Testimony Before the House Insurance Committee

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Good morning Chairwoman Pickett, Chairman Deluca and Honorable Members of the House Insurance Committee. Thank you for holding a hearing today to discuss a proposal for Pennsylvania to transition to a state-based exchange (SBE) and pursue a federal waiver, known as a 1332 State Relief and Empowerment Waiver, to implement a reinsurance program that will lower health insurance premiums in Pennsylvania's individual market.

As you know, both Republicans and Democrats at all levels of government are dedicated to identifying and implementing initiatives that drive down health care costs, without compromising access and quality of care. As the Insurance Commissioner charged with overseeing Pennsylvania's insurance markets, the insurance consumer is my utmost priority and ensuring our markets provide those consumers with options that are robust, affordable, and meaningful is one of the best ways I know to meet the needs of these consumers. Transitioning Pennsylvania to an SBE and pursuing a reinsurance program will return ownership of Pennsylvania's individual health insurance market to the Commonwealth will give the Commonwealth tools to ensure a stable and accessible market and increase affordability by measurably lowering health insurance premiums for the hundreds of thousands of Pennsylvanians that rely on this market for coverage, without placing any additional financial burden on the Commonwealth.

The Individual Health Insurance Market

Americans receive their health care in many ways, but most receive coverage either through their employer or a public program like Medicare or Medicaid. The individual market is the market that serves everyone else; the individual market provides health insurance coverage to those that cannot access coverage through other means. Generally, this market provides coverage to those with employers that do not offer health insurance, to self-employed individuals, those in the "gig economy", sole proprietors, early retirees, and those in-between other forms of coverage. Currently, Pennsylvania's individual market provides coverage to over 400,000 Pennsylvanians.

These 400,000 individuals purchase their coverage from health insurance exchanges (also often referred to as marketplaces), where consumers can shop for coverage and compare health insurance plans through a standardized and consumer friendly interface. Additionally, the federal government provides financial assistance to many people who procure coverage through these exchanges in the form of tax credits that lower monthly premiums and cost-sharing reductions (CSRs) that lower out-of-pocket costs like co-pays and deductibles. Based on household income, tax credits are available for those with incomes up to 400 percent of the

federal poverty level and CSRs to those with incomes up to 250 percent of the poverty level. In terms of real income, this means a family of three making up to $83,120 will be eligible for premium tax credits and a family of three making up to $51,950 will be additionally eligible for CSRs. About 80 percent of Pennsylvanians who receive coverage through the health insurance exchange receive financial assistance.

While Americans now have increased access to coverage and protections for individuals with pre-existing conditions, there have been both instability and affordability challenges in the individual market. As premiums have risen, the 80 percent of Pennsylvanians receiving financial assistance have largely been shielded from price increases through the premium tax credits, but the 20 percent who do not receive federal assistance face high and sometimes unaffordable premiums. The Commonwealth has worked tirelessly to achieve stability, and great progress has been made. For 2019, I approved a statewide average decrease in individual market premiums, a new insurer entered the market in the Philadelphia region, and 30 of Pennsylvania's 67 counties have more insurers offering coverage compared to the prior year. But, even with these successes, there is an opportunity to further stabilize our markets by bringing responsibility and oversight of the exchange to the state, and by taking an important step to make health insurance coverage more affordable for a significant number of Pennsylvanians.

State-Based Exchange

Since the passage of the Affordable Care Act (ACA), Pennsylvania has relied on the federal government to run the health insurance exchange in the Commonwealth through the federal exchange, commonly known as Healthcare.gov. While most states do the same, more than a dozen states built and continue to operate their own exchanges. Four additional states (Nevada, New Jersey, New Mexico, and Oregon) are currently in the process of transitioning to an SBE for 2020 or 2021.

