



Wyoming Healthcare Commission Reinsurance Study Update and Discussion

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Agenda

- Update Commission on reinsurance carrier survey
- Review alternative designs
 - Unsubsidized models
 - Prospective (similar to current) or retrospective (similar to outside reinsurance contracts)
 - Subsidized models
 - Subsidy to all small groups, selected groups (and/or previously uninsured individuals), or mixed
 - Estimated impacts to help guide direction for more detailed analysis

Carrier Survey

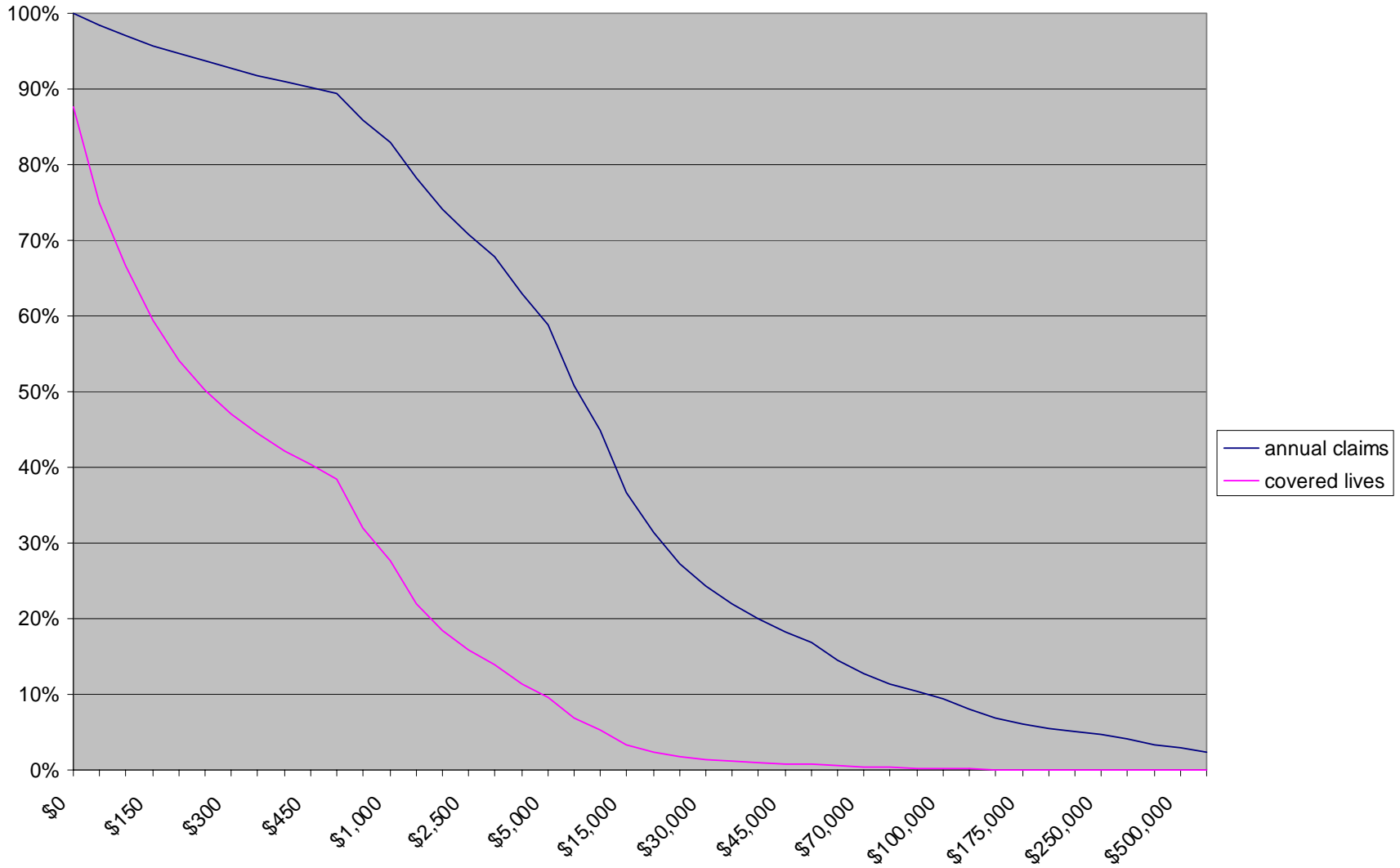
- From 5 carriers in marketplace today: Blue Cross, WINhealth, Guarantee Trust, Trustmark Life Insurance, Trustmark Insurance
- And 1 carrier not presently in the small group market

