



Reinsurance and its Role in Increasing Access to Health Insurance for Workers with Disabilities

The rising cost of health care premiums affects the ability of small businesses and self-employed workers to provide or obtain health care coverage. Individuals with pre-existing conditions find it difficult to get coverage in the private market without high price tags and a lot of exceptions in coverage requirements.

One possible solution to this problem is emerging: state-sponsored reinsurance programs that target the health insurance markets for small groups and individuals, making insurance more affordable and accessible.

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Disability, Employment & Health Insurance

With average annual health insurance premiums of nearly \$12,700ⁱ for a family of four and single coverage at \$4,700, employed people with disabilities, whose average income is approximately two-thirds of the average income of workers without disabilities, are unlikely to be able to afford employer-based health insurance coverage. **Twenty-five million working-age people in the United States with a sensory, physical, mental, or self-care disability could gain coverage from reinsurance initiatives.**ⁱ

Reinsurance programs and their positive effects on health care coverage also may help **attract more workers with disabilities to the labor force**. Currently, less than 40% of working-age people with disabilities are employed, compared with 84% of people without disabilities.ⁱⁱ Often, the fear of losing public benefits, including public health insurance coverage, deters individuals with disabilities who wish to enter or re-enter the workforce.^{iii iv v vi vii}

The Basics of Reinsurance

Simply put, reinsurance is insurance for insurance companies. In other words, insurance carriers purchase coverage to insure against the financial risk posed by high-cost cases. Reinsurance programs work by spreading the costs of high-cost cases across insurance carriers. Because employees with high expected health care costs drive costs for coverage in small businesses higher, reinsurance programs are designed to minimize the impact of high-cost cases on carriers and increase affordability of insurance for small businesses and individuals.

Potential Impact of Public Reinsurance Programs

Premium Costs to Members and Employers

- Reductions in premiums
- Reduces the impact of high-cost cases on small employers' premiums, encouraging small groups to offer coverage

Coverage and Employment

- Larger number of people with disabilities and chronic conditions insured
- More people with disabilities can rely on small group or private coverage to enter or remain in the workforce

Market Competition

- Provides incentives for small insurance carriers to enter the small group and/or individual markets, increasing market competition

Reinsurance Programs: Key State Examples

Several states have implemented reinsurance programs to fix problems in the small group and private health insurance markets. The goal: more accessible and affordable health insurance coverage in the small group and/or private health insurance market.

Challenges in the small group and private health insurance markets include^{viii}

- High and rising premium costs
- Policy underwriting for individuals with pre-existing conditions
- Lack of affordable comprehensive coverage

To meet these challenges, reinsurance programs have different reimbursement structures. Their designs establish at which level individual claims will be reimbursed and up to what annual limit the reimbursement payments apply.

Publicly Subsidized Programs

New York

Healthy New York • <http://www.ins.state.ny.us/website2/hny/english/hny.htm>

- Features**
- Automatically reinsures all enrolled individuals. Provides health insurance coverage to uninsured employees of small businesses (fewer than 50 employees), the self employed, and low-wage workers^{ix}
 - All Health Maintenance Organizations (HMOs) in the state are required to offer policies through the program
 - Premiums are based on county of residence and family composition.
 - Funding is provided by an assessment on participating health insurance providers, a state government subsidy, and a tax on tobacco products
 - HMO pays 100% of claims up to \$5,000^x. Above that the reinsurance program pays 90% and the HMO pays 10% of claims between \$5,000 and \$75,000. Upon reaching \$75,000, the primary insurer assumes full responsibility for the claims

Funding \$149 million in state funds

Reinsurance Bands

- \$5,000 to \$75,000
- 90% of claims within the reinsurance layer

Achievements

- Premium reduction of 17% when the reinsurance corridor was lowered to \$5,000^{iv}
- Currently improved access to more than 150,000 people who previously would have been uninsured^{xi}

Limitations

- Standard benefit package less comprehensive than the mandated benefits in New York State law^{vii}
- Coverage meets the needs of healthy individuals, but falls short for those with high health care needs.
- Coverage does NOT include: mental health, alcohol or substance abuse treatment, chiropractic care, hospice care, ambulance, dental, vision, and durable medical equipment. (see <http://www.ins.state.ny.us/website2/hny/english/hnybp.htm>).

