Public Reinsurance

How Have States Like New York and Arizona Used Reinsurance to Help Businesses Control the Cost of Health Insurance?

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Roadmap

I. What is reinsurance?
II. How does it work?
III. What are its rationales?
IV. What’s the evidence - NY & AZ?
V. How is Reinsurance Inst. helping WI?
What Is Reinsurance?

- Insurance for insurers (invisible to insured people)

Vocabulary:

- the *primary* risk bearer *cedes* (transfers) the risk
- the reinsurer *assumes* the risk
- transfer may be *prospective* or *retrospective*
- risk sharing may be
  - *proportional*, akin to coinsurance (a.k.a. *pro rata*), or
  - *excess of loss*, akin to deductible (a.k.a. above *threshold*), or
  - a mix of both
- risk sharing typically has ceiling, creating risk *corridor*
- may be *specific* (per person) or *aggregate* (for pop’n)
Simplified Sketch: HealthyNY

Allowable claims/person

$0-25,000

$25K-100K

$100K+

end-of-year, per (eligible) person

primary carrier pays 100%

corridor: reinsurer pays 90%,
primary carrier 10%

threshold

primary carrier pays 100%

“specific, retrospective, excess of loss”
Simplified Sketch: HCP, AZ

Allowable claims/MCO

Public reinsurance pays above set %age of premium
Private reinsurance covers high per-person losses first

Participating MCOs cover claims up to 80-86% of premium

“aggregate, retrospective, excess of loss”
What Are the Rationales for Reinsurance?

Main private goals

- Financial protection, especially for small primary insurers, self-insureds
  - both specific and aggregate protection
- Spread risk of high-cost claims
  - much is spread-over time thru premium adjustments
- Obtain specialized knowledge, services
- Does **not** lower costs because primary carriers must pay for reinsurance coverage
Rationale, cont’d

High dollars at high end of spending per person year

<table>
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<th>Exp. Cat.</th>
<th>Mean $</th>
<th>% Pop</th>
<th>% $</th>
</tr>
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<tbody>
<tr>
<td>$0-2,500</td>
<td>$628</td>
<td>12.9%</td>
<td>73.0%</td>
</tr>
<tr>
<td>$2,500-5,000</td>
<td>$3,551</td>
<td>11.1%</td>
<td>11.2%</td>
</tr>
<tr>
<td>$5,000-10,000</td>
<td>$7,017</td>
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<tr>
<td>$10,000-15,000</td>
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<tr>
<td>$30,000-50,000</td>
<td>$37,670</td>
<td>9.6%</td>
<td>0.9%</td>
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<tr>
<td>$50,000+</td>
<td>$104,681</td>
<td>23.7%</td>
<td>0.8%</td>
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</tbody>
</table>

note: data are preliminary, amounts are total health expenditures by expenditure category, 2001-2003; source: survey-adjusted MEPS Data, Wisconsin population under 65
Rationale, cont’d

Public goals

- Encourage enrollment by subsidizing cost
  - Reduced insurer costs reduce premiums
  - Add’l small impact from lower “risk premium”
  - Insureds/employers still contribute
  - Lower premium attracts more healthy insureds
- Targeted subsidy; ex post risk adjustment
- Reduce costs of unfavorable selection, cut benefit of cream-skimming
- Help new market entrants by assuming high, unfamiliar risk
Rationale, cont’d

Rationales & design of reinsurance

- Specific excess-of-loss vs. aggregate
- Individual and small-group markets vs. all
- Previously uninsured vs. already insured
- Costs vary with size of population targeted, generosity of public subsidy
- Financing by surcharges on already insured vs. broad financing base
Rationale, cont’d

Enrollees vary greatly in spending per person year

Note: Total Health Expenditures (in 2007 $s) by age and health, small group employees and dependents; preliminary data
Source: Urban Institute tabulations from statistical models estimated with 2001-2003 Medical Expenditure Panel Survey data, re-weighted to reflect Wisconsin population.
Rationale - last

Private & public compared

- Similarities
  - similar mechanisms of risk assumption
  - similar claims handling

- Big differences
  - public funds provide outside subsidy
  - target subsidy to neediest, the high cost
  - ultimate target is insured, not insurer
  - reinsurance only part of public reform
What’s the Evidence on Reinsurance?

- **Private**
  - widely purchased, which shows it offers value

- **Public**
  - 1990s small group reform - prospective reinsurance
  - from late 1990s AZ Healthcare Group - aggregate, uninsured small groups
  - NY, Healthy New York - specific, retrospective, excess-of-loss; targets low-income uninsured workers
  - VT has reinsurance in new bill
    - Expect 10-30% cut in premiums, depending on design
  - Others - serious planning
Arizona and New York Experience

- **AZ**
  - enrollment of about 20K
  - vs. 1.1M uninsured, 0.9M Medicaid
  - ave. subsidy $300+/enrollee, evidently cut off

- **NY**
  - shifted corridor down to $5K-75K
  - cut premiums 20+% 
  - rapid enrollment growth after slow start
  - 100K+ as of mid-2006
  - vs. 2.5M uninsured, 3.1M Medicaid
Reinsurance Impacts

- Subsidy cuts premiums
  - for savings, design needs to hold down transaction costs, maintain primary insurers’ cost-containment efforts

- Extent of impact could go beyond extent of subsidy if
  - subsidy keeps healthier risks in the market
  - public reinsurance supplants private, reduces “risk premiums” charged by primary carriers
  - reinsurance facilitates competitive entry by MCOs
Reinsurance Impacts

- Can reduce premiums for insureds, impacts of adverse selection on insurers
- Can improve availability of insurance for people now turned down
- Impacts, costs vary with design & current market
- Not panacea, but component of intervention
  - Add’l subsidy needed to attract low-income workers
  - Other components also affect cost, accessibility of coverage to targeted population
  - Add’l regulatory interventions may also be needed
Reinsurance Modeling

Baseline Dataset

Dataset Construction
- individuals
- firms
- medical spending

Premium Imputation

Reinsurance Simulation

WI "Model" of Reinsurance

Benchmark to WI

Offer and Take-Up Changes

Policy Effects
How Is Institute Helping?

- Creating model of WI insurance costs
  - by employer size and employee characteristics
- Consult with WI policy makers
  - market & regulatory context, perceived problems
  - funding available, targeting desired
  - design of reinsurance benefits/cost sharing
- Estimate costs and effects of approaches
- Promote focus on problems, solutions
The End

... time for questions