# Using Reinsurance to Stabilize and Strengthen the Individual Market

The American Medical Association (AMA) believes that reinsurance provides an equitable, fair and cost-effective mechanism to subsidize the costs of high-risk and high-cost patients, and protects patients with pre-existing conditions. State and federal reinsurance programs have been shown to be effective in yielding premium reductions, in comparison to what they otherwise would have been.

## The three R's: reinsurance, risk adjustment and risk corridors

**Reinsurance** provides payments to plans that enroll higher-cost individuals whose costs exceed a certain threshold, also known as an attachment point, up to a defined reinsurance cap. Insurers can either identify individuals they expect will incur high claims at the time of enrollment ("invisible high-risk pool") or higher-cost individuals can be identified once they actually incur high claims. Either way it is structured, reinsurance plays a role in stabilizing premiums by reducing the incentive for insurers to charge higher premiums across the board in anticipation of higher-risk people enrolling in coverage.

**Risk adjustment** transfers funds from plans with lower-risk enrollees to plans with higher-risk enrollees, thereby removing insurer incentives to "cherry pick" healthier enrollees.

**Risk corridors** limit health plan losses and profits beyond an allowable range, playing a role in stabilizing premiums while also promoting more accurate premium-setting by insurers.

## Success of reinsurance in stabilizing premiums

### *ACA's temporary reinsurance program*

The temporary reinsurance program in place during the early years of Affordable Care Act (ACA) implementation – 2014-16 – helped stabilize premiums in the individual health insurance marketplace. To fund the ACA's transitional reinsurance program, insurers and third party administrators paid $63 per enrollee per year in 2014, $44 in 2015 and $27 in 2016. These investments in reinsurance yielded significant premium reductions.

For example, in 2014, insurers received reinsurance payments once an enrollee's costs exceeded $45,000 (attachment point), covering 80 percent of enrollee costs up to $250,000 (reinsurance cap). The $10 billion reinsurance fund for 2014, the result of the $63 per enrollee per year contributions, was estimated to reduce premiums by 10 to 14 percent.

### *Section 1332 waivers: state reinsurance initiatives*

Section 1332 waivers have also been approved to provide funding for state reinsurance programs. As a result, premiums are lower in 2019 in the individual market in these states than what they otherwise would have been. For example, the **Oregon Reinsurance Program** reduced individual market rates by 6.3 percent, while the **Alaska Reinsurance Program** has reduced average premiums by more than 25 percent since its inception in 2017.

## Strategies to foster healthy markets

Considering the success of the ACA's reinsurance program, as well as state reinsurance programs, the AMA:

- Supports the establishment of a permanent federal reinsurance program; and

- Supports the use of Section 1332 waivers for state reinsurance programs.