The present state run reinsurance pool (WSEHRP) is neither an enticement nor a hindrance. To have an impact on affordability, predictability and accessibility any modifications to WSEHRP must be substantial (i.e. subsidized premiums).

Small Group Data

- From 5 carriers in marketplace today: Blue Cross, WINhealth, Guarantee Trust, Trustmark Life Insurance, Trustmark Insurance
- 2003 and 2004 incurral dates
 - 519,013 member months (77% of small group market)
 - Average medical and Rx claim pmpm = \$211.82
 - 20% of the covered lives produced 76% claim costs
 - 20.0% of members had claims exceeding \$1,774/year
 - 76.0% of the incurred claim values exceeded \$1,774 pmpy
 - 44% of the claims were from 5% of the population

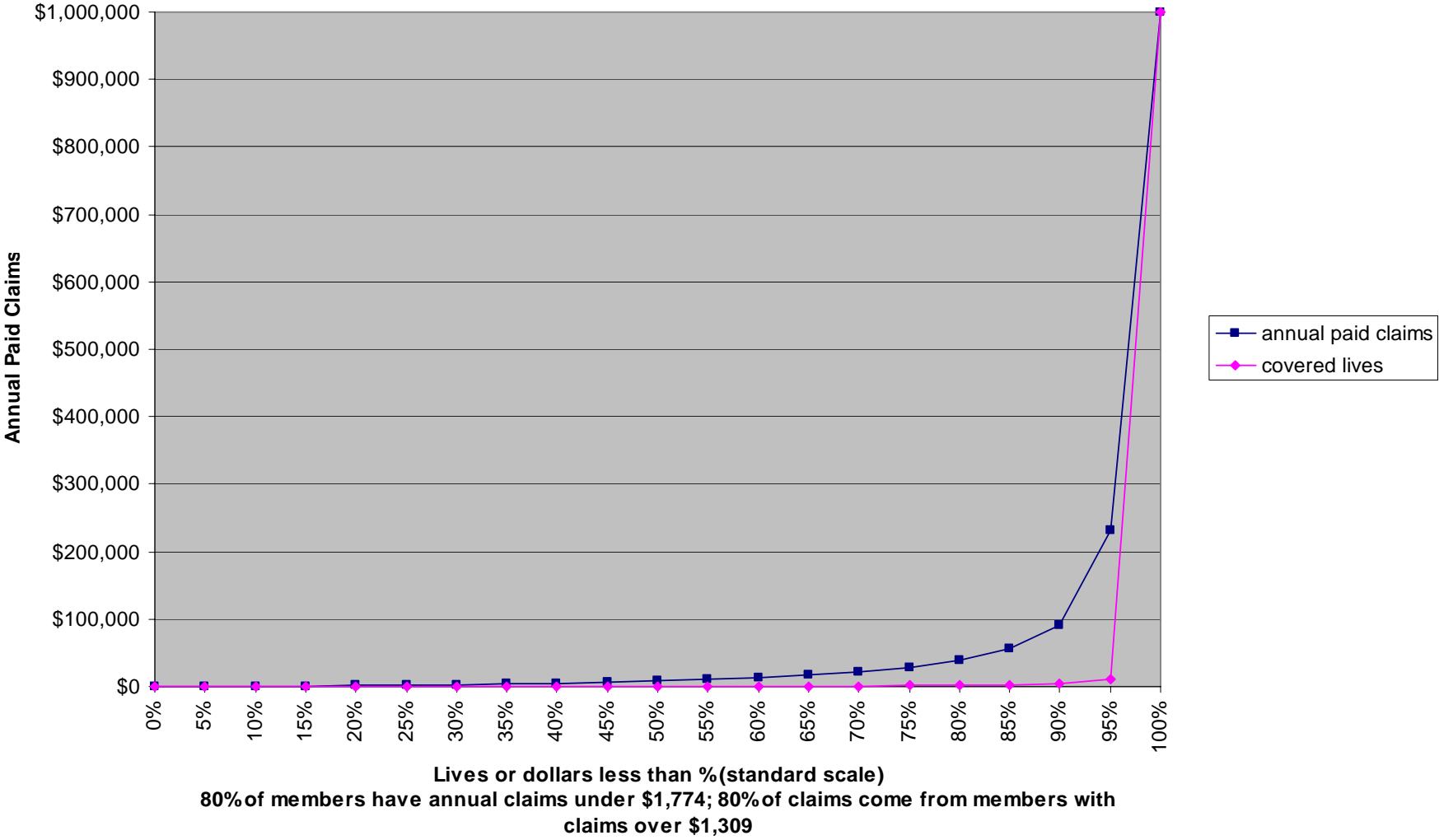
Wyoming 2003 - 2004 Selected Small Group Experience



