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State-Run Reinsurance Programs Reduce ACA Premiums by 19.9% on Average

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Summary

New analysis from Avalere finds that states with their own reinsurance programs reduce individual market premiums by 19.9% on average in their first year.

Reinsurance programs provide a combination of state and federal funds to insurance companies to help offset losses they may incur by covering individuals who are sicker than originally anticipated. In response to recent individual market uncertainty and rising premiums, many states are pursuing reinsurance programs to mitigate insurers' risk and stabilize individual markets, as well as to help residents avoid unexpected premium increases while reducing the number of uninsured.

"For states looking to stabilize their individual markets, reinsurance programs may be an attractive opportunity," says Chris Sloan, associate principal at Avalere. "State-based reinsurance programs have the potential to reduce premiums and are a good financial deal for states if they can identify a source of funding."

To date, 7 states (AK, MD, ME, MN, NJ, OR, WI) have created their own reinsurance programs using Section 1332 of the Affordable Care Act (ACA). These states receive federal funding for their reinsurance programs based on the amount the federal government would have spent on advanced premium tax credits (APTCs) to eligible individuals if the programs were not in place;

this is known as pass-through funding.

To understand the impact of these programs, Avalere analyzed existing and actuarially estimated data from the 7 states with approved reinsurance programs to estimate changes in individual market premiums, federal pass-through funding levels, and costs to the state.

Avalere's analysis finds that among the 7 states with state reinsurance programs, premiums were 19.9% lower, on average, in the first year of enactment (Table 1). The premium reductions ranged from -6% to -43.4%.

In addition, Avalere's analysis estimates that, during the first year of enactment, reinsurance programs led to lower federal spending on APTCs of nearly $1 billion (Table 1) compared to what the federal government would have spent without a reinsurance program. The federal government must "pass through" a portion of these savings to the states to help fund their reinsurance programs. In total, the federal government has contributed nearly twice as much ($990.6M) to state reinsurance programs as states ($509.1M) in the first year of enactment.

Table 1: Estimated Individual Market Impact of State Reinsurance Programs in Year of Enactment

State (Date of Enactment)	Percent Change in Average Individual Market Premiums	Federal Pass-Through Funding (millions)	State Reinsurance Funding (millions)	Percent of Program Cost Born by State	Enrollment in Year of Enactment
AK (2017)	-34.7%	$58.5M	$1.5M	2.5%	14,200
MN (2018)	-20%	$131M	$140M	51.7%	106,500
OR (2018)	-6%	$54.5M	$35.5M	39.4%	143,200
ME (2019)	-9.4%	$65.3M	$27.7M	29.8%	62,100
MD (2019)	-43.4%	$373.4M	$88.6M	19.2%	181,500
NJ (2019)	-15.1%	$180.2M	$143.5M	44.3%	331,000
WI (2019)	-10.6%	$127.7M	$72.3M	36.1%	203,000
State Average	**-19.9%**	**$141.5M**	**$72.7M**	**31.9%**	**148,800**
Total	**--**	**$990.6M**	**$509.1M**	**--**	**--**

Avalere's analysis also finds that states bear an average of 31.9% (ranging from 2.5% to 51.7%) of the total annual costs to run their reinsurance programs for an average of $72.7M. These additional costs may hinder adoption of reinsurance programs by states with limited budget flexibility.

“Reinsurance programs have been effective at stabilizing individual market premiums and maintaining insurer participation,” said Elizabeth Carpenter, practice director at Avalere. “Though the appetite for state reinsurance programs is high, securing state funding is an obstacle to additional states implementing these programs.”

Methodology

To conduct the analysis, Avalere analyzed individual market rate filings in states from 2017 to 2019, as well as state ACA Section 1332 waiver application reports, to estimate changes in individual market premiums, spending by the federal government on advanced premium tax credits (APTCs) and subsequent pass-through funding associated with savings from reinsurance programs, and costs to the state as a percentage of total program spending.

For states with existing reinsurance program data (AK, MN, OR), Avalere compared baseline premium projected growth to actual premium rate filings in the year of enactment to determine the percent reduction in premium growth due to reinsurance. For states with approved ACA Section 1332 waiver applications to establish reinsurance programs (ME, ME, NJ, WI), Avalere compared state 2019 projected premium growth to projected 2019 premium growth under the waiver using approved 1332 waiver application reports.

Avalere used total federal pass-through funding through savings associated with reduction in APTCs from the Center for Consumer Information & Insurance Oversight Section 1332: State Innovation Waivers Resource Center. Avalere then estimated the percent of program costs born by the state as the portion of remaining funds after pass-through funding, divided by total estimated reinsurance program costs.

To estimate enrollment in year of enactment, Avalere used data from state 1332 waiver application reports and CMS effectuated enrollment files for the respective year of operationalization.