# 1332 State Innovation Waiver for a State-Based Reinsurance Program: Considerations and Next Steps for Oklahoma

Public Hearing convened by the Oklahoma State Department of Health

July 31, 2017

Oklahoma State Department of Health

# Public Hearing: 1332 Waiver For Reinsurance Program Agenda

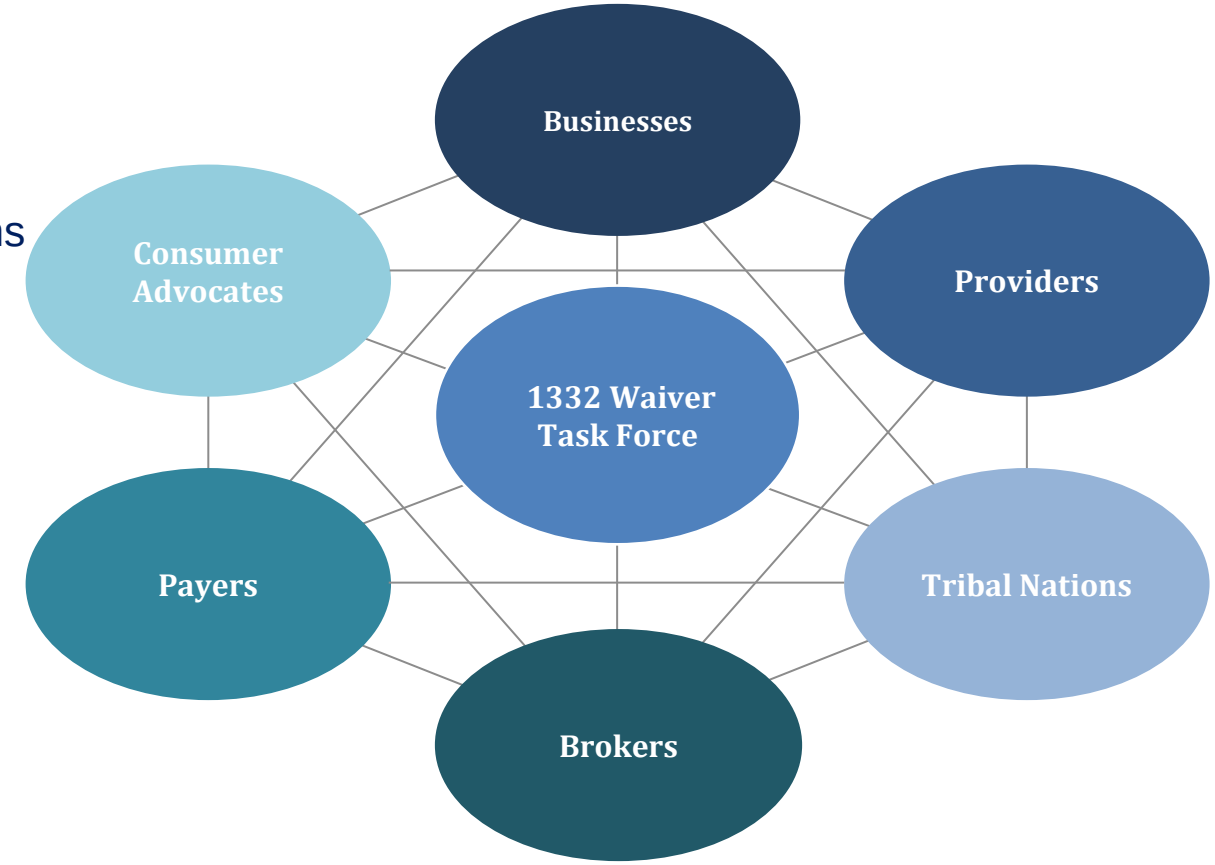
Oklahoma State Capitol, Room 535
2300 N Lincoln Blvd
Oklahoma City, OK 73105
July 31, 2017
3:30 pm. - 4:30 pm.