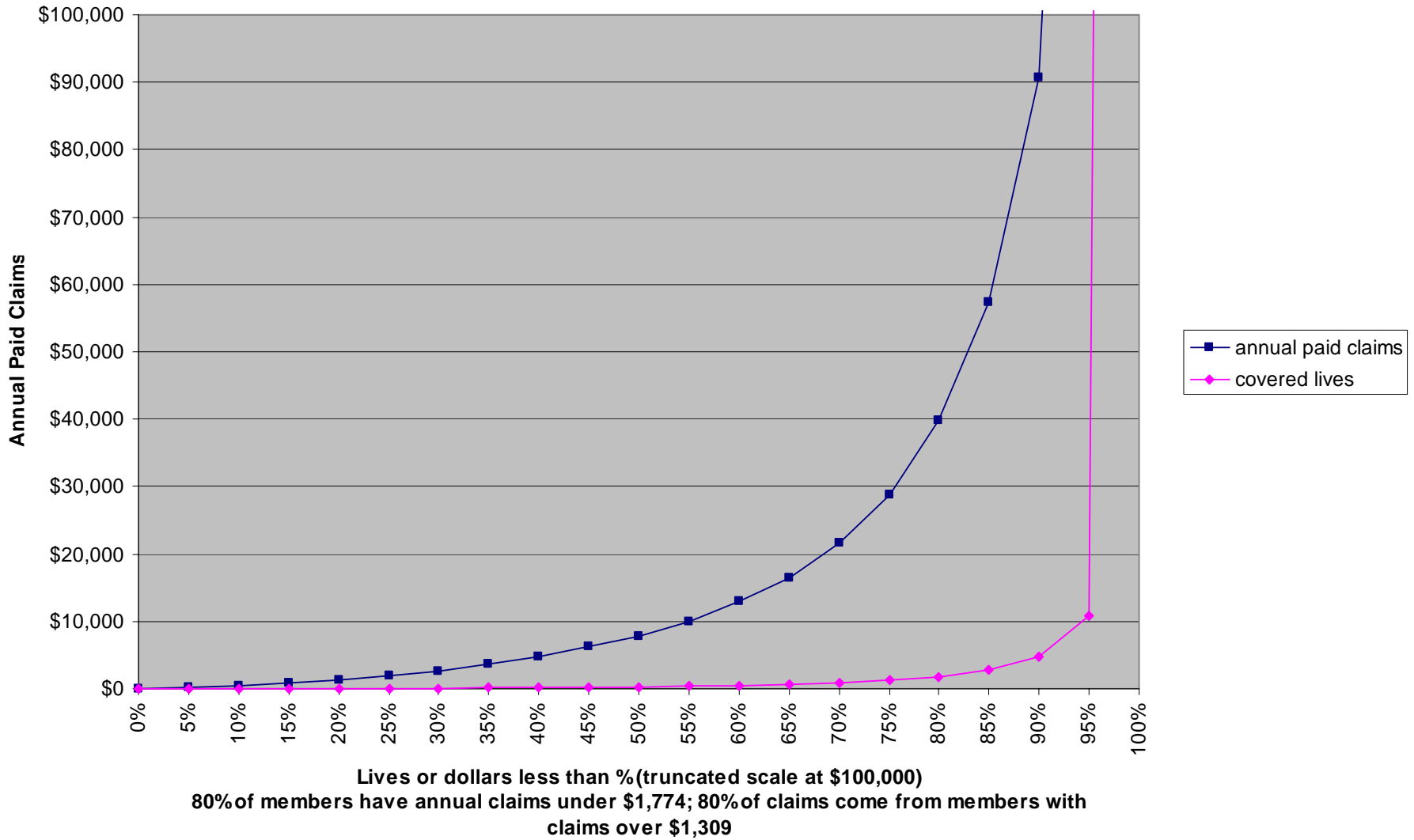
Paid claims exceeding \$ threshold (uneven \$ scale)

