STABILIZING MARYLAND'S INDIVIDUAL MARKET:

THE STRUCTURE OF A STATE-BASED REINSURANCE PROGRAM

Kaiser Permanente

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Why Include Incentives in the Reinsurance Program ?

The Maryland reinsurance program:

- **Is unique**
  - Very large scale; only two carriers in Maryland's individual market
  - This makes addressing the interaction of risk adjustment and reinsurance crucial
  - Without incentives the program will pick market winners and losers
- **Must fit with broader state policy objectives**
  - Lowering individual market premiums is an important objective
  - By its nature, however, a reinsurance program with a typical design disproportionately benefits highest cost care delivery and does not encourage quality or cost effectiveness
- **Is an important opportunity to encourage cost containment and innovation**

What Should Incentives Accomplish?

Incentives should do three important things:

- Ensure all Marylanders share equally in the program's benefits — unless there is a strong policy reason to favor some consumers over others
- Bend the overall cost trend in health care by:
  - Not interfering in the market in a way that camouflages cost differences between competing systems
  - Rewarding quality and cost-effectiveness in care delivery
- Encourage future innovation
  - Set goals for progress ahead of time so all competitors can succeed

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Ensuring All Marylanders Benefit Equally

- Coordinate with ACA risk adjustment
  - Under the ACA, carriers are compensated for high-risk members through a federal Risk Adjustment program that transfers money between carriers based on enrollment of individuals with high-cost diagnoses. This allows carriers to design benefits and set rates with less focus on disproportionate risk.
  - The scale of the federal Risk Adjustment program is large.
  - Kaiser Permanente will transfer approximately $80 million to CareFirst for 2017 to account for their higher risk membership. That amount will be much higher in 2018, and will continue to grow.
- A new state-based reinsurance program must account for the federal ACA's Risk Adjustment program, or it will create a large "double dip" effect for carriers with high-cost members.

What the Experts Say — Importance of Coordinating With Risk Adjustment

The Wakely Report specifically calls out the potential for reinsurance payments to duplicate risk adjustment payments:

While the reinsurance program will reduce total risk adjustment transfers, since the state average premium will be lower, some enrollees with Hierarchical Condition Categories (HCCs) will get compensated both for risk adjustment and reinsurance. The result could be very different profitability patterns within the market than currently exists.

American Academy of Actuaries' May 2017 Issue Brief:
How Changes to Health Insurance Market Rules Would Affect Risk Adjustment

If a high-risk pool program is in place, it should be coordinated with the risk adjustment program, ***otherwise insurers would be compensated twice for the same risk.*** *For instance, if a portion of claims is covered by an invisible high-risk pool or reinsurance program, then the risk adjustment program only needs to consider the portion of claims not covered.*

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What the Experts Say —
Importance of Coordinating With Risk Adjustment

Milliman White Paper:
Paring Risk Adjustment to Support State 1332 Waiver Activities - August 2017

The current federal risk adjustment methodology does not account for payments from a state-based reinsurance program and can result in double compensation for high-risk members, both from the reinsurance program and from risk adjustment. This finding is likely to have importance to many other states considering reinsurance-like proposals under Section 1332 to help stabilize their markets. ***Specifically, if appropriate changes to risk-adjustment are not made, a reinsurance program could lead to pricing inefficiencies and distortions that negatively impact the market and could work against the goals of the reinsurance program overall.***

Conclusion*: When states consider market reforms such as reinsurance under the 1332 Waiver with the goal of stabilizing the market and providing affordable coverage, it is important to examine the challenges and options in the context of their effects on other market stabilization mechanisms like risk adjustment. States should ensure that all policy instruments and tools are properly aligned and supportive of each other to further the desired market outcomes.*

Ensuring All Marylanders Benefit Equally

- Reinsurance programs reimburse a percentage of costs above a certain threshold and favor plans that more often surpass it. For example, in the Maryland individual market, PPO members' combined medical costs are almost twice that of HMO members.

- Maryland's reinsurance program should address this disparity so that premiums are not reduced disproportionately due to higher cost delivery system designs, even after differences in risk profile are addressed.

- Absent an incentive, CareFirst members will receive nearly double the premium relief as Kaiser Permanente members — even after addressing the differences in risk profile.

Bending the overall cost trend in health care

Bend the overall cost trend in health care by:

- Not interfering in the market in a way that camouflages cost differences between competing systems, so consumers vote with their feet.
- Adding incentives over time that are independent of premiums, such as flat dollar amount payments. By their nature, these reward lower cost delivery systems.
- Directly rewarding quality and cost-effectiveness in care delivery through strategies like multipliers for high clinical quality ratings in preventive care measures.
    - Breast cancer screening
    - Colorectal cancer screening
    - Controlling high blood pressure
    - Care for diabetes and cardiovascular conditions

An option to prevent market distortion

- The reinsurance program would eliminate the double subsidy if it accounted for federal risk adjustment payments. It could do so by basing reinsurance payments on claims net of revenue received.

  - A plan would only receive payments under the proposed reinsurance program when the claims submitted exceeded the amount paid by federal risk adjustment.
    - For example, if a plan received $80M in federal risk adjustment transfers, it would not be eligible for reinsurance payments until its claims reached $80M to account for the plan's risk adjustment receipts.
    - Wakely could estimate the exact amount of the potential double payment.

- Addressing the double payment also makes the most efficient use of federal "pass through" taxpayer dollars by ensuring they aren't used to compensate for risk that has already been addressed through significant carrier transfers under the federal Risk Adjustment program. Kaiser believes this recognition of MD's unique market would be viewed favorably by CMS.

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