In relying on the federal government to run the exchange, the Insurance Department (Department) shares oversight responsibilities with the federal government, but is constrained on many fronts. The Commonwealth regulates the health insurers that sell coverage on the exchange, reviews the products sold on the exchange and the rates at which those products will be sold, recommends that the federal government certify those plans to be sold on the exchange, and assists consumers to the extent that a consumer's issue does not pertain to exchange functions. The federal government ultimately decides which plans will be sold on the

exchange, oversees the process that determines eligibility for enrollment and financial assistance, maintains the system that allows consumers to compare plans and enroll in coverage, has the responsibility of conducting marketing and outreach for the exchange (although federal investments in these functions have been severely limited in recent years), and assists consumers to the extent that an issue pertains to exchange functions. The federal government also houses all of the data related to the exchange. Pennsylvania is limited to reviewing publicly released data sets to try to better understand, for example, enrollment trends that can not only better inform exchange operations, but also provide broader insights into how Pennsylvanians are navigating their coverage options. Moreover, this occurs in an environment of changing federal regulations, guidance, and priorities in overseeing the exchange. This disjointed structure is inefficient, often difficult for consumers (and insurers) to navigate and has contributed to instability in the individual market.

Transitioning to an SBE would bring all of these functions to the state and empower the Commonwealth to make decisions that best meet the specific needs of our market and our consumers. It would also provide the Commonwealth with more flexibility, allowing us to avoid some of the hurdles created by reliance on a federally run exchange. Benefits of an SBE include:

- Directly handling all consumer complaints and better addressing consumer issues;
- Funding and designing tailored consumer assistance, marketing, and advertising strategies for the exchange;
- Having the ability to conduct direct outreach to exchange enrollees, applicants, and former enrollees;
- Designing and optimizing the consumer shopping experience;
- Housing and having the ability to analyze enrollment data;
- More closely coordinating with other state agencies and programs; and
- Having the ability to define additional special enrollment periods as appropriate.

The Commonwealth considered implementing an SBE when the opportunity first arose in anticipation of the first year of exchange coverage in 2014. Despite recognizing the significant benefits of an SBE, Pennsylvania did not pursue the idea then, largely because of the significant expense and burden on the state of building and implementing the necessary information technology (IT) infrastructure. Those concerns were valid at that time, and the risks of pursuing such an aggressive project in a very limited time were demonstrated by the significant technical

problems experienced by the federal exchange and many state exchanges in 2014. However, since 2014, one thing has fundamentally changed: the availability of already developed exchange IT by the private sector. States now have the opportunity to procure already-developed and proven technology, rather than investing the time and money in building our own systems. This model is currently being pursued by the four states already in the process of transitioning to an SBE, and the results of one procurement have already demonstrated that not only can an SBE provide an opportunity for Pennsylvania to do a better job comprehensively overseeing our health insurance market, but also that we can do so at a much lower price point than the federal government currently charges.

Let me expand upon the potential savings that this proposal will create. The federal government currently collects an exchange user fee from health insurers in every state, including Pennsylvania, that amounts to 3.5 percent of premium from the plans sold through the exchange to fund the federal exchange's operations. That percentage will be lowered to 3 percent beginning next year. This means that the Commonwealth's insurers are sending an estimated $88 million per year to the federal government for them to operate the exchange on our behalf. After extensive discussions with some of the other states currently undergoing a transition to an SBE and consideration of an analysis performed by a health care consulting firm familiar with available exchange technology, a conservative estimate indicates the Commonwealth could fully operate an SBE at just $30-35 million annually.

Therefore, by operating the exchange at a much lower cost than what we are currently paying the federal government to do so, we could leverage a 1332 waiver to reinvest those savings as the state portion of a reinsurance mechanism and draw down the federal savings to the state, multiplying the savings achieved and significantly reducing premiums for Pennsylvania's individual insurance consumers.