20% of members have annual claims that exceed \$1,774; 76% of annual paid claims are from members exceeding \$1,774 per year

Wyoming 2003 - 2004 Selected Small Group Experience



Wyoming 2003 - 2004 Selected Small Group Experience



Alternative Models

Unsubsidized Premiums

- Prospective with alternative formula:
 - Current: 100% after \$8,000
 - Alternative: 90% from \$25,000 to \$100,000; 100% thereafter
 - Reduces reinsurance premiums and assessments by approximately 50%; but more difficult to make ceding decision, and no impact on Wyoming Small Group market or premiums.

Alternative Models

Unsubsidized Premiums

- Retrospective (similar to outside reinsurance)
 - voluntary election, regular premium payments on all covered lives
 - reimbursement formula something like 90% from \$25,000 to \$100,000; 100% thereafter; pmpm premium estimate \$70 - \$90
 - difficult to be cost competitive versus outside reinsurance
 - Outside reinsurers do not reimburse \$ for \$
 - Outside reinsurers have significant spread of risk and economies of scale
 - carriers only interested in modification if it's more competitive than outside reinsurance contracts.

Alternative Models

Broader Assessments and/or Premium Tax Credits

- Broader assessment estimates— assuming WSEHRP assessment of \$1M and 5% profit margins
 - All Health Companies: 0.61% of premium (or 12% of profits)
 - All Health and Life Companies: 0.13% of premium (or 3% of profits)
 - All Health, Life and P&C Companies: 0.07% of premium (or 1% of profits)
- Premium Tax Credit
 - For current small group carriers: not enough health premium tax being paid by small medical carriers (approximately \$700,000 after other credits) to cover full \$1M assessment

Alternative Models

Subsidized Premiums mechanics alternatives

1. Individual member reinsurance subsidy: state operates a reinsurance pool for qualified lives with no reinsurance premium requirements or assessments; carriers establish own rate for eligible population recognizing state support (Healthy New York)
2. Guaranteed loss ratio: carriers participating in program are to sell subsidized rates and guaranteed by the state to achieve a certain margin (HCG Arizona)

Subsidized Reinsurance Models

Key Assumptions

All analysis is illustrative based on the following and is for discussion purposes only

2005 average premium pmpm: \$300 small group; \$250 individual	Take-up factor = -0.35 small group; -0.43 individual
Average small group loss ratio = 80% Average individual loss ratio = 60%	# dropping coverage due to cost = 0
Retention on premium growth: commissions 5% small group and 10% individual; variable admin = 50% of remaining retention; fixed admin 0%	Current Small Group membership = 27,000; Current Individual membership = 30,000 Current Uninsured population = 80,000 (15,000 without jobs, 44,000 with SG jobs, 21,000 with LG jobs)
Provider collection on those previously uninsured = \$0	Design for subsidy to new, uninsured lives will be established to mitigate adverse selection and crowd-out.

