

# Reinsurance Overview: Key Considerations



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PRESENTED BY

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# Agenda

- Defining Reinsurance
- Key Considerations
  - Pros
  - Cons
- Additional Considerations
- Next Steps



# Defining Reinsurance

- A claims-based reinsurance program reimburses issuers for a portion of their costs (coinsurance), above a set threshold (attachment point), and up to a maximum amount (cap).
- Since issuers are reimbursed for some of their claims that they otherwise would be liable for, reinsurance can lower premiums.

# Defining Reinsurance: Example

- Example, a reinsurance program with an attachment point of \$50,000, a cap of \$250,000 and a coinsurance of 80%<sup>1</sup>

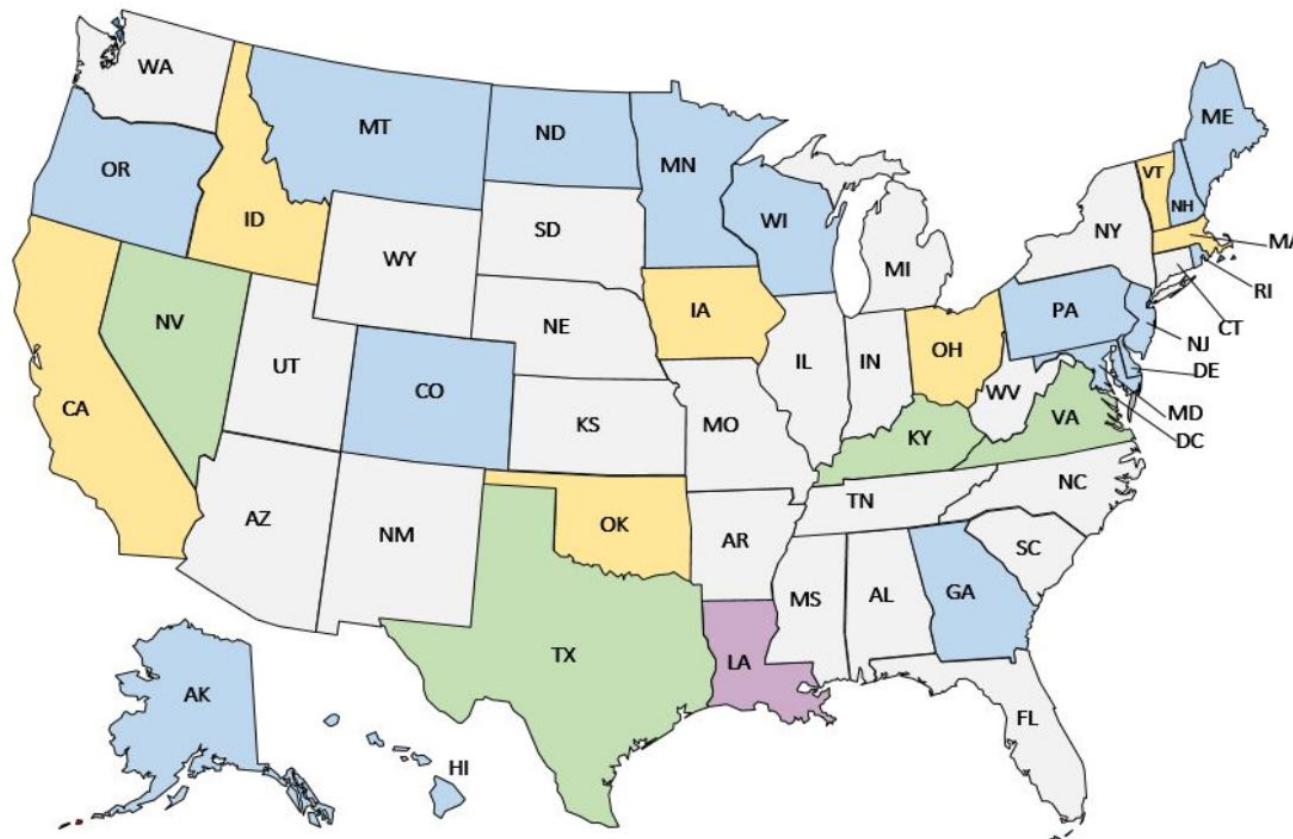
Claim Range	Liability
\$0 to \$50,000	Plan Pays: 100%
\$50,001 to \$250,000	Plan pays 20%, State Reinsurance Pays 80%
\$250,001 and Above	Plan Pays 100%

- For a member with \$300,000 in claims, the reinsurance program would cover \$0 for the first \$50,000, \$160,000 of the next \$200,000 [ $80\% \times (\$250,000 - \$50,000)$ ], and \$0 for claims over \$250,000. Thus, for this member, the state reinsurance costs would be \$160,000 and the plan responsibility would be \$140,000.

<sup>1</sup> Please note this is a simplified example and does not include private insurance, or other third-party agreements. Claim ranges exclude member cost-sharing.



# Reinsurance Programs



Blue = Reinsurance Program (Individual Markets)

# Reinsurance Example

Category	Amount
Total Premiums	\$100 Million
Total Claim Liability	\$80 Million
Reinsurance Funding	\$10
Claim Liability Less Reinsurance	\$70
Premium Reduction	~10%

Simplified example as it does not account for other factors such as changes in administrative costs.

# Reinsurance Considerations - Pros

Historical Precedent: There are many states currently with successful reinsurance programs (primarily in the individual ACA markets).

Impact on Premiums and Enrollment: The program has been shown to reduce premiums and potentially increase enrollment.

Flexibility in Designing Payment Parameters: Reinsurance programs can be designed to target different claims cost levels or geographic areas.

Easier Operations: Administration of the program is relatively simple.

# Reinsurance Considerations - Cons

Issuer Uncertainty: Issuers may be more conservative or uncertain in their assessment of the impact of reinsurance on premiums than the state. To the extent issuers are more uncertain, the effectiveness of the program is reduced.

Overlap with Risk Adjustment: There is potential for the reinsurance and risk adjustment programs to overlap. The overlap could result in an issuer receiving excessive payments for the same member under the two programs.

Increased Utilization: Reimbursing issuers for members with high costs may lead to less incentive to include proper medical cost management protocols.

# Questions



# Thank you!

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