| Section | Time | | Presenter |
|---|---|---|---|
| Welcome & Opening Remarks | 3:30 | 5 min | Julie Cox-Kain, Deputy Secretary, Oklahoma Health and Human Services |
| History of the 1332 Waiver and Concept Paper | 3:35 | 10 min | Buffy Heater, HHS Strategy Officer |
| Overview and Discussion: State-Based Reinsurance Programs and Oklahoma's 1332 Waiver Application | 3:45 | 30 min | Attendees, Buffy Heater |
| Overview and Discussion: 1332 Waiver Timeline and Next Steps | 4:15 | 10 min | Attendees, Julie Cox-Kain |
| Closing Remarks and Adjournment | 4:25 | 5 min | Julie Cox-Kain |

# 1332 Waiver Task Force

- **SB1386:** Explore the potential development of new Innovation Waivers for the purpose of creating Oklahoma health insurance products that improve health and healthcare quality while controlling costs:
  - 1332 State Innovation Waiver
  - 1115 Delivery System Reform Incentive Payment (DSRIP)

- **Stakeholder Input:**
  - Advisory Task Force to assist in investigating / analyzing options for an Oklahoma 1332 “State Innovation” Waiver
  - Individual and group meetings
  - Public comment period
  - Transparency requirements
- **Task Force Goals:**
  - Explore potential methods to reduce the financial burden for Oklahoma residents and employers seeking affordable, quality healthcare coverage.
  - Develop innovative, state-based solutions to address its healthcare coverage needs.
  - Promote competition and choice.




- **Required Legislative Review**

# 1332 Waivers: Four Areas of Innovation

**States may propose innovations and alternatives to four pillars of the ACA.**

1 ***Individual Mandate***

**States can modify or eliminate the tax penalties that the ACA imposes on individuals who fail to maintain health coverage.**

2 ***Employer Mandate***

**States can modify or eliminate the penalties that the ACA imposes on large employers who fail to offer affordable coverage to their full-time employees.**

