Reinsurance - Overview & HHS-Operated Reinsurance

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS for MEDICARE & MEDICAID SERVICES
Center for Consumer Information and Insurance Oversight

Health Insurance Exchange System-Wide Meeting
May 21-23, 2012
Agenda

- General Reinsurance Program Overview
- State Options for Reinsurance
- HHS-Operated Reinsurance Program
- Timeline and Key Dates
- Resources and Contacts
Reinsurance Program Overview

The transitional reinsurance program is a temporary State-based program established under the Affordable Care Act

- Operates from 2014 through 2016
- Stabilize premiums by partially offsetting claims for high-cost individuals in non-grandfathered individual market plans
- May be operated by a State or HHS
Reinsurance Program Overview: Who is Effected

**States:**

- Must establish State reinsurance program or defer operations to HHS

**Issuers:**

- All issuers, self-insured plans, and third party administrators on behalf of self-insured plans, must make contributions
- Non-grandfathered, individual market plans are eligible for payments
### Reinsurance Program Overview: Reinsurance Contributions

#### Statutory National Annual Reinsurance Contributions*

<table>
<thead>
<tr>
<th>Program Year</th>
<th>Reinsurance Payments</th>
<th>General Fund of US Treasury**</th>
<th>Total Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$10 billion</td>
<td>$2 billion</td>
<td>$12 billion</td>
</tr>
<tr>
<td>2015</td>
<td>$6 billion</td>
<td>$2 billion</td>
<td>$8 billion</td>
</tr>
<tr>
<td>2016</td>
<td>$4 billion</td>
<td>$1 billion</td>
<td>$5 billion</td>
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</table>

*Contributions collected in a State will remain in that State

**Amount equal to the cost of the Early Retiree Reinsurance Program
Reinsurance Program Overview: Reinsurance Contributions

Final Rule Announced
• Per capita contribution rate
  – National per capita rate to be proposed in the draft annual HHS notice of benefit and payment parameters

Future Guidance Will Propose
• Contributions = (Quarterly # of enrollees) x (Contribution rate)
  – Quarterly number of enrollees = Estimated # of member months for all covered lives
Reinsurance Program Overview: Contribution Collections

• HHS will:
  – Begin collections on January 15, 2014
  – Collect contributions from the self-insured market, and fully insured market at State option.
  – Maintain a State-specific reinsurance fund

• Issuers/Plans will:
  – Calculate the contribution owed for each State
  – Report the total contribution owed for each State
State Options for Reinsurance

• State fully operates its own reinsurance program
  – HHS will still collect contributions from the self-insured market
  – State-operated program performs all other functions

• State operates its own reinsurance program with HHS support
  – Defer all collection responsibility to HHS
  – State reinsurance entity will perform all payment functions

• In the event HHS operates the reinsurance program a State’s behalf
  – HHS will collect all contributions and perform payment functions
HHS-Operated Reinsurance

Contribution Collections

• HHS will collect from the self-insured market
• HHS will collect from the fully insured market
• Collections will begin in January 2014

Payments

• HHS will make payments to individual market issuers
• HHS will calculate payments based on paid claims
• Payments will begin quarterly in May 2014
• Annual payment reconciliation will begin in 2015
HHS-Operated Payment Parameters

• Draft HHS notice of benefit and payment parameters
  – Will be published in Fall 2012 for the 2014 benefit year
  – Will propose reinsurance payment parameters including:
    • Attachment Point – Claim cost threshold where reinsurance begins
    • Reinsurance Cap – Claim cost threshold where reinsurance ends
    • Coinsurance Rate – Rate applied to claims costs above the attachment point and below the reinsurance cap
HHS-Operated Payments

• HHS will make payments throughout the benefit year
  – Quarterly Payments: Beginning in May 2014
  – Annual Reconciliation: In 2015

• Payments will be based on paid claims for covered benefits

• Payments will be prorated based on received contributions
  – Designed to ensure payments do not exceed available funds

• Excess funds will be carried over to the following year and will remain in State-specific accounts
HHS-Operated Payments

Quarterly Reinsurance Payment Process

- A quarterly withhold will be applied to issuer payments
  - Holdback will be allocated towards the annual reconciliation
  - Calculated reinsurance payments left after the withhold and outstanding balances from the previous processing quarter(s) will be considered for the quarterly payment
  - Quarterly payments will be made at the issuer level, based on State license
Calculated reinsurance payments will be prorated as follows:

- If Contributions are greater than the sum of all calculated reinsurance payments, then the proration percentage will be 100%

- If Contributions are less than the sum of all calculated reinsurance payments, then the calculated reinsurance payments will be prorated

\[ \text{Proration} \% = \frac{\text{(Available contributions from reinsurance contributions)}}{\text{(Sum of all of calculated reinsurance payments)}} \]
HHS-Operated Payments

- Annual Reconciliation includes:
  - Withholds accumulated during the benefit year and
  - Any outstanding quarterly issuer balances

- Withholds and outstanding quarterly balances for the year will be:
  - Aggregated by issuer and State
  - Prorated against the available reinsurance funds by State
<table>
<thead>
<tr>
<th>Event</th>
<th>Date/Details</th>
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<tbody>
<tr>
<td>Premium Stabilization Final Rule</td>
<td>March 23, 2012</td>
</tr>
<tr>
<td>Draft Notice</td>
<td>Fall 2012 - Includes State-specific reinsurance parameters.</td>
</tr>
<tr>
<td>Final Notice</td>
<td>January 2013</td>
</tr>
<tr>
<td>Collection of Reinsurance Contributions</td>
<td>Commences January 15, 2014 and continues quarterly.</td>
</tr>
<tr>
<td>HHS-Operated Program Reinsurance Payments</td>
<td>Commences Spring 2014 and continues quarterly.</td>
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HHS-Operated Reinsurance Program: Key Takeaways

- Reinsurance program is a temporary program (2014-2016)
- All health insurance issuers and self-insured plans must make contributions
- Only non-grandfathered individual market plans are eligible for payments
- The State can choose to operate its own reinsurance program or have HHS operate the program on its behalf
- Any contributions collected for a particular State will only be used towards reinsurance payments in that State
- The HHS-operated payment process is designed to ensure payments do not exceed available funds from collected contributions
Resources for Additional Information:

**Final Rule**
Standards Related to Reinsurance, Risk Corridors, and Risk Adjustment

Resources for Additional Information:

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