Frequently Asked Questions about Maryland's 1332 Waiver Application

April 2018

What is the State Reinsurance Program?

HB 1795 of the 2018 Legislative Session authorizes the Exchange, in consultation with the Insurance Commissioner and as approved by the Exchange Board of Trustees, to establish and implement a State Reinsurance Program. This program will provide reinsurance to carriers that offer individual health benefit plans in the State.

Under the program, "reinsurance" will pay for claims above a certain threshold ("attachment point"), up to a set cap ("detachment point"), in effect reducing claims costs for carriers. This cost savings is passed on to Marylanders through lower premium rates. The State Reinsurance Program will stabilize premiums for plans sold on and off Maryland Health Connection.

How will the State Reinsurance Program work?

Insurance carriers who provide individual health benefit plans in Maryland and incur total annual claim costs on a per individual basis between a bottom *attachment point* (still to be determined) and a cap of $250,000 will be reimbursed 80% of those claims costs from the State Reinsurance Program fund. So, the insurance carrier would still pay the full cost of claims up to the attachment point, 20% of claims between the attachment point and the cap, and all claims over the $250,000 cap. Payments to insurance carriers will be made after the plan year ends and all costs have been recorded and reconciled.

What is the timeframe for the program in Maryland?

The Maryland Health Benefit Exchange (MHBE) in concert with the Maryland Insurance Administration (MIA) will hold public hearings in April and May before applying to the Centers for Medicare & Medicaid Services (CMS) for a State Innovation Waiver to create the program under Section 1332 of the

Affordable Care Act -- which is why this is often referred to as a “1332 Waiver.” A federal review of Maryland’s application is expected to take a few months and CMS’ approval is required for Maryland to proceed. Maryland modeled the State Reinsurance Program after the federal approach used in the early years (2014-2016) of the marketplaces.

What impact will this have on insurance rates for Marylanders?

If approved, the program will apply downward pressure on the premium increases that would otherwise be paid by Marylanders without the program. This will impact consumers in the individual health insurance market for those who purchase plans both on and off Maryland Health Connection.

Maryland expects this program to help stabilize the individual market because rates for monthly premiums will be less volatile for everyone buying individual insurance each year.

Consumers who do not receive federal tax credits to purchase insurance will benefit from reduced premium rates.

Those who are eligible for tax credits are protected, to some extent, from high individual rate increases because the tax credits rise to match increases in monthly premiums. Maryland Health Connection’s 2017 Open Enrollment experience supports this fact given that enrollment fell by only 2.6% in 2018 compared to a larger drop off for Marylanders who buy their coverage off-marketplace (tax credits are only accessible on the Marketplace).

How will it be paid for?

The state has estimated that it will raise approximately $365 million through a 2.75% premium surcharge on insurance carriers, a tax that was previously paid to the federal government under the ACA (Congress suspended the federal tax for 2019).

In addition, if the 1332 waiver is approved, Maryland may receive additional “pass through” dollars from the federal government to supplement the program, raising the total funding for the program to $462 million. Access to this funding is based upon the presumption that the federal government will pay out less in federal tax credits due to lower premium rates.

By helping cover high-cost claims, the program reduces the cost for insurance carriers and reduces the need to raise premium rates to cover claims.

How long will this program last?

A 1332 waiver can last from two to five years. The State Reinsurance Program application envisions a five-year program that leverages as much funding possible in the first two years as a short-term fix for individual market stability. Maryland will work to develop a long-term fix for market stability over the lifetime of the 1332 waiver.

What happens if the federal government does not approve Maryland's application?

The funding and administration of the State Reinsurance Program is contingent on an approved 1332 waiver. However, if the waiver is not approved, the Maryland General Assembly could consider additional action.