can begin in January 2019. Similar to the federal Transitional Reinsurance program that operated from 2014 to 2016, the analysis assumed reimbursement to carriers for a portion (coinsurance rate) of high-cost enrollee claims that occur between an attachment point (lower limit) and a cap (upper limit).

The analysis supports the goal of providing a stabilizing force for the individual health insurance market by:

- Bending the cost-curve downward towards affordability;
- Maximizing availability of coverage and promoting consumer choice of health plans in all counties, and
- Maximizing opportunities for federal funding.

### Report Findings

This December interim report differs from Wakely's earlier analysis completed in October in three key respects:

1. This interim report reflects the termination of federal cost-sharing reduction (CSR) payments and its impact on individual health plan premiums.
2. This interim report uses a different set of reinsurance payment parameters than the October report:

Reinsurance Payment Parameters for CY 2019 **	October Report	December Report
Attachment point	\$66,000	\$95,000
Coinsurance rate	50%	80%
Reinsurance cap	\$1 million	\$500,000

\*\* NOTE: The coinsurance rate and attachment point could be adjusted in future years to align with available funding.

3. This interim report models only an increase in the premium assessment on health insurance to fund the reinsurance program. This was done to show us what impact a premium assessment increase would have on the reinsurance program's ability to lower premiums. This is not the financing approach that the Commissioner will be proposing to the legislature.

When the legislature enacts reinsurance legislation, Wakely will prepare a final analysis that reflects the program parameters and financing mechanisms included in the legislation.

### Claims-based reinsurance program highlights

Claims-based reinsurance provides protection for insurance companies from the catastrophic claims of their enrollees. This program would reimburse an insurance company for each enrollee whose total claims meet a certain dollar amount up to a cap. The Wakely analysis found that reinsurance could have impacts as early as 2019:

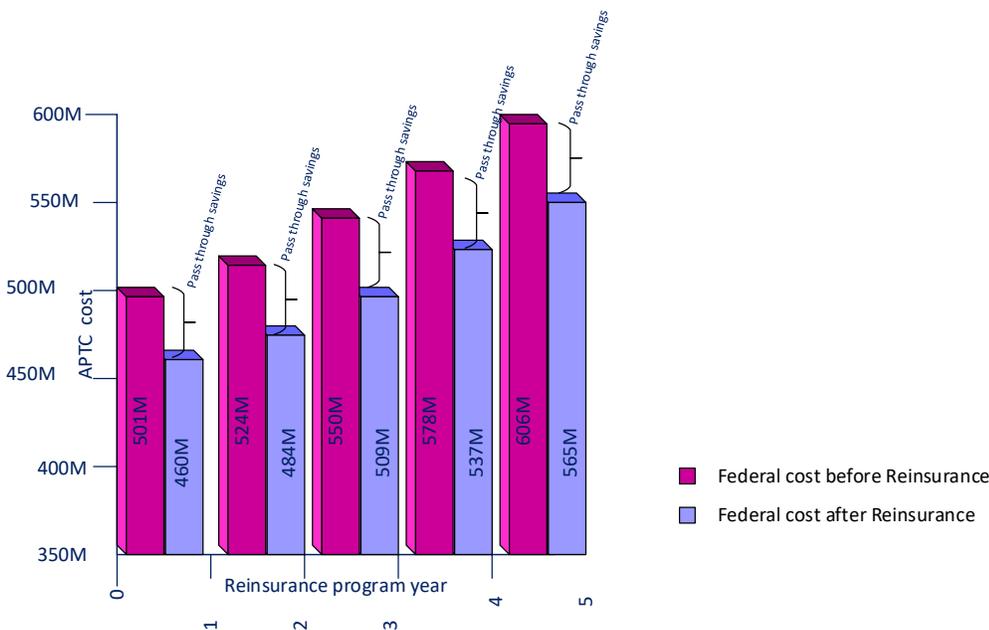
- An 8.1% reduction in premium trend would cost \$196 million/year starting in 2019.
- Increase enrollment by more than 5,500 lives (2%) in the 1<sup>st</sup> year of reinsurance.
- Yield federal savings of \$367.5 million over 10 years.
- Result in \$36.8 million year in federal pass-through funds in 2019.

### What Washington consumers purchasing individual health insurance gain by spending \$196 million to fund a reinsurance program

Washington state and its individual market enrollees benefit from lower premiums, increased enrollment, and an opportunity to gain federal funding to help finance the program. Under a reinsurance program, health insurance premiums are lowered by reimbursing a portion of high cost claims to carriers, allowing carriers to offer lower premiums. These reduced premiums stimulate enrollment in individual coverage, which means more Washingtonians have health insurance coverage. In 2014, individual health insurance premiums were 10-15% lower when the federal transitional reinsurance program was in place and carriers received about \$200 million in federal reinsurance payments.

### Federal funds can help pay for a state reinsurance program

Federal pass-through savings occur as a result of demonstrating the full cost of federal Advance Premium Tax Credit (APTC) payments without a reinsurance program, versus the cost with a state reinsurance program. WA State can recoup those federal dollar savings to help fund a reinsurance program.



### **Key Considerations**

- State funding will be needed to finance a reinsurance program and is required to receive a federal §1332 waiver.
- Consumers need a healthy individual health insurance market even if the state decides to pursue a state-offered public option or programs to provide additional financial assistance for consumers. These options are **not** mutually exclusive.
- There is no guarantee that Washington's §1332 waiver request will be granted.

### **Next Steps**

- OIC will propose reinsurance authorization legislation in the 2018 legislative session.
- The §1332 waiver drafting process is continuing, with close coordination with CMS to ensure that the reinsurance authorization legislation and the waiver request are aligned.
- Wakely will prepare a final analysis that reflects the enacted reinsurance legislation.
- Very soon after reinsurance legislation is enacted, a draft §1332 waiver application will be posted for comment and public hearings will be held.