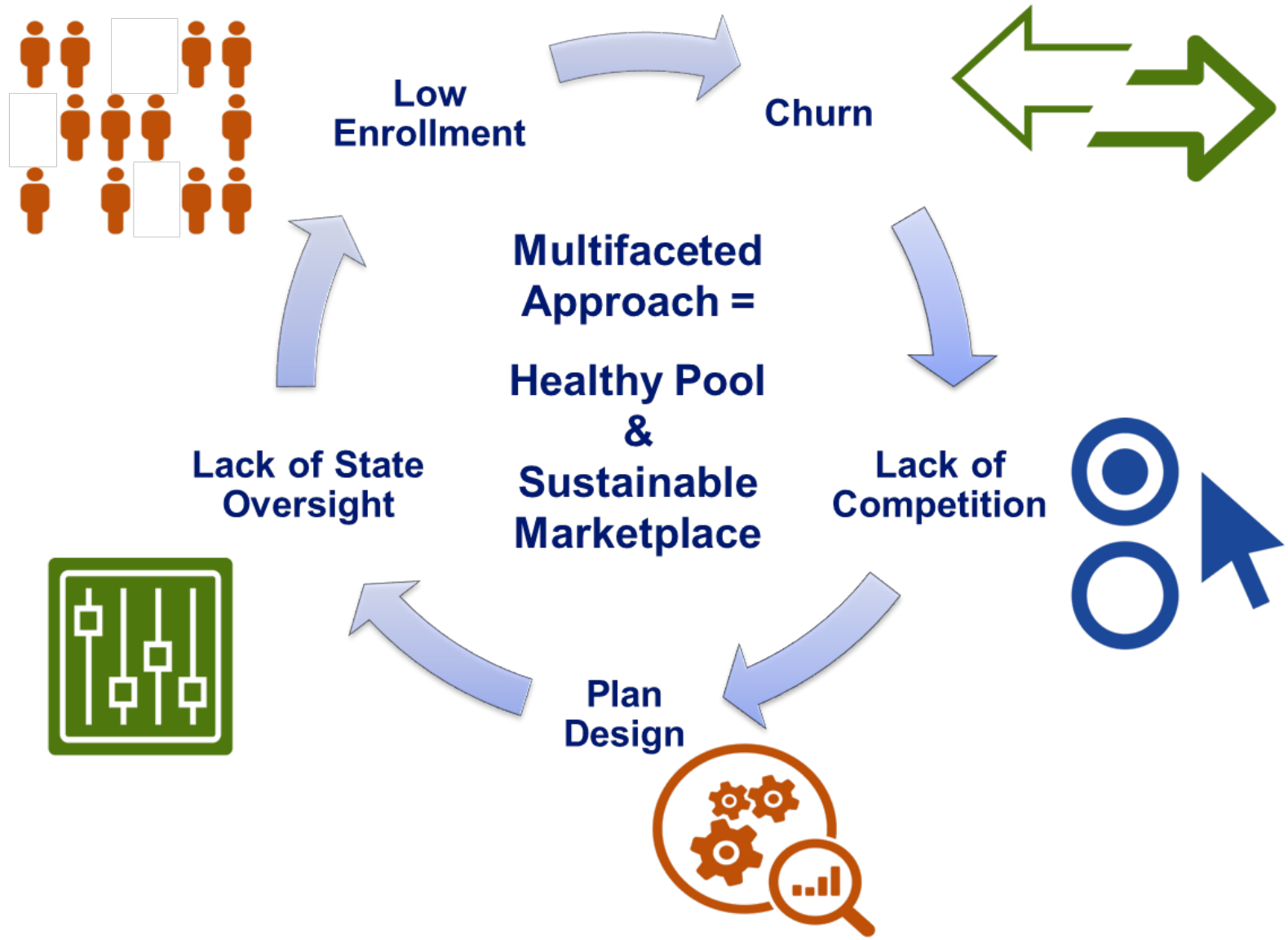
3 ***Benefits and Subsidies***

**States can modify the rules governing what benefits and subsidies must be provided within the constraints of section 1332's coverage requirements.**

4 ***Exchanges and QHPs***

**States can modify or eliminate QHP certification and the Exchanges as the vehicle for determining eligibility for subsidies and enrolling consumers in coverage.**

# Market Pain Points



# Oklahoma Marketplace Data

- Enrollment in the FFM is Low and Relatively Unhealthy
  - In 2016, only 31% of Oklahoma's eligible population was enrolled in the Federally Facilitated Marketplace (FFM)
- Competition and Consumer Choices are Shrinking
  - The FFM has gone from 5 insurance companies offering plans in Oklahoma in 2014 to 1 in 2017
  - There has been a 67% reduction in plan options (consumer choices) between 2015 – 2017
- Premiums are Increasing, as are subsidies
  - As the FFM dropped to one insurer in 2017, premium rate increases of 75% were requested and granted by HHS
  - Between 2015 and 2017, premiums for all ages, individuals and families have roughly doubled in price
  - Average Silver Plan premium changes 2015 – 2017:

| Covered Individuals | 2015 Monthly Premium Rate | 2017 Monthly Premium Rate |
|---|---|---|
| Individual Aged 27 | $ 227 | $ 454 |
| Individual Aged 50 | $ 387 | $ 775 |
| Family (Aged 30) with 2 kids (Aged 10) | $ 766 | $ 1,535 |

  - Average premiums due (after subsidy) for Oklahomans have increased from $65 to $78 (20% increase) between 2014 and 2017
  - Approx. 91% of the 129,000 enrolled receive tax credits and 62% receive cost sharing reductions in 2017
- Deductibles are High
  - 2017 average deductibles for an individual ranges from $1,125 (Gold In-Network) to $19,200 (Bronze Out of Network)
  - 2017 average deductibles for a family ranges from $3,375 (Gold In-Network) to $41,357 (Bronze Out of Network)
- Some individuals are not remaining insured throughout the course of the year (lack of persistency)
  - In 2017, 17,000 Oklahomans (12% of enrollees) selected a plan but did not pay their premiums
- Of the uninsured, 39% have incomes below 100% of FPL and are ineligible for FFM subsidies

# Sequential Approach to Recommendations

## 2017: Planning and Authorization

- ✓ Engage federal partners
- ✓ Secure actuarial expertise
- ✓ Submit initial 1332 Reinsurance Waiver
- ✓ OID operational planning

## 2018: State Regulation and Federal Flexibility

- ✓ Market Stabilization via Reinsurance
- ✓ State Regulatory Control
- ✓ Health Outcomes Focus
- ✓ Support for Broadening Age Ratios & Continuing CSRs (Federal Law)
- ✓ Streamline Timely & Direct Enrollment (CMS Rule)

