OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

Issue Brief

State Health Reinsurance Programs

Reinsurance Programs

A state health reinsurance program reimburses health insurers for claims that exceed a certain threshold. This helps lower health insurance premiums by stabilizing health insurers' claim costs. States establish the programs through legislation and by obtaining a waiver, known as a 1332 waiver, from the federal departments of Health and Human Services (HHS) and Treasury. Program structures vary. For example, some reinsurance programs may pay part of an insureds premium, while some pay the entire claim cost; some programs are limited to claims from individuals with certain high-cost medical conditions; and some may require the insurer to pay reinsurance premiums.

How Reinsurance Programs Work

Stabilize Claims

Reinsurance is coverage insurers buy to protect against large claim costs. An insurer cedes (gives up) some of its liability to the state reinsurance program, which assumes the risk. Excessive costs are then shared between the insurer and the reinsurer, which stabilizes the amount insurers pay towards claims.

Lower Premiums

Because insurers cede liability to the reinsurance program, they assume less risk and premiums decrease. As a result, reinsurance can help make health insurance coverage more affordable and available.

Funding from Federal Savings

With lower premiums, federal funding that would have been spent on premium subsidies can instead go towards the reinsurance program (using federal savings to fund another program in this way is called "pass-through" funding). Federal outlay is generally stable, but states may be required to supplement the program with additional funds.

State Reinsurance Programs

According to the Kaiser Family Foundation (KFF), at least seven states have initiated a state health reinsurance program: Alaska, Maine, Maryland, Minnesota, New Jersey, Oregon, and Wisconsin. Several other states have considered similar programs. Information on each state's program is available at the federal Centers for Medicare and Medicaid Services (CMS) Innovation Waiver website. Below, we briefly describe each program (program parameters may be updated annually).

Alaska — reimburses insurers 100% of claims, up to the total available program funding, for enrollees with certain high-risk conditions

Maine — reimburses 90% of claims between $47,000 and $77,000 and 100% of claims above $77,000; applies only to policies covering high-risk enrollees

Maryland — reimburses 80% of claims between approximately $20,000 and $250,000

Minnesota — reimburses 80% of claims above $50,000 and up to a cap of $250,000

New Jersey — reimburses 60% of claims between $40,000 and $215,000 for claims from high-risk enrollees

Oregon — reimburses 50% of claims between $95,000 and $1 million

Wisconsin — reimburses between 50% and 80% of claims between $50,000 and $250,000

Establishing a Reinsurance Program

1332 Waiver

States must generally enact enabling legislation and apply for a "state innovation waiver," commonly called a 1332 waiver and named after the authorizing section of the Affordable Care Act (ACA). A state innovation waiver allows a state to waive certain ACA requirements that might otherwise prohibit it from implementing a reinsurance program.

However, by law a state's waiver application may be approved only if (1) it continues to meet federal requirements for comprehensive health insurance benefits and affordability (i.e., the waiver provides a comparable level of coverage as federal law), (2) at least a comparable number of people will be covered under the reinsurance program as under current law, and (3) the proposed program will not increase the federal deficit. Generally, HHS and the Treasury review waiver applications.

State Funding Sources

Reinsurance programs generally require additional funding. According to a State Health and Value Strategies issue brief, this external funding generally comes from:

- policy assessments on certain policies issued or delivered in the state,
- premium taxes,
- general state funds, or
- provider assessments, which are placed on hospitals and other health care providers.

Considerations

Three common critiques of reinsurance programs include:

1. State Funding — the cost to a state of a reinsurance program can be significant, potentially offsetting any reduced premiums for its citizens.
2. Medical Costs — reinsurance programs do not address the underlying problem of rising medical costs, which may make premium relief under a reinsurance program temporary as costs catch up.
3. State-by-State Approach — reinsurance programs that differ between states can make it difficult for insurers to adapt to each individual market.

Learn More

KFF: Tracking Section 1332 State Innovation Waivers

CMS: Section 1332 State Innovation Waivers

University of Pennsylvania Leonard Davis Institute of Health Economics (LDI) Issue Brief: Stabilizing Individual Health Insurance Markets With Subsidized Reinsurance

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