1332 State Innovation Waivers and Reinsurance

Last October, the federal government issued new guidance around Section 1332 of the ACA relating to State Relief and Empowerment Waivers, which empower states to pursue innovative programs and modify the rules outlined in the ACA to tailor health care coverage options to meet the unique needs of their markets and their residents. A 1332 waiver allows states to take the federal dollars currently being expended for their residents through the ACA's financial assistance programs (premium tax credits and CSRs) and reallocate those funds to state-

specific initiatives so long as certain guardrails are met. These include providing coverage that is at least as comprehensive as ACA coverage, providing coverage that is at least as affordable as ACA coverage, providing coverage to a comparable number of state residents, and not increasing the federal deficit. Currently, eight states have received 1332 waivers from the federal Department of Health & Human Services (HHS) and HHS continues to encourage states to pursue these waivers to reassert state ownership of their insurance markets and enable states to improve their health care systems outside of a one-size-fits all federal construct.

Currently, seven states have already received 1332 waivers (Alaska, Maine, Maryland, Minnesota, New Jersey, Oregon and Wisconsin) to implement reinsurance programs that are already measurably lowering premiums for their residents. Reinsurance is a mechanism that moderates health insurance premiums by separately funding some of the cost of very expensive enrollees and/or claims, allowing the average cost per person charged in premium to not be skewed upwards by these outlier expenses. Reinsurance is considered an "invisible" program, as consumers will enroll in coverage and seek care under their policies in the same manner, but the program will reimburse health insurers for these outlier costs on the back end. The consumer's experience and benefits are not impacted. I will note that reinsurance is not a foreign concept: it is regularly used in the commercial insurance market and was included in the ACA as a transitional program during the first three years of ACA marketplace coverage to successfully moderate premiums during that period.

The main reason more states have not pursued 1332 waivers for reinsurance is that this construct requires the state to contribute a portion of the funds. Under this construct, the reinsurance mechanism works because as the state invests initial dollars into the program, insurers need to account less for the possibility of outlier claims expenses, and premiums go down. As premiums go down, the amount of money that the federal government expends on the tax credits to subsidize those premiums goes down. Those federal savings can then be returned to the state pursuant to a 1332 waiver, reinvested in the reinsurance mechanism to lower premiums, and multiply the cost-saving effect of those funds.

Generally, the states that have already implemented a reinsurance program have funded the state portion either through broad assessments on their health insurance industry or allocations from state general funds. Neither of these options would be practical in Pennsylvania. However, if Pennsylvania were to transition to an SBE, maintain the current user fee of 3 percent of premium, and operate the exchange at significant savings compared to the federal government, those savings could be used to fund the state portion of a reinsurance mechanism.

The Department contracted with Oliver Wyman, an actuarial firm nationally recognized for its expertise on 1332 waivers and reinsurance, to model the premium savings this strategy would yield to Pennsylvanians. According to Oliver Wyman's analysis, if the estimated $40-50 million in savings achieved through the SBE transition were invested in reinsurance, the total value of the reinsurance program after the federal funds were additionally contributed would be $150-250 million. **Therefore, through the combination of transitioning to an SBE and securing a 1332 state innovation waiver for reinsurance, using dollars already in the exchange coverage system, Pennsylvania can lower health insurance premiums for consumers 5-10 percent without investing any additional dollars.**

Stakeholder Engagement

We are critically aware of the need for the implementation of this initiative to be transparent, efficient, and strategically orchestrated for its ultimate success and for consumers to realize the utmost benefits from it. To that end, we are coordinating with various stakeholders on a routine basis to ensure the implementation accounts for various perspectives.

From the initial contemplation of this initiative, we have engaged with the federal government, which plays a high-level role of approval while also remaining crucial to the nuanced operational aspects of the initiative. The federal government has favorably received the initiative and has been instrumental in helping us work through important design elements. Further, in a recent visit to HHS in Washington, D.C., the federal government, including the Administrator of the Centers for Medicare and Medicaid Services, Seema Verma, reiterated its strong desire to have states craft strategies that are tailored to state-specific needs using tools like 1332 waivers. Our relationship with the federal government is critical to successful implementation of this initiative, and we have laid the groundwork of a strong foundation to build upon as we embark on this endeavor.