## 2019+: Oklahoma's Modernized Marketplace

- ✓ Change Subsidy Eligibility & Calculation
- ✓ Simplify Plans
- ✓ Create Consumer Health Accounts
- ✓ Leverage Insure Oklahoma
- ✓ Gain Benefit Flexibility

# Why Pursue Reinsurance and Risk Pooling Programs?

**Oklahoma has an opportunity to innovate and address its unstable market.**

- Between 2014 and 2017, Oklahoma's individual market premiums have almost doubled in price. Recent consumer focus groups indicate that the biggest barrier to greater health insurance enrollment is affordability.
- HHS Secretary Price recently sent a series of letters to state governors encouraging them to evaluate reinsurance or risk pooling opportunities available under the Section 1332 Innovation Waiver.
- Adopting a state-based reinsurance or risk pooling program in the State of Oklahoma would provide immediate relief to insurance premiums, encourage greater competition, and likely produce gains in enrollment.

# Why Pursue Reinsurance and Risk Pooling Programs?

**Oklahoma can maximize the positive impact of funding for state-based reinsurance or risk pooling programs.**

- Reinsurance programs protect insurance companies from serious financial losses due to the cost of **extremely** sick people getting the healthcare services they need. Oklahomans can continue to use their tax credits to purchase coverage on healthcare.gov.
- In reinsurance programs, insurance carriers are paid part of a high-cost and/or high-need individual's claims over a specified amount. The individuals remain in the total pool.
- Premium savings are realized by enrollees and the federal government through reduced Advance Premium Tax Credit (APTC) subsidy payments. The federal government "passes through" these APTC savings onto states, allowing states to receive the amount of federal funding that would have been paid absent the program.

# Benefits of Reinsurance Programs

**For reinsurance programs, the Federal Government shares in financial risk to reduce the cost of high-risk enrollees.**

Benefits of reinsurance programs:

- Equitable treatment of high-risk residents
- Invisible to the consumer
- Single risk pool maintained
- Shared risk as incentive for carriers to keep costs down
- Lower administrative cost
- Greatest financial certainty of program risk and funding

# Other Reinsurance Examples

- **Alaska** submitted their 1332 waiver on January 3, 2017 in order to avoid a 45% premium increase for the 2018 plan year.
  - 20,000 covered lives; Condition based eligibility; highest premiums at $1,191 for 2018; 1,650 more people expected to enroll
  - $55M total investment; 2.7% premium tax on all insurers in the state
- **Minnesota** submitted their 1332 waiver on June 15, 2017 and are attempting to reduce individual insurance premiums by 20% for the 2018 plan year.
  - 275,000 covered lives; $50,000 attachment point & $250,000 cap; Low uninsured rate at 5.5%; 20,000 more people expected to enroll
  - $271M total investment; funded by MN's health care access fund (3% premium tax) and general revenue
- **Federal Transitional Reinsurance Program** active during 2014-2016.
  - In its last year, $90,000 attachment point & $250,000 cap; 50% coinsurance
  - PMPM Assessment on all health insurers of $5.25 in '14; $3.67 in '15; and $2.25 in '16

# Oklahoma's Reinsurance Recommendation

**Note: Milliman provided the state with detailed modeling and recommendations on reinsurance funding, to generate discussion and inform waiver development.**

- **Maximum** $350M total reinsurance investment for 2018
  - Federal portion approximately $250M, or 70/30 share of federal pass through funding
  - *The actual share could differ and is dependent on finalized program details*
- State's portion funded by **up to** $4.95 PMPM assessment on all health insurers
  - All commercial, comprehensive, major medical insurers; including self-funded, small group, large group, non-retiree state employee, ACA and non-ACA compliant plans
  - All funds invested into reinsurance payments, excluding nominal administrative expenses of the board (<1% of state share)
- Premium reduction of approximately 30%
  - Enrollment gains of up to 21,000 covered lives
  - Returns premium averages to sustainable 2016 rates
  - Targets a 2018 average premium of $431.25; down from $590.84 for 2017.

# Oklahoma's 1332 Waiver: Assurances

## Scope of Coverage
Oklahoma anticipates that more people will be insured on the individual market with the implementation of the waiver than without it.

## Affordability
The OMSP will increase affordability for certain groups in the individual market, both with and without federal premium assistance. The waiver will not decrease cost sharing protections.