New York's Direct Payment Stop-Loss Relief Program • <http://www.ins.state.ny.us/ihmoindx.htm>

- Features^{iv}**
- Direct Pay offers comprehensive coverage
 - Available to any individual denied coverage in the private market, regardless of income.
 - All HMOs are required to offer two standard health insurance packages:
 - one with out-of-network options
 - one that cannot base underwriting decisions on preexisting conditions (Law SS 4321 4322, popularly referred to as The Point of Service law, <http://assembly.state.ny.us/leg/?bn=A08280&sh=t>).

- Funding**
- \$40 million in state funds
 - Other sources include
 - designated fund from tobacco settlements and taxes
 - proceeds from a non-profit health insurance company's conversion into a for-profit organization
 - an annual assessment on health insurance companies in the state
 - hospital and laboratory surcharges

- Reinsurance Bands**
- \$5,000 to \$75,000
 - 90% of claims within the reinsurance layer

- Limitations^{iv}**
- Public levels of funding for the program have been frozen at 2003 levels.
 - Ability to pay claims has been significantly reduced, with only about 40% of the claims between \$20,000 and \$100,000 being paid as of 2006.
 - The premium reduction effects of the reinsurance program have been significantly hindered.



Healthy New York and Direct Payment Stop-Loss Compared^{vii}

Healthy New York and Direct Pay differ in critical ways. The Direct Pay program offers more comprehensive health care coverage. As a result, an individual with high health care needs would prefer to enroll in one of its plans. This leads to a risk selection problem, which pushes Direct Pay premiums higher. Still, the average "standard" Healthy New York premium (drug coverage, no deductible) is approximately 70% lower than the average Direct Pay premium and roughly 40% less than the average small group premium. The underfunding of the Direct Pay reinsurance program directly affects individuals with high health care needs, such as individuals with chronic illnesses or certain types of disabilities, as they have to bear high premium costs for comprehensive health insurance coverage. Finally, unlike Healthy New York, Direct Pay does not have any income eligibility requirements. To enroll in Direct Pay, an individual must not have been able to purchase insurance in the private market and not be eligible for employer-based insurance.



Idaho

Idaho Individual High Risk Reinsurance Pool • <http://www.doi.idaho.gov/Health/healthinfo.aspx>

The Idaho High Risk Reinsurance pool was enacted in 2001 to make health insurance coverage accessible to high-risk uninsured individuals or those who were close to reaching the lifetime expense limit of their health coverage.^{xii}

- Features**
- It is an excess of loss program
 - Mandatory for all carriers in the individual market in the Idaho
 - All carriers in the state must offer five standard health plans
 - All carriers must enroll individuals without regard to their health status
 - Primary insurers use a community rating scale that is based on an individual's gender, age, and smoking status
 - A governing board surveys comparable plans and sets premium rates at no more than 150% of rates in the healthy market
 - Guaranteed issue in the private market. If the insurance carrier deems an individual to be a high cost risk, he is offered coverage under the HRP program rates.

- Funding**
- Premiums paid by insurance carriers
 - Revenues from a premium tax

Reinsurance Bands The primary carrier pays 100% of costs up to \$5,000 per annual individual claims and 10% of costs of an individual's claims between \$5,001 and \$25,000. It has a 0% liability for claims \$25,000 and above

- Achievements**
- Since its implementation, there has never been a need to charge carriers an assessment to cover the claims^{xiii}
 - Gets coverage to the previously considered, "uninsurable" populations

- Limitations**
- Does little to limit premium fluctuations.
 - Cost to enrollee is the same as in the private market

Challenges in the Small Group Market^x

Idaho has another reinsurance program, the Small Employer Health Reinsurance Program. This initiative combines a reinsurance component with a program to encourage small employers to offer health insurance coverage. Its reinsurance bands are different from the Idaho Individual High Risk Reinsurance Pool and it does not receive state subsidies. While the Idaho program helps stabilize costs, it does not produce a substantial reduction on premium rates. The results of this program have been less impressive than the individual reinsurance program, with only 102 lives currently insured. Part of the reason for this low performance refers to the substantial burden health insurance coverage pose to small businesses.

Commercially Funded Programs

Connecticut

Connecticut's Small Employer Health Reinsurance Program

<http://www.ct.gov/cid/cwp/view.asp?q=254446>

Connecticut's Small Employer Health Reinsurance Program (SEHR) was the first of its kind when it was created in 1990.^{iv} Connecticut serves approximately 2,000 small business employees and their dependents each year.^{xiv} The state serves in an administrative capacity, but a third-party administrator manages the pool.