Just as critical to the success of this initiative is our relationship with the dedicated health insurers who serve the individual market, the providers who care for the patients in this market, and the agents, brokers, and consumer advocates who assist individuals with securing coverage. We have dedicated ourselves to engaging with each of these constituencies in a deliberate and meaningful way, by convening large group meetings for dissemination of information regarding the initiative, facilitating routine calls to provide updates, and making ourselves available to engage on a one-on-one basis. We are so deeply appreciative of the

thoughtful receptivity of the stakeholders thus far, have benefited from their questions and comments, and we are eager to engage with them more as the initiative continues.

Similarly, we appreciate your interest in engaging in conversation about how to lower health care costs for Pennsylvanians. While we have had preliminary discussions with some members, we are grateful for the opportunity to engage with this committee, especially as a critical deadline for necessary legislation approaches. To allow the initiative to realize savings for consumers as fast as possible, the legislation establishing the SBE as a state-affiliated entity and authorizing the Department to pursue the 1332 waiver must be secured by June 2019, to allow for a deliberate, strategic implementation. Given the immediacy of this deadline, and the importance of the initiative, we stand ready to engage with you and your staff at your convenience to help demonstrate the impacts of this proposal on your constituents. To this end, we have included with our testimony a county-by-county breakdown of the individual market enrollment in Pennsylvania.

We have approached the roll-out of the initiative in a way that aims to be respectful of the stakeholders' current business models and continues to design the initiative in a way that creates the least amount of disruption and is the least resource-consuming for them. Because of this, you may hear from stakeholders today that details of this initiative remain to be fleshed out. However, we assure you that many of the details of this initiative have been worked through. The stakeholder engagement process is ongoing and we look forward to sharing additional details, including through the additional materials we have shared with each of you today: an FAQ document, cash flow illustration, enrollment breakdown and timeline, all demonstrating the thoroughness of planning for the initiative that has already taken place.

Conclusion

Thank you for the opportunity to share with you today the importance of the creation of an SBE and reinsurance program in the Commonwealth. We are excited to do this in a way that brings to Pennsylvania control of Pennsylvania's health insurance marketplace – allowing us to better serve Pennsylvanians. And we are eager to effectively move the needle on driving down health care costs while requiring no state appropriated dollars. We look forward to working with you on this endeavor and welcome any questions you may have. Thank you.

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Total Number of Consumers Who Have Selected an Exchange Plan by County in 2019

County	Total Number of Consumers Who Selected an Exchange Plan
Adams	2,850
Allegheny	33,391
Armstrong	1,604
Beaver	4,067
Bedford	1,353
Berks	10,754
Blair	2,587
Bradford	1,591
Bucks	26,427
Butler	4,832
Cambria	3,103
Cameron	119
Carbon	1,882
Centre	2,955
Chester	17,419
Clarion	1,285
Clearfield	1,701
Clinton	713
Columbia	1,691
Crawford	1,881
Cumberland	6,190
Dauphin	5,569
Delaware	21,360
Elk	724
Erie	5,493
Fayette	3,207
Forest	154
Franklin	3,511
Fulton	332
Greene	551
Huntingdon	890

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County	Total Number of Consumers Who Selected an Exchange Plan
Indiana	1,779
Jefferson	1,207
Juniata	604
Lackawanna	6,087
Lancaster	12,607
Lawrence	1,825
Lebanon	2,655
Lehigh	9,878
Luzerne	8,272
Lycoming	2,592
McKean	770
Mercer	2,203
Mifflin	875
Monroe	5,369
Montgomery	31,615
Montour	344
Northampton	8,587
Northumberland	1,880
Perry	1,221
Philadelphia	52,108
Pike	1,989
Potter	502
Schuylkill	3,326
Snyder	992
Somerset	2,064
Sullivan	226
Susquehanna	1,444
Tioga	944
Union	899
Venango	1,220
Warren	908
Washington	5,032
Wayne	2,011
Westmoreland	9,606
Wyoming	930
York	11,131

State Based Exchange / Reinsurance Initiative
Frequently Asked Questions

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Overall Initiative

Who will benefit from this initiative?