## Comprehensiveness
The scope of benefits will not be impacted as a result of the waiver.

## Deficit Neutrality
The proposed waiver will not increase the federal deficit.

# Oklahoma's 1332 Waiver: Impact if Not Granted

- If the OMSP is not implemented, **premiums will continue to rise**, which will in turn reduce enrollment as more individuals are priced out of the market
- Increased premiums also will likely promote **adverse selection**, as the individuals who continue to purchase increasingly expensive coverage will likely be those who utilize a higher number of health care services
- Without a reinsurance program, **the federal government will continue to pay high APTC amounts**; with lower premiums Oklahoma can make coverage accessible to more residents for the same amount of federal dollars absent the waiver

# Oklahoma's 1332 Waiver: Description of Waiver

- **Begins 1/1/2018** and continues into future years in order to rapidly reduce premiums for consumers on the individual market
- The state plans to utilize **federal pass through funds**, coupled with amounts generated by an **assessment on health insurers**
- The State is **engaging the expertise of an actuarial firm**, Milliman, who analyzed the population's utilization characteristics to determine the program parameters (e.g. attachment point, cap, co-insurance)
- Administered and monitored by non-profit **Board of Directors**, including the management of any excess funds
- **$350 million investment** is targeted to get to 2016 rates/ **30% premium reduction**

# Oklahoma's 1332 Waiver: Description of Waiver

## Waivers Requested

- The State of Oklahoma seeks to waive Section 1312 (c)(1) for the individual market single risk pool in connection with a Section 1332 waiver to implement a state-operated reinsurance program for 2018 and future years.
- Currently, that requirement at Section 1312(c)(1) requires a health insurance issuer to consider "all enrollees in all health plans….offered by such issuer in the individual market…to be members of a single risk pool."

# Oklahoma's 1332 Waiver: Proposed Reinsurance Parameters

| Figure I-1<br>Oklahoma Department of Health<br>Individual Health Insurance Market OMSP<br>Calendar Year 2018 Reinsurance Parameters | |
|---|---|
| **Parameter** | **Parameter Value** |
| Attachment Point | $15,000 |
| Reinsurance Cap | $400,000 |
| Coinsurance Percentage | 90% |

*Note: These parameters are preliminary and could change as actuarial analysis is finalized.*

# Oklahoma's 1332 Waiver: Actuarial Analysis

## Scope of Coverage

- It is estimated that the OMSP will result in a **lower number of uninsured Oklahomans** each year. Reductions in the uninsured population are estimated to occur primarily in the population with income above 400% of the FPL
- Increases in enrollment are **estimated at 21,000** non-group enrollees
- The majority of enrollment increases resulting from the OMSP are estimated to occur in the **Bronze** metallic tier
- Enrollment in the individual market is estimated to increase **across each age group**

# Oklahoma's 1332 Waiver: Actuarial Analysis

## Scope of Coverage

- Enrollment in the individual market is estimated to **primarily increase from individuals estimated to have excellent or good health status.** We estimate individuals with a fair or poor health status are less sensitive to premium rate changes, and have a higher likelihood of purchasing health insurance
- We estimate that the **cost of the assessment will be approximately 1%** of an average employer's total health insurance costs (including employee contributions). We do not estimate the assessment amounts are large enough to result in a material change in the likelihood of employers offering health insurance coverage relative to current law
- By making premium rates more affordable, we estimate the average member **persistency (number of months during the year coverage is maintained/in-force) may improve,** reducing the potential for gaps in insurance coverage

# Oklahoma's 1332 Waiver: Actuarial Analysis

## Affordability

- For the non-group market, the OMSP is estimated to **reduce premium rates by approximately 30%**
- However, the impact to consumers will vary significantly based on the consumer's household income and its interaction with the ACA's premium assistance program
- For the majority of the APTC-eligible population, **there will be no impact on out-of-pocket premium costs for the second-lowest cost Silver plan** (subsidy benchmark plan)
- **A portion of consumers receiving an APTC in the absence of the OMSP will no longer be eligible for the subsidy** after the reinsurance program is implemented due to the premium expense not exceeding the maximum percentage of household income as defined under the ACA. These consumers will realize out-of-pocket premium savings as a result of OMSP
- Finally, for consumers purchasing coverage in the FFM without an APTC or outside the FFM, premium savings will be realized from the OMSP. **Consumers not receiving an APTC under current law will realize the greatest savings from the OMSP**

