

Reinsurance and Risk Adjustment under the ACA

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Why PUBLIC Reinsurance?

- Simple subsidy: reduce total costs
 - Kerry proposal; “Healthy New York”
 - More efficient, convenient, than direct subsidies
- More predictable risk – in new govt. programs
 - E.g., small group mkt. reforms
- Market dynamics: Counteract adverse selection among ins.
 - spread risk to competing insurers.

Four Mechanisms

- Temporary:
 - Early retiree reinsurance
 - High-cost conditions
 - Medical expense corridors
- Permanent:
 - Risk adjustment

Early Retiree Reinsurance

- 2010-2013
- Former employees aged 55-64
- Pay to employers 80% of claims from \$15K-\$90K per person
 - To reduce costs to emp'r or emp'ee
- \$5 billion federal funding
 - Roughly 15%

Why Early Retirees?

- Payback to Unions?
 - But large employers, govt. employers
- Stop erosion of ESI until 2014
 - Lieberman turn-coat
 - What happens after 2014?

High-Cost Medical Conditions

- 2014-2016: initial adverse selection shock
- Individual (non-group) insurance only
- Prospective payments based on subscribers with listed high-cost conditions
- Funding: \$25 billion assessments on insurers and 3rd party administrators (TPAs).

Medical Expense Risk Corridors

- 2014-2016
- Individual AND small group markets
- Insurers with medical expense >103 percent of expected are subsidized by those whose medical expense is <97 percent of expected
- Funding: unspecified
- Logic: encourage ins. participation with good rates. Medicare Pt. D experience.

Risk Adjustment

- 2014 and following
- Individual and small-group markets, inside AND outside exchanges (but not self-insured)
- Counters adverse selection vs. carriers or the exchange, but NOT selection among benefit tiers.
- Methodology TBD. Probably similar to Medicare Part D and Medicare Advantage
- Zero-sum funding: low-risk insurers subsidize high-risk

Risk Adjustment Issues

- Based on demographics or also Rx/Dx
- Prospective vs. concurrent
- Final version vs. transitional/phase-in version
- Uniform throughout country vs. local variation
- Administered centrally vs. decentralized