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Wisconsin Healthcare Stability Plan (Insurance)

[LFB 2019-21 Budget Summary: Page 233, #2]

CURRENT LAW

The Wisconsin Healthcare Stability Plan (WHSP) is a state-operated reinsurance program that is intended to reduce premiums paid by individuals who purchase health insurance in the individual market. Reinsurance payments reimburse insurers for a portion of the total annual claims for individuals with high costs. Under the program, OCI is authorized to spend up to $200,000,000 each year for reinsurance payments, an amount that can be increased by the Joint Committee on Finance upon request of OCI. Prior to each plan year, OCI establishes the reinsurance payment parameters, relying on actuarial estimates of individual market claims, and with the intent of spending the full amount set aside for payments. For 2019 plans, the program will pay 50% of the total annual medical claims of any covered individual that fall between $50,000 and $250,000. With these parameters, the maximum amount the program will pay on behalf of any individual is $100,000.

WHSP was created under 2017 Wisconsin Act 138 and implemented under the terms of a waiver federal agreement, pursuant to Section 1332 of the federal Affordable Care Act (ACA). Section 1332 of the ACA authorizes states to apply for a waiver to experiment with alternative methods of providing for healthcare coverage. In addition to a waiver of various insurance market provisions established by the ACA, states may also request pass-through federal funds that would otherwise be spent for premium tax credits. The state's Section 1332 waiver was approved for the five-year period from 2019 through 2023. Wisconsin is one of seven states that currently have a Section 1332 reinsurance program.

WHSP is funded with a combination of federal pass-through funds and state funds. Act 138 establishes a sum sufficient GPR appropriation to pay the difference between the total reinsurance payments and the amount of federal pass-through funding.

GOVERNOR

Provide $72,273,700 GPR and $127,726,300 FED in 2020-21 to fund estimated reinsurance payments for plan year 2019 under the Wisconsin healthcare stability plan.

DISCUSSION POINTS

1. The WHSP reinsurance program has several inter-related objectives. The primary goal is to reduce monthly insurance premiums. Since reinsurance payments are made from an external source (that is, not from premium revenues), the amount of medical costs that the premiums must cover is reduced. With lower premiums, participation in the individual market increases among consumers who are sensitive to price. The increased participation, in turn, tends to improve the overall risk pool, as healthier consumers join the market. With a healthier risk pool and higher participation, as well as a reduced risk associated with high-cost claims, insurers are more likely to offer plans on the individual market.

2. Based on information filed for 2019 premium rate review, OCI estimates that 2019 premiums are 10% lower than they otherwise would have been without the reinsurance program. The 2019 individual market premiums are 4.2% lower, on average, than the 2018 premiums.

3. The funding estimates in the bill reflect reinsurance payments for the 2019 plan year, which OCI will make in July of 2020, in state fiscal year 2020-21. By statute, OCI must make the reinsurance payments to insurers by August 15 of the year following the plan year.

4. The estimated state's share of the reinsurance payments for the 2019 plan year is higher than the amount OCI had assumed at the time of legislative deliberations on the bill in February of 2018. In its fiscal estimate for the bill, OCI indicated that, based on an initial review, it was expected that the state would pay approximately 25% of the cost, which for a $200 million program would be $50 million. Subsequent to passage of Act 138, OCI's actuarial firm estimated that the state would receive federal pass-through funding of $166 million, leaving a corresponding state share of $34 million.

5. On November 30, 2018, the federal government notified OCI that the state's pass-through funding for the 2019 plan year was estimated at $127.7 million. Following this notification, OCI's actuary examined the federal calculations, identifying three reasons for the difference between the estimates. First, the federal Department of Treasury, which is responsible for the calculations, used different methods for calculating the impacts of reinsurance payments on premium tax credits. Detailed information on the Department's methodology for making these calculations was not available when the initial actuarial analysis was done. Second, Treasury used different assumptions on the impact of the elimination of the individual insurance coverage mandate penalty, resulting in a larger estimated reduction in enrollment than had been assumed. A lower enrollment assumption means lower federal savings for premium tax credits. Third, the savings in federal premium tax credits savings were affected by individual insurers' decisions on setting 2019 premiums, information that was not available at the time of the initial estimates. In particular, one insurer assumed a smaller impact of reinsurance payments on its premiums, a decision that reduced the amount of premium tax

credit savings associated with the program.

6. Since the 2019 reinsurance parameters have been established and insurers established the premiums based on the expectation that payments will be made in accordance with those parameters. Consequently, the state share of these costs reflects a commitment that the state has already made for 2019 coverage.

7. Although the 2019 payment parameters were set to pay out a total of $200 million, the actual amount will vary depending upon claims experience. The federal Department of Treasury estimates the amount of pass-through funding that the state will receive, not the actual amount of the reinsurance payments. The GPR funding in the bill is based on the federal pass-through estimate, as well as an assumption that total payments will equal $200 million. OCI has the authority to prorate payments if total payments would otherwise exceed $200 million.

8. Although the reinsurance program reduces premiums, only a small segment of consumers in the individual insurance market realize any direct benefit from the reduced price. Under the Affordable Care Act, individuals with a household income below 400% of the federal poverty level (FPL) receive premium tax credits to offset the cost of plans purchased on the individual market exchange. These credits have the effect of capping the net cost of the benchmark plan (second-lowest silver level plan), a cap based on a percentage of income. Unless the full premium is below an individual's cap, which is uncommon, consumers below 400% of the FPL are unaffected by the underlying price. Consequently, the principal beneficiaries of the reinsurance program are consumers with household income above 400% of the FPL, which is currently $49,960 for an individual and $103,000 for a family of four.