Alternative Models

Subsidized Premiums: small group employers only

- Take-up factor by uninsured Small Group of -0.35% (for a 10% reduction in premium % of uninsured decreases by 3.5%)
- What is the target audience and how far will the money go?
 - A. Existing small group purchasers: \$10M reinsurance subsidy could drop rates by an estimated 10% (before trend)
 - B. New, targeted small group purchasers: \$10M reinsurance subsidy could drop rates 40% (before trend) for an estimated 6,500 new members (from small group employers)
 - C. Mixed: \$10M reinsurance subsidy could drop rates 5% for all purchasers + additional 25% (=30% total) for new, targeted purchasers of 4,600 members (from small group employers)

Impact of Subsidy

\$10 Million per year to Small Group Employers only –
illustrative impact

Subsidy recipients	Premium reduction	Growth in SG market	State Reinsures	Impact on Uninsured Population	Impact on charity care	Impact on carrier surplus
A: Current	10% before trend	0%	70% \$70k-\$200k; then 100%	No change	No change	No change
B: New	40% before trend	24% (6,500 lives)	80% \$10k-\$50k; then 100%	8% reduction	\$19 M reduction	\$1.8 M increase
C: Mixed (50/50)	Current: 5% New: 30%	17% (4,600 lives)	New: 90% \$20k-\$50k; then 100%	6% reduction	\$13 M reduction	\$1.2 M increase

Alternative Models

Subsidized Premiums: small group and individuals

- Take-up factor by uninsured Small Group of -0.35% (for a 10% reduction in premium % of uninsured decreases by 3.5%), plus additional 4.3% reduction from individuals
- What is the target audience and how far will the money go?
 - A. Existing small group and individual purchasers: \$10M reinsurance subsidy could drop rates by an estimated 5% (before trend)
 - B. New, targeted small group and individual purchasers: \$10M reinsurance subsidy could drop rates 20% (before trend) for an estimated 11,700 new small group and individual
 - C. Mixed: \$10M reinsurance subsidy could drop rates 2.5% for all purchasers + additional 12.5% (=15% total) for new, targeted purchasers of 8,300 small group and individual members

Impact of Subsidy

\$10 Million per year to Small Group Employers and Selected Individuals
– illustrative impact

Subsidy recipients	Premium reduction	Growth in SG and Ind'l market	State Reinsures	Impact on Uninsured Population	Impact on charity care	Impact on carrier surplus
A: current SG and Individuals	5% before trend	0%	75% \$200k-\$500k; then 100%	No change	No change	No change
B: new	20% before trend	33% (11,700 lives)	70% \$30k-\$100k; then 100%	15% reduction	\$26 M reduction	\$3.7 M increase
C: mixed (50/50)	Current: 2.5% New: 15%	14% (8,300 lives)	New:70% \$50k-\$100k; 100% thereafter	10% reduction	\$18 M reduction	\$2.6 M increase

To Get 20% Reduction in Uninsured

Subsidy to uninsured only

- From Small Group and Individual: 30% premium reduction to new and 0% reduction to existing = \$18M subsidy
- From Small Group only: 50%+ subsidy

Split subsidy 50%/50% existing insured and uninsured

- From Small Group and Individual: 30% premium reduction to new and 8% reduction to existing = \$36M subsidy
- From Small Group only: 50%+ subsidy

Additional Considerations

- Target small employer, BG1, other targeted individuals
- Promotion of certain programs / designs
 - Networks
 - Disease management
 - High deductible health plans and HSAs
- Mandatory or voluntary carrier participation
- Role of high risk pool (same pre-ex and other restrictions – not to select against subsidy model)
- Funding: federal grants? Other?
- Impact on state budget: Medicaid; CHP, etc.
- Administrative cost of new reinsurance structure