Fact Sheet
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Utah Health Policy Project

Quality Health Care Coverage for All Utahns

Reinsurance: A Tool to Manage Risk and Stabilize the Private Market

Background

As Utah embarks on health system reform, it will be important to explore tools that have been proven to work in other states. Reinsurance is a tool states have used to manage risk for health insurance companies, individuals with pre-existing health conditions, and groups with high-risk individuals.

Basically, reinsurance is insurance for insurance companies where insurers purchase insurance to cover their high cost claimants. Many goals can be achieved through this mechanism, including:

1. reducing premium costs,
2. increasing consumer choice
3. boosting rates of coverage in the private market,
4. ensuring the market is viable and competitive.

In conjunction with other reforms, reinsurance can create a smoother-functioning health insurance market, according to the Heritage Foundation. [1]

A Promising Solution for Utah

The National Association of Insurance Commissioners (NAIC) has created model legislation for states interested in creating reinsurance pools. A variety of questions should be considered in developing possible legislation for Utah: funding mechanisms, target population, what to actually re-insure (products vs. individuals vs. aggregate claims), and the responsibility of the primary insurer vs. the reinsurer.

While the details of a Utah re-insurance program need further study, the following conditions must be met before a reinsurance program can help improve competition in the private market and expand access to affordable insurance.

- All insurers competing in the market must participate in the reinsurance pool. This will level the playing field and increase competition over the right things, like keeping people healthy, instead of the wrong things, like avoiding risk.
- One reinsurance pool must be created for the small and non-group market. The purpose of insurance is to spread risk amongst a large group of people. The more broadly risk is spread the healthier the market.
- Responsibility for risk must be appropriately spread so that insurers compete on quality and efficiency, but are not entirely responsible for high cost claimants.

PROMISING PRACTICES & PROPOSALS[2]

New Jersey is looking at utilizing reinsurance to manage risk in conjunction with combining its small and non-group markets. Actuarial estimates show that 5,000 more people would be able to obtain insurance if the proposed program is implemented.

Washington passed legislation last year to design a reinsurance program for its small and non-group markets.

In 1990 **Connecticut** created a nonprofit Small Employer Health Reinsurance Pool. The pool has been successful in at least two ways:

1. stimulating private market competition by ensuring that small insurers can compete in the market, and
2. making it possible for small businesses to continue providing health benefits by making premiums more affordable.

All health plans in Connecticut must participate in the program, yet the plan decides whether it will take on the risk for the person or the group, or if the pool will take the risk. Premiums are then paid by the insurer on individuals or groups that will be reinsured.

Created in 2001, **Healthy New York** is a program for small businesses, sole proprietors, and low-wage individuals who were previously uninsured. By setting an appropriate *attachment point* (the point in claims costs where the reinsurance kicks in), insurers were able to lower their premiums by 17%.

Healthy New York is a government subsidized program that contracts primarily with HMOs who are required to offer a standard, minimum benefit package. Funds are collected through assessments on insurance premiums and other state funds.

[1] Haislmaier, Edmund F., *State Health Care Reform: The Benefits and Limits of "Reinsurance"*. Heritage Foundation WebMemo No. 1568, July 26, 2007.
[2] Wikler, Beth and Fish-Parcham, Cheryl, *Reinsurance: A Primer*. Families USA, April 2008.

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