9. For the 2019 open enrollment period, there were a total of 205,200 consumers who selected an exchange plan and of these 22,300 are not receiving a premium tax credit, meaning that they either were above 400% of the federal poverty level or did not apply for credits. Those consumers who do not receive a premium tax credit are the direct beneficiaries of the reinsurance program.

10. Although consumers who receive premium tax credits may not benefit as directly from the lower premiums resulting from reinsurance, they may receive benefit from having more insurers participating in the individual market. OCI indicates that at least one insurer has identified the reinsurance program as a reason for offering plans in the Wisconsin individual market.

11. Since it appears that the cost of the state's share of the reinsurance program will be higher than what was assumed when the Legislature passed Act 138, some legislators may want to reconsider whether the state should continue the program. In this case, the program could be repealed following the 2019 plan year. Although insurers are already preparing 2020 premiums based on the assumption that the state will make reinsurance payments, those premiums are not finalized until the fall and could be adjusted to reflect no reinsurance program. In addition to repealing the statutory provisions for the program (after closeout of 2019 payments), the bill would need to be amended to authorize OCI to withdraw from the Section 1332 waiver agreement (Alternative 2).

12. Under current law, OCI is required to set reinsurance payment parameters based on a total program size of up to $200 million. Initially, it was expected that this would require a state

commitment of approximately $50 million. If the Committee determines that the size of the state's commitment should be the focus in determining the overall size of the reinsurance pool, OCI could be directed to set parameters based on the state's estimated cost, rather than the overall reinsurance pool. Rather than directing OCI to set parameters for a program up to $200 million, OCI could be directed to target no more than $50 million, which could result in a program larger or smaller than $200 million, depending upon individual market conditions (Alternative 3).

13. Although the state's waiver application was premised on having a $200 million reinsurance program, the approved waiver does not restrict the state from modifying this amount. OCI is required to notify the federal government of any changes to the authorizing legislation for the program, but is not prohibited from making changes. However, adopting Alternative 3 could reduce the total size of the reinsurance program, which would reduce the impact on individual market premiums. It should also be noted that the final state costs would depend upon actual reinsurance payment claims and federal pass-through calculations, which could result in a GPR expenditures in excess of $50 million.

14. Over time, the reinsurance program may help to stabilize the individual insurance market, particularly after insurers adjust to a new business model. The Legislature enacted the reinsurance program for this purpose, and the Committee may decide that the program should remain without change for the duration of the current Section 1332 waiver.

15. Subsequent to the introduction of the bill, the Department of Administration submitted a technical erratum for the WHSP item. In its agency budget request, OCI proposed that 1.07 SEG position that had been administering the local government property insurance fund (LGPIF) be converted to PR and used to administer WHSP. (The LGPIF was terminated by the 2017-19 budget, and the Governor's bill would delete the 1.07 SEG position and associated funding for administration of the program.) DOA indicates that while it was the administration's intention to include this request item in the bill, this was not done. Each alternative includes the position and funding for the administration of WHSP.

16. Any decision to modify the parameters of the program or to repeal the program would first affect premiums for individual health plans offered for calendar year 2020. State reimbursement to insurers for that year will be made in state fiscal year 2021-22. Consequently, the state fiscal effect of any modification to the program would not affect program costs in the current biennium, but would affect future GPR commitments beginning in 2021-22. For example, if the Committee chose to repeal the program at the end of the calendar year 2019 plan year (Alternative 2), $72.3 million GPR that would be part of OCI's 2020-21 base budget would no longer be needed to fund payments to insurers, beginning in 2021-22, which would result in GPR savings of $144.6 million in the 2021-23 biennium. Similarly, a decision to reduce the GPR commitment to the program, beginning in the 2020 plan year, would result in a reduction in future GPR commitments, beginning in 2021-22.

ALTERNATIVES

1. Approve the Governor's recommendation to provide $72,273,700 GPR and $127,726,300 FED in 2020-21 to fund estimated reinsurance payments for plan year 2019 under the Wisconsin healthcare stability plan. In addition, provide $127,900 PR in 2019-20 and $128,000 PR in 2019-20, and 1.07 PR positions, beginning in 2019-20, to administer the program.

ALT 1	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	$72,273,700	0.00	$0	0.00
FED	127,726,300	0.00	0	0.00
PR	255,900	1.07	255,900	1.07
Total	$200,255,900	1.07	$255,900	1.07

2. Approve the Governor's recommendation to provide GPR and FED funding for 2019 WHSP payments and provide 1.07 PR two-year project positions, terminating June 30, 2021, and funding to administer the program. Specify that no reinsurance payments may be made under the program following the 2019 plan year. Direct OCI to submit an amendment to the existing waiver to withdraw from the agreement.

ALT 2	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	$72,273,700	0.00	$0	0.00
FED	127,726,300	0.00	0	0.00
PR	255,900	1.07	255,900	1.07
Total	$200,255,900	1.07	$255,900	1.07

3. Approve the Governor's recommendation to provide GPR and FED funding for 2019 WHSP payments and provide PR position and funding to administer the program as in Alternative 1, but amend the statutory provision related to the amount of annual reinsurance payments to require OCI to set the payment parameters for the program such that the estimated state cost would be no more than $50,000,000, beginning with the 2020 plan year.

ALT 3	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
GPR	$72,273,700	0.00	$0	0.00
FED	127,726,300	0.00	0	0.00
PR	255,900	1.07	255,900	1.07
Total	$200,255,900	1.07	$255,900	1.07

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