# Oklahoma's 1332 Waiver: Actuarial Analysis

## Affordability

- The structure of the ACA's premium subsidy has resulted in **minimal out-of-pocket premium rate increases** for households purchasing coverage with federal premium assistance in the FFM
- For persons qualifying for APTC that are purchasing Bronze level coverage, it is possible that **out-of-pocket premiums may increase for small number of higher income individuals as a result of OMSP** (variable based on age, etc.). As the OMSP is estimated to reduce the dollar amount of the APTC for qualifying individuals, the available financial assistance that can be applied to the purchase of Bronze level coverage is reduced. Consumers can expect to experience costs very similar to what they experienced in 2016.
- While the OMSP is estimated to materially reduce premiums in 2018 and early years, **premiums are estimated to increase over later years of the projection period.** However, premiums will still be less with the OMSP than without it.

# Oklahoma's 1332 Waiver: Economic Analysis

- ***Federal APTC Expenditures:*** As the OMSP is estimated to reduce the cost of the second lowest cost silver plan (subsidy benchmark plan) during the projection period, the Federal government's expenditures on APTC for Oklahomans is estimated to be reduced.
- ***FFM User Fee***: For states electing to use the FFM, the federal government requires a 3.5% assessment on insurance marketplace coverage to support the operation of the FFM. As the OMSP is estimated to reduce premium rates for non-group coverage, purchased both on and off the marketplace, it is also estimated to reduce the revenue generated by the 3.5% premium assessment on insurance purchased through the FFM.
- ***Health Insurer Fee***: Section 9010 of the ACA mandates a national assessment on health insurers of $14.3 billion in 2018. The OMSP has no impact on estimated HIF revenue in 2018.

# Oklahoma's 1332 Waiver: Economic Analysis

***Shared Responsibility Payments***

- *Exemption population:* Because Oklahoma has not expanded Medicaid under the ACA, uninsured households with income below 138% FPL are automatically exempted from the individual mandate. Additionally, Oklahomans belonging to a Federally-recognized Indian Tribe are exempted from the individual mandate. These exemptions are not impacted by the OMSP.
- *Households with income between 139% and 400% FPL eligible for federal premium assistance:* Persons in this income cohort are, and will continue to, be subject to the individual mandate under the OMSP (subject to other available exemptions). Therefore, we estimate any changes in health insurance coverage at these income levels will have a direct impact on revenue associated with shared responsibility payments.
- *Households with income above 400% FPL:* Households with income above 400% FPL are subject to the individual mandate unless the cost of Bronze coverage is deemed unaffordable by the ACA (in excess of 8.05% of household income in 2018). By virtue of reducing the cost of bronze level coverage, the OMSP will reduce the income level at which households are exempted from the individual mandate due to the affordability provision.