This initiative is constructed to improve stability and affordability of health insurance coverage in the individual market. The individual market provides coverage to those that are unable to access coverage through other means such as through their employer or a public program like Medicare or Medicaid. Currently, over 400,000 Pennsylvanians receive coverage through this market.

How much will this initiative save consumers?

Based on an actuarial analysis, consumers would experience health insurance premiums 5-10% lower than what they would otherwise pay.

What will this cost the Commonwealth?

This initiative will require $0 from the General Fund. This initiative is designed to more efficiently use the dollars currently in our health care system to save consumers money, not to add dollars to the system.

What is the timeline for implementation?

If the General Assembly were to pass legislation by the end of June 2019, both the state-based exchange (SBE) and reinsurance program could be in operation for coverage that would begin on January 1, 2021.

If this will not cost the Commonwealth anything, how does the Wolf Administration intend to fund implementation costs?

The Administration has identified a number of strategies that will ensure successful implementation without additional costs to the Commonwealth:

Strategic contracting: The Insurance Department engaged a respected consulting firm and has conferred with similarly situated states regarding the availability of SBE technology through private vendors. Vendors appreciate that states are not able to fund the initial SBE costs until the SBE can be operational, and therefore collect a user fee. Such vendors have already built a considerable amount of the necessary technology for implementation an SBE, and therefore are able to bear the transition costs and forego invoicing the state until the SBE is operational (i.e., 2021 for Pennsylvania).

A partial transition for 2020: There is an option called a state-based exchange on the federal platform (SBE-FP) that allows a state to take on some exchange functions while still leveraging the federal information technology (IT) infrastructure. Pennsylvania already assumes a number of these functions, including performing the full and comprehensive review of insurance products to be sold on the exchange and conducting an annual marketing and outreach campaign to promote open enrollment. Any additional responsibilities the Commonwealth would need to assume to become an SBE-FP are minimal and can be performed leveraging existing funding. Under the SBE-FP model, the federal government would collect only 2.5% of premium instead of 3%. If Pennsylvania were to keep the user fee level at 3% as assumed by this initiative, 0.5% of premium (an estimated $14 million in 2020) can be remitted to the state by the federal government and used to pay for any unexpected transition costs.

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Leveraging other federal funding streams: The Wolf Administration has identified other federal funding opportunities that could assist in covering interim costs. For example, a federal grant funded the actuarial modeling that analyzed the impact of a reinsurance program in Pennsylvania.

We understand the federal Department of Health & Human Services (HHS) will have to approve both the transition to the SBE and a waiver to allow Pennsylvania to implement the reinsurance program. Have you had conversations with HHS and do you anticipate they will provide the necessary approvals?

From the initial contemplation of this initiative, the Wolf Administration has engaged with the federal government, which plays a high-level role of approving the SBE transition and waiver while also remaining crucial to the nuanced operational aspects of the initiative. The numerous conversations with HHS about this initiative have all been very positive, and the Wolf Administration anticipates HHS will approve both the SBE transition and the 1332 waiver for reinsurance, as the initiatives embody HHS's aim to empower states to implement state-specific strategies for their health insurance markets. Currently, HHS is encouraging states to explore innovative solutions that will empower them to improve their health care system outside of a one-size-fits all federal construct, particularly through the 1332 state relief and empowerment waivers, the waiver the Wolf Administration intends to use to leverage federal dollars to implement a reinsurance program.

