

FUNDING REINSURANCE AND COST-SHARING REDUCTIONS WOULD LOWER INDIVIDUAL MARKET PREMIUMS AND INCREASE ENROLLMENT

New analysis by Avalere examines the impact of two market stabilization proposals—funding the cost-sharing reductions (CSRs) and implementing a federal reinsurance program—on individual market premiums and enrollment. As part of the debate over tax reform, Congress is discussing a proposal put forth by Senator Collins that would provide 2 years of reinsurance funding at \$5B per year. Avalere estimates that level of reinsurance would reduce 2019 premiums by 4% and increase enrollment by 180,000 people (Table 1). According to Avalere, reinsurance helps protect insurers from high cost claims and, as a result, lowers premiums.

In addition to the reinsurance funding, Congress may vote on the legislation previously proposed by Senators Alexander and Murray, which would fund the CSRs. In combination, CSR funding and \$5B in annual reinsurance could lower 2019 premiums by 18% and increase enrollment by 1.3M people. Avalere experts find that reinsurance funding would contribute to lower premium costs while in effect, but would have little effect on the market once funding expires. The current debate suggests reinsurance would only be funded for 2 years.

“Together, funding for reinsurance and paying the cost-sharing reductions would significantly reduce premiums,” said Chris Sloan, senior manager at Avalere. “However, those effects only continue as long as the federal funding keeps flowing.”

Avalere experts note; however, that these stabilizing effects could be overshadowed by the consequences of repealing the Affordable Care Act’s individual mandate, which is included in the Senate’s version of the tax reform bill. Consequences include increased premiums and reduced enrollment in the exchanges, according to estimates made by the Congressional Budget Office. Avalere’s modeling makes estimates relative to current law and does not assume the individual mandate is repealed.

“While funding reinsurance and cost-sharing reductions would help mitigate the impact of mandate repeal, eliminating the requirement to purchase coverage would create additional uncertainty in the market,” said Elizabeth Carpenter, senior vice president at Avalere. “As a result, it is important not to overlook the negative impact of repealing the individual mandate on long-term market stability.”



Table 1. Estimated Annual Impact of Reinsurance and CSR Funding on Individual Market Premiums and Enrollment, Relative to Current Law

Annual Reinsurance Amount	Premium Reduction		Change in Enrollment	
	2019	2020	2019	2020
Reinsurance Only				
\$2.5B	-2%	-2%	90,000	121,000
\$5B	-4%	-4%	180,000	244,000
\$10B	-8%	-8%	361,000	491,000
\$15B	-12%	-11%	543,000	741,000
Reinsurance and CSR Funding				
\$2.5B	-16%	-16%	1,241,000	1,453,000
\$5B	-18%	-18%	1,342,000	1,592,000
\$10B	-21%	-21%	1,546,000	1,871,000
\$15B	-24%	-24%	1,750,000	2,158,000

“Reinsurance is an effective policy solution, but it requires considerable federal funding to have a meaningful effect for consumers,” said Caroline Pearson, senior vice president at Avalere. “In order to substantially lower premiums, a reinsurance program would need more federal funding over a longer duration.”

METHODOLOGY

To conduct the analysis, Avalere used its proprietary individual market enrollment model to determine the project future impacts of federal funding of a reinsurance program and CSRs. The model relies on publicly available data provided by the Centers for Medicare & Medicaid Services, Assistant Secretary for Planning and Evaluation, and American Community Survey (ACS) demographics information. Additionally, Avalere uses its proprietary MORE2 claims database to estimate the underlying risk of the population to project future premium increases and enrollee purchasing behavior in light of premium increases or decreases.

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