- Features**
- Participation is mandatory for the state's health insurance companies in the small group market^x
 - SEHR aims to spread the cost of catastrophic claims across all health insurance carriers in the state
 - Eligibility requirements for participation include being an employee of a small business or a sole proprietor and working 30 or more hours a week
 - The benefit plan of individuals or groups that are reinsured is exactly the same as those for individuals who are not ceded to the pool
 - If the insurer decides to cede the risk, it must pay a premium to the risk pool for that individual or small group

- Funding**
- Funds come from reinsurance premiums and assessments on all carriers
 - Fifty percent of the costs for the program are paid with funds from these assessments^x

Reinsurance Bands The program does not allow insurers to charge small employers higher premiums.^{iv} The carrier is responsible for individual claims up to \$5,000. Above \$5,000, the reinsurance pool picks up 100% of the medical costs for that member^x

- Achievements**
- Uses the reinsurance pool to spread the costs among all insurers.
 - Increases market competition.
 - Ensuring survival of smaller insurance companies when faced with catastrophic illness claims by an individual or group.
 - Guarantees coverage to very small groups

Limitations Does not noticeably reduce premium costs for the enrolled individuals.

Arizona

Arizona Health Care Group (until 2005) • <http://www.healthcaregroupaz.com>

The Health Care Cost Containment System, a division of Arizona's Medicaid program, created the Health Care Group of Arizona (HCG) in 1985 to provide guaranteed issue coverage to self-employed individuals and employees of small businesses. Its reinsurance component was introduced in 2001.^{xv}

- Features**
 - Premium rates based on age, gender, and geographical region in the state
 - Aggregate stop loss coverage for claims exceeding 86% of the health plan contractors' total capped premium paid by HCG^{xii}
- Funding**
 - Until 2006, hybrid reinsurance program using state funds for claims between \$75,000 and \$100,000, and premiums paid by participating insurers to cover costs above the maximum
- Reinsurance Bands**
 - Above \$125,000 per member per year are paid for by private reinsurance company
- Achievements**
 - Until 2007, the program did not consider health status to determine premiums, which in practice meant lower costs for individuals with chronic illnesses or pre-existing conditions^{xvi}
- Limitations**
 - With the advent of health status considerations, premium costs increased for individuals with chronic conditions and or pre-existing conditions.
 - Program has not proved reliably sustainable without state subsidies.

Ending HCG's State Subsidies^{xi}

In 2007, HCG suffered heavy losses. As a result of a system-wide audit, the state legislature stopped the subsidies. In addition to ending the subsidies, legislative changes also allowed carriers to include health status and group size as variables in the determination of premiums. The changes also involved new fine-tuned incentives for insurers to contain costs, and the suspension in enrollment of groups of 1 while allowing those already enrolled to keep their membership. As a result of the new regulations, HCG's premiums increased by double digits, hitting groups of one enrollee particularly hard. Higher premiums and the more stringent eligibility requirements have led to a drop in enrollment in the program in 2008 and 2009. Enrollment fell from approximately 27,000 members in the beginning of 2008 to roughly 15,000 in May 2009.

New Mexico

New Mexico Health Insurance Alliance • <http://www.nmhia.com>

The New Mexico Health Insurance Alliance (NMHIA) was created in 1994 to increase access to health insurance coverage for small businesses and the self-employed, who constitute a significant part of New Mexico's economy.

- Features**
- Mandatory, requiring all health insurance carriers that do business with state institutions must offer plans under the NMHIA^{xvii}
 - NMHIA coverage is offered with no medical screening or underwriting
 - Guaranteed issue clause, that is, individuals cannot be rejected or charged more for health or occupation
 - The program has no employer contribution level requirements
 - Coverage includes prescription drugs, hospital services, physician and outpatient services, mental health services, and preventive and wellness care^{xviii}. NMHIA is funded through a premium surcharge of up to 5% for the first year and 10% in subsequent years for small groups and 15% for renewal of individuals^{xix}. If the program suffers a loss, assessments on all participating insurance carriers cover those losses

- Funding**
- Reinsurance premiums
 - Assessments on carriers

Reinsurance Bands The program reimburses insurers the amount of total claims that exceed 75% of the premiums they collect from individual policy holders

Achievements Increases access to insurance for individuals who may not otherwise be able to obtain coverage for specific conditions, or at all.