What will happen to the SBE and reinsurance program if the Affordable Care Act (ACA) is struck down?

If either the U.S. Congress repeals, or the U.S. Supreme Court invalidates the ACA, the legislative proposal includes a sunset provision for the SBE and reinsurance program.

Who should we contact if we have questions?

Please contact the Insurance Department's Legislative Director, Abdoul Barry, at any time. Abdoul can be reached by email at abbarry@pa.gov or by phone at (717) 783-2005.

State-Based Exchange

Pennsylvania previously considered running an SBE and decided against it. What has changed?

Pennsylvania opted not to pursue an SBE previously largely due to the anticipated costs and operational burden association with building and implementing new SBE technology. Since that time, vendors have developed SBE technology that is proven and in use in other states. As such, today a state can pay to use this technology, rather than paying to build their own. This was not an option at the time of the prior conversations, and fundamentally changes the financial analysis a state should undergo in considering a transition to an SBE.

How will the SBE be funded?

Just as the exchange is funded today, the SBE will be funded through a user fee assessed as a percent of premium of the health insurance plans sold through the SBE. Currently, this same type of user fee is charged, but is paid to the federal government for operations of the federal exchange. For 2019, the federal government will collect an estimated $94 million from Pennsylvania's insurers to operate the federal exchange.

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Do you plan to implement additional taxes, fees or assessments on health insurers to implement the exchange?

The SBE will be operationalized by continuation of the current user fee which is assessed as a percent of premium of the health insurance plans sold through the SBE. The user fee will remain equal to or less than the federally facilitated marketplace's user fee and used exclusively for the purposes of running the SBE and funding the state contribution to the reinsurance program.

How much will it cost the Commonwealth to run an SBE?

Leveraging the expertise of nationally-renowned consultants, the Wolf Administration conservatively estimates an SBE can fully operate at $30-35 million per year, much less than Pennsylvania currently pays to the federal exchange. This estimate was calculated by a national health care consulting firm familiar with exchange funding and the availability of SBE technology through vendors based on discussions with other states currently operating an SBE or transitioning to an SBE. Under this initiative, the SBE would continue to charge the same user fee as the federal government, but operate at a third of the costs, and therefore be able to leverage these savings to fund the state contribution to the reinsurance program.

How will the SBE budget be allocated?

The SBE budget includes funding for staffing the SBE based on organizational models deployed in other states, including leadership such as an Executive Director, Chief Financial Officer, Chief Technology Officer, and Chief Counsel, as well as human resources, communications, and project management staff. Office space, IT expenses, and the funding for vendor contracts are also included in the budget. The budget likewise includes funding for the navigator program, as well as increased funding for outreach and enrollment efforts.

Does the Wolf Administration anticipate that insurers will face significant costs or other administrative burdens to integrate with the SBE?

No, the Wolf Administration intends to construct the SBE technology such that it replicates the systems and connections the insurers currently use with the federal exchange. Some resources will be needed to form and test connections with the SBE, but those resources should be very minimal. The Administration intends to work closely with the on-exchange insurers through the development of the SBE to ensure they are comfortable with the approach and aware of any expectations for their organizations.

What would the governance structure of the SBE be? Will it be housed within a state agency?

The draft legislative proposal envisions the SBE to be a state-affiliated authority and would not be housed within an existing state agency. The Wolf Administration considered the various existing governance models of SBEs in other states and concluded that housing the SBE outside of an existing state agency allows for autonomy that prioritizes the operational success of the SBE and protects against conflict of interests.

The SBE would have an executive director that answers to a governing board and an advisory council that would facilitate robust input from a broader group of stakeholders. The legislative proposal anticipates that the governing board would be comprised of gubernatorial appointees or their representative, legislative appointees from each caucus or their representative, representatives of insurers offering coverage through the SBE, and consumers or consumer organizations.

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Will there be any impact on the Department of Human Services (DHS) or the health care programs it runs?

