Joint Economic Committee
Representative Pat Tiberi, Chairman

The Invisible Risk Pool: State Innovation at Work

> Takeaway: States are finding innovative solutions to reduce rising premiums. An "invisible risk pool" has proven to be a useful approach.

Health insurance premiums in the individual market continue to rise and insurers continue to drop out as the cost of insuring individuals under Obamacare remains higher than expected.[1] With less competition, inadequate numbers of young and healthy enrollees, and costlier care needs, states are taking the lead in developing innovative solutions to mitigate dramatically rising premiums. One is so-called "invisible reinsurance" pools to help cover the higher cost of insuring people in the individual market while keeping premiums affordable. Essentially, insurers mark high-risk individuals for possible reinsurance claims, but enrollees remain in the same market as everyone else instead of a separate, high-risk pool. Under this arrangement, the individual may not know they are in a non-traditional high-risk pool, hence the "invisible" nature of the program.

Maine[2]

In 1993, Maine faced an issue other states face today. Maine mandated health insurers cover all individual applicants and implemented a community rating regime and restricted the age-based variation in premiums, making insurance more expensive and less attractive for younger, healthier enrollees. Insurers began to flee the market as older and sicker enrollees required more care. Maine saw premiums and deductibles skyrocket as a result of less competition and costly needs of the patients.[3] All three of these policies were adopted nationwide as part of Obamacare years later with similar results.

State lawmakers were forced to be creative. In 2011, Maine enacted a law that, in addition to relaxing restrictions on age-based premiums, implemented an "invisible high-risk pool."[4] People with pre-existing conditions could continue in the same individual market, but Maine provided reinsurance payments to help cover the cost of their care for insurers. Under the new structure, insurers were still required to accept all customers, but enrollees first had to answer questions about their health status. Maine identified eight specific conditions that were driving cost increases in the market. If an enrollee indicated they had one of those conditions, the insurers could mark them for state reinsurance payments should they need expensive care later. The state also allowed insurers to volunteer some individuals who may have costly care needs but fell outside the eight conditions.

Maine kept insurers from artificially shifting more enrollees into the pool by requiring the insurers share the risk. Insurers paid 90 percent of the premiums collected from these individuals into a reinsurance pool. Additionally, Maine would only cover 90 percent of the claims between $7,500 and $32,500 per year and 100 percent of the claims above $32,500. This left insurers with up to $10,000 worth of claims

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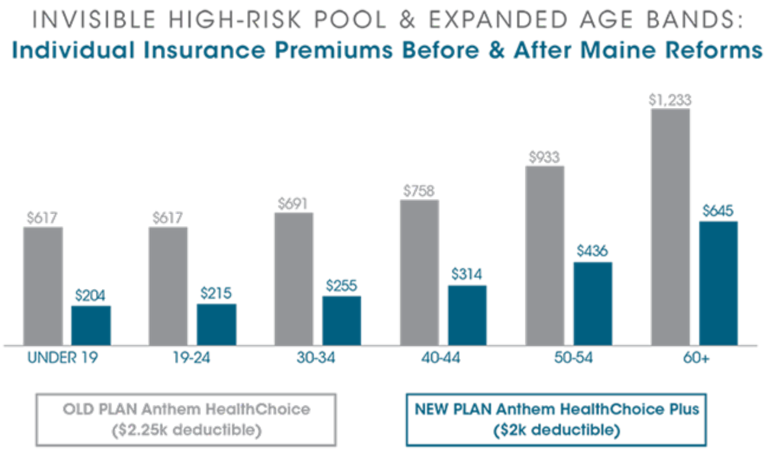
[1] Hellmann, Jessie, "Insurers Face Big Choice on Staying in Obamacare," The Hill, March 29, 2017, http://thehill.com/policy/healthcare/326219-insurers-face-big-choice-on-staying-in-obamacare
See Also: Blue Cross Blue Shield, "Newly Enrolled Members in the Individual Health Insurance Market After Health Care Reform: The Experience from 2014 and 2015," http://www.bcbs.com/healthofamerica/newly_enrolled_individuals_after_aca.pdf
[2] Allumbaugh, Joel, Tarren Bragdon, and Josh Archambault, "Invisible High-Risk Pools: How Congress Can Lower Premiums and Deal with Pre-Existing Conditions," Health Affairs Blog, March 2, 2017, http://healthaffairs.org/blog/2017/03/02/invisible-high-risk-pools-how-congress-can-lower-premiums-and-deal-with-pre-existing-conditions/
[3] Allumbaugh, Joel, Tarren Bragdon, and Josh Archambault, "Invisible High-Risk Pools: How Congress Can Lower Premiums and Deal with Pre-Existing Conditions," Health Affairs Blog, March 2, 2017, http://healthaffairs.org/blog/2017/03/02/invisible-high-risk-pools-how-congress-can-lower-premiums-and-deal-with-pre-existing-conditions/
[4] Public Law, Chapter 90, 125th Maine Legislature, http://www.mainelegislature.org/legis/bills/bills_125th/chapters/PUBLIC90.asp