Limitations Premiums charged to an individual are based on the average premium rate of comparable packages offered by other carriers in the small group market as dictated by New Mexico law (New Mexico Law 59A-23E-12, http://law.justia.com/newmexico/codes/nmrc/jd_ch59a-e95.html) Premiums are competitive in the NMHIA, but they are not substantially lower than the competition in the small group market.

Critical Questions for Reinsurance Programs^{xx}

Should the state mandate participation in the reinsurance program?

Voluntary programs would benefit large insurers. Large insurers already spread the risk of high cost cases across their many members and would therefore have no incentive to contribute to the reinsurance program. The mandatory nature of the program should be limited to offering policies under the program and paying the assessments. In programs where carriers must decide whether to cede the risk to the pool, insurers would still be able not to cede any lives. This would mean no reinsurance premiums, while they would still have to contribute to the assessments. Small carriers would be able to spread some risk across all carriers, increasing incentives to competition. The National Association of Insurance Commissioners (<http://www.naic.org>) offers model legislation found in section 12 of the Individual Health Insurance Model Act that outlines a generic non-subsidized reinsurance program for the small group market (http://www.naic.org/documents/committees_models_118.doc).

What is the benefit package offered?

Subsidized plans designed to reduce premium costs usually offer less comprehensive packages. The goals of the program and the target audience should be taken into account when designing the reinsurance plan. Non-subsidized plans offer the same benefit package options available in the small group or individual market in the state.

What will be the reinsurance layers and who will pay for the reimbursements?

Fine-tuned reinsurance levels can be efficient in reducing premiums. Subsidized programs in particular have to be mindful of an incentive structure for carriers to contain costs even as the state will pick up the tab in the reinsurance bands.

How can reinsurance reduce premiums?

Legislation should identify the cost and payment structure for subsidized reimbursements. Pre-approval or review of premiums may also be considered as a way keep premiums in check and to prevent reimbursements from simply increasing insurance companies' profits. The Healthy New York legislation provides an example of the issues to be addressed in a subsidized plan.

Related Research

The Urban Institute's Microsimulation Model for Reinsurance: Model Construction and State Specific Application

<http://www.statecoverage.org/files/Microsimulation%20Model%20for%20Reinsurance.pdf>

The Urban Institute has published a microsimulation of the effect of reinsurance on health care affordability using survey data from the Medical Expenditure Panel Survey.

The Robert Wood Johnson Foundation State Coverage Initiatives *Reinsurance Institute*

<http://www.statecoverage.org/node/1083>

The Reinsurance Institute provides information and assistance to state leaders in order to help them move health care reform forward at the state level. This site compiles presentations of several state implementation experiences with reinsurance.

The Robert Wood Johnson Foundation State Coverage Initiatives *Reinsurance in State Health Reform*

<http://www.statecoverage.org/files/Reinsurance%20in%20State%20Health%20Reform.pdf>

The Reinsurance Institute published a study on the impact of state reinsurance programs and broader state-level health care reform, including a discussion of policy measures that should accompany the implementation of reinsurance programs in order to maximize its benefits for high-risk individuals.

The Robert Wood Johnson Foundation State Coverage Initiatives *SCI Coverage Institute*

<http://www.statecoverage.org/node/970>

The State Coverage Initiatives' program Web site discusses grant opportunities to fund health care reform programs at the state level, including reinsurance programs.



Health care access is a key consideration for those faced with a choice to reduce hours or exit the workforce due to a disability.

While loss of insurance is a serious concern for any individual, it is an especially serious consideration for those with ongoing health care needs related to a chronic condition, disability, or the onset of disability. When people with disabilities are uninsured, they lack access to preventive and ongoing medical care, a situation that can lead to secondary health conditions that might otherwise be prevented. The high costs of health care coverage and the perceptions of cost by employers may make people with disabilities especially vulnerable, and lack of health insurance and access to health care can be one of the largest barriers preventing people with disabilities from seeking and obtaining steady employment. Policy initiatives that increase access to health care are important points for research, as they may directly influence a person's ability and motivation to stay in the workforce, or to re-enter the workforce after a period of receiving public insurance coverage. Reinsurance programs represent a promising policy initiative for offering affordable health insurance to individuals and employees of small businesses. Access to health insurance through reinsurance programs offers individuals with disabilities and/or chronic conditions opportunity and incentive to remain in or re-enter the workforce.

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