DHS has been involved in the Wolf Administration's discussions about this initiative and the Secretary of Human Services will be represented on the governance board of the SBE. The SBE will need to work closely with DHS, as individuals applying either to the SBE or DHS's health care programs may need to be referred to the other depending on their income and what type of coverage they may be eligible for. However, from an operational and technological standpoint, the Administration anticipates the SBE will interact with DHS just as the federal exchange does today, minimizing any operational impact to DHS.

Have other states done this? What has their experience been?

In addition to the states that have run their own exchanges since the first year of operation in 2014, the Wolf Administration is aware of four other states that are currently in the process of transitioning to an SBE for either 2020 or 2021. One of these states has completed their procurement process, which demonstrated the savings that can be achieved through this transition.

Reinsurance Program

What is reinsurance and how does it work?

Reinsurance is "insurance for insurers": it allows insurers to price their products lower by limiting their exposure to very high, unpredictable medical expenses incurred by their members by covering some of those expenses when they exceed a certain threshold. If an insurer's member incurs a claim that is within the parameters of the reinsurance program, the insurer will report the claim to the state reinsurance program, and the reinsurance program will pay the insurer a contribution toward the claim costs. By removing some of an insurer's need to build financial protections into premiums for the costs attributed to whether an insurer's member will incur very high medical claims cost, insurers can calculate lower premiums for their products.

How will the reinsurance program be funded?

Securing the section 1332 waiver from the federal government allows the reinsurance program to receive a significant federal contribution in addition to the existing user fees paid by insurers. When premiums are lowered by the reinsurance program, the federal government also realizes a savings because they pay less in subsidies to individuals securing coverage through the exchange – subsidies are proportional to premiums. The federal government then shares this saving with the state to use for state-specific needs. In Pennsylvania, the federal government is expected to fund 75% of the reinsurance programs costs. The remaining 25% of the costs are paid by the state. The state contribution will be generated by converting to an SBE but continuing to assess a user fee that is equal to or less than the federal user fee.

Who will administer the reinsurance program?

The reinsurance program will be administered by the actuarial experts in the Insurance Department. Possible additional support may be provided by contracted actuarial experts.

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How are the administrative costs of the reinsurance program going to be paid?

The administration of the reinsurance program will primarily require the calculation of the parameters for the reinsurance program, complying with requisite routine reporting to the federal government, and performing the reconciliation of claims following the experience year to remit to insurers the proper reinsurance payment. Such administrative costs are limited and can be included in the Insurance Department's existing budget without issue.

Will the legislation specify the parameters of the reinsurance program?

The parameters of the reinsurance program, including the attachment point, the co-insurance corridor, and the cap, will reflect the anticipated costs of the individual market's enrollment and therefore may change annually as enrollment, among other factors, changes. Since flexibility is necessary for the parameters, the legislative proposal does not prescribe the parameters. Rather, the legislative proposal seeks to establish a timeline so that insurers can have certainty regarding the parameters to properly price their products.