# HB 2406 Oklahoma Individual Health Insurance Market Stabilization Act

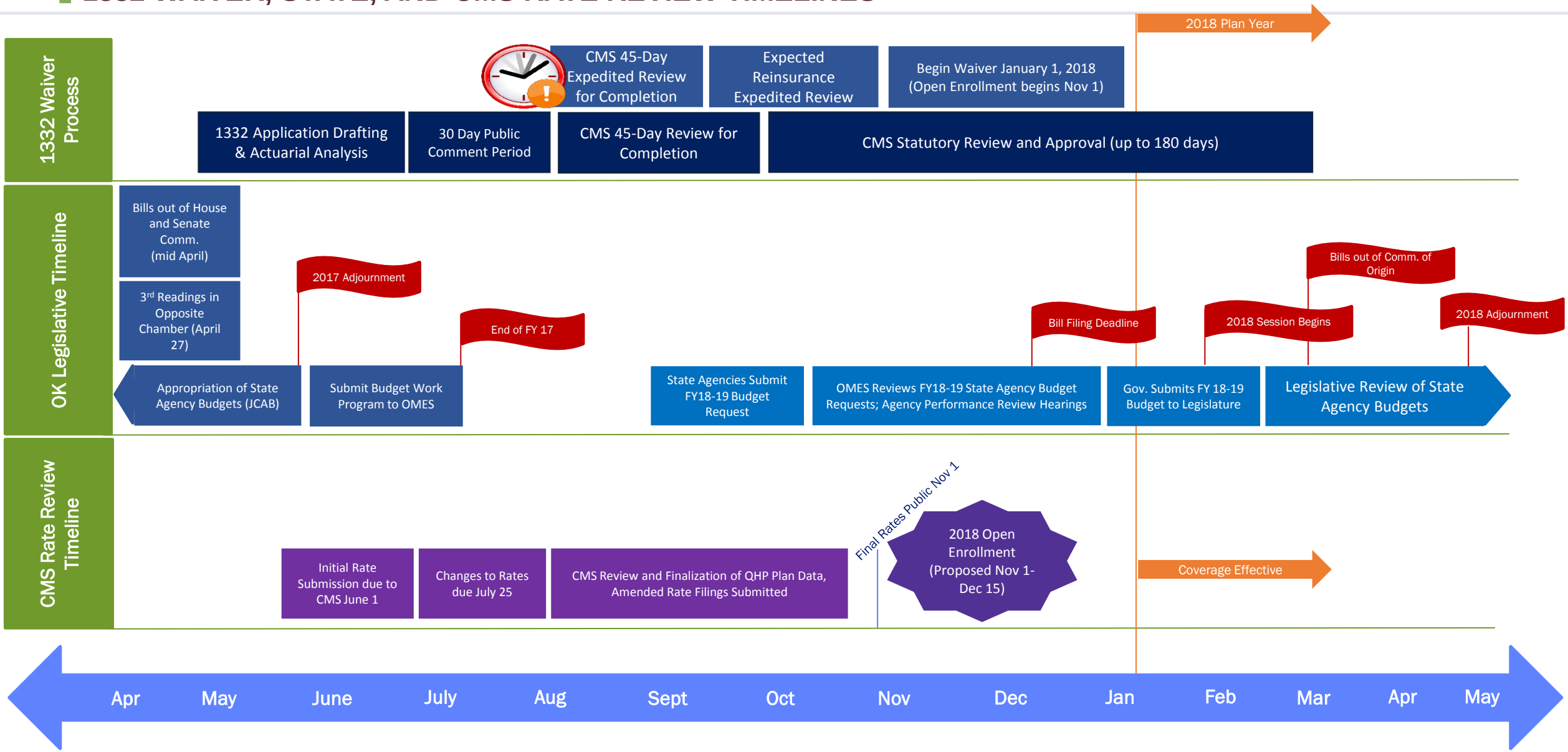
- **Language** added to Title 36
- **Creates** the Oklahoma Individual Health Insurance Market Stabilization Act
- **Establishes** the Oklahoma Individual Health Insurance Market Stabilization Program
- **Purpose:** The act shall provide for a Board to make payments to health insurance plans with respect to claims for eligible people for the purpose of lowering premiums for health insurance coverage offered in the individual market. Market stabilization activities shall include establishment of a high risk pool, reinsurance, hybrid programs or any combination thereof.

# Board of Directors

The OK Insurance Commissioner appoints a nine member **Board of Directors**:

- two representatives of Oklahoma domestic insurance companies,
- one member from the general public who is a member of the class of individuals to which the program would apply,
- one member from the general public who is not associated with the medical profession, a hospital or an insurer,
- one representative of a health maintenance organization,
- one member from a health-related profession,
- one representative of reinsurers, and
- two representatives from the providers of Oklahoma individual plans

# 1332 WAIVER, STATE, AND CMS RATE REVIEW TIMELINES



# 1332 Waiver Development Next Steps

- Monitor federal developments regarding ACA amendments, CSR decision, etc.
- Finalize impact analysis assessment by consultants
- Proceed with waiver development, post updates online
- Determination of resulting premium impacts, filing revised rates
- Continued, regular dialogue with federal officials
- Hold tribal consultation and public comment period (7/14 – 8/13)
- Submit waiver (Mid-August)
- OID to pursue change to Effective Rate Review state

# Comments and Questions

**1332 State Innovation Waiver:**

https://www.ok.gov/health2/documents/OK_1332%20Waiver_DraftForPublicComment_7.14.17.pdf

**Also available on the OSDH homepage**: https://www.ok.gov/health/

**Submit written comments to:** 1332waiver@health.ok.gov or

Buffy Heater, HHS Strategy Officer

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