to cover per enrollee. Insurers didn't have an incentive to shift inappropriate numbers of people to this pool since they were still responsible for some of the claims and would lose premium dollars. The invisible risk pool also assessed fees on insurers to finance the program.



Source: Health Affairs Blog, Health Policy Lab

Premiums dropped dramatically. Anthem, one of the largest insurers in the state, began offering new plans with rates as much as 70 percent lower than existing products.

Alaska

Alaska was one of the states hardest hit by new Obamacare regulations and insurance price increases. Alaskans saw average premiums increase by more than 30 percent between 2014 and 2015[5] and almost 40 percent in 2016.[6]

Facing a collapsing market, Alaska enacted House Bill 374 (H.B. 374) into law in 2016.[7] This law appropriated $55 million for a reinsurance pool to cover all claims for enrollees who had one of 33 conditions. The pool is partially financed by a 2.7 percent tax on all insurance premiums, not just health insurance. Insurers also have to pay all premiums collected from these individuals into the reinsurance pool.[8] Again, insurers are discouraged from inappropriately shifting enrollees to the pool because they would lose a substantial amount of premium dollars.

The effect was impressive and immediate. Premera, the state's only remaining exchange insurer, increased premiums by just 7.3 percent in 2017 instead of the 42 percent Premera had intended before H.B. 374.[9] The reinsurance fund is structured to sunset in 2018 while Alaska files for an ACA "innovation waiver." According to the state's actuaries, the reduced rate increase saved the federal government $51.6 million in premium tax credits that would otherwise have been spent on subsidies for more expensive insurance. Alaska is requesting that these savings go toward their reinsurance program.[10] The proposal suggests this arrangement sunset in five years with an option to continue after that.

Takeaways

States are laboratories of innovation when it comes to tackling the cost of health insurance. Maine before the full force of Obamacare and Alaska since Obamacare's implementation found invisible high-risk pools to be an effective hedge against unaffordable premium increases. Federal lawmakers may consider providing a manageable amount of federal dollars with few mandates so states can implement their own cost reducing policies. State lawmakers should be careful to ensure that there is a reliable source of revenue for an invisible reinsurance program, not rely entirely on federal appropriations, and prevent insurers from shifting too many enrollees into a reinsurance pool.

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[5] Fiedt, Annie, "Huge Increase for Healthcare.gov Insurance Rates in Alaska," Alaska Public Media, September 5, 2014, http://www.alaskapublic.org/2014/09/05/huge-increase-for-healthcare-gov-insurance-rates-in-alaska/

[6] Bradner, Tim, "Large premium Increases Approved for Individual Policies," Alaska Journal of Commerce, August 26, 2015.

[7] House Bill 374, Alaska Legislature, http://www.akleg.gov/basis/Bill/Detail/29?Root=HB%20374

[8] Bykerk, Cecil, "Saving the Individual Market in Alaska: The Alaska Reinsurance Program," Alaska Comprehensive Health Insurance Association PowerPoint presentation.

[9] Klictchenman, Andrew, "Alaska Sees Positive Federal Signals on Individual Insurance Market," Alaska Public Media, February 23, 2017, http://www.alaskapublic.org/2017/02/23/alaska-sees-positive-federal-signals-on-individual-insurance-market/

[10] State of Alaska Department of Commerce, Community, and Economic Development Division of Insurance, Alaska 1332 Waiver Application, November 23, 2016, https://aws.state.ak.us/OnlinePublicNotices/Notices/Attachment.aspx?id=105952