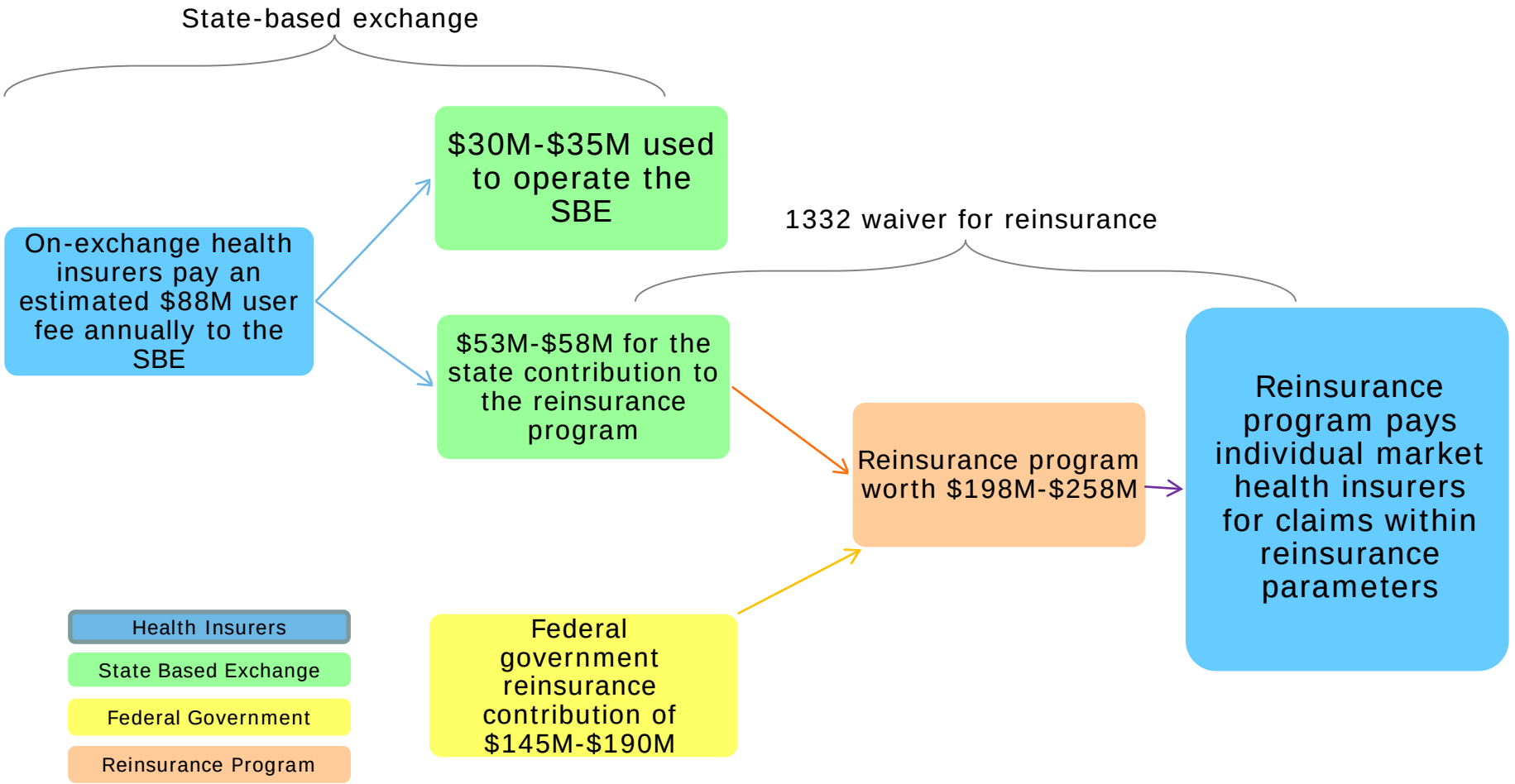
Have other states done this? What has their experience been?

Seven states have secured section 1332 waivers for purposes of administering a reinsurance program and have experience premium reductions from 6%-43.4% attributed to the program in the first year of enactment. Some states have faced an unexpected challenge when receiving less federal funding than anticipated. However, the U.S. Treasury and the federal Department of Health and Human Services have since provided additional information about how they calculate their financial contribution that has alleviated much of this concern and those agencies continue to diligently work to ensure states have predictability and prevent this circumstance affecting forthcoming section 1332 reinsurance waiver implementation.

What would happen if the claims eligible for reinsurance payments exceed what was estimated and what funds are available?

If the claims eligible for reinsurance payments exceed estimated funds, the legislative proposal allows for appropriate action to be taken to allocate the existing reinsurance program funding in a pro rata manner. We remain open to engaging with stakeholders to explore other approaches as well.

Cash flow illustration for state-based exchange and reinsurance initiative



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