Louisiana Budget Project

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Louisiana can lower health insurance costs for those who need it most

Despite historically low overall uninsured rates, Louisiana still has far too many residents without health coverage. Policymakers can make health insurance more affordable and can increase coverage by investing strategically in the health insurance marketplace, including by establishing a state-run reinsurance program and providing state subsidies for low- and moderate-income households. These policies have been proven to work in other states. And, with the political will to ensure that vulnerable Louisianans have coverage, they can also work in the Pelican State.

Overview

Access to affordable health insurance is an important component of family economic security. Health insurance protects families from catastrophic costs, supports work, and makes preventative care more affordable. This is not only true for those who can least afford the cost of an unexpected illness, but also for those struggling to maintain their place in the middle class - those for whom an unplanned medical expense or untreated disease may derail years, if not decades, of careful planning and work.

Since 2016, Louisiana has been a leader in the Gulf South in ensuring that those with the lowest incomes - below 138% of poverty or $17,236 yearly income for an individual - have access to reliable healthcare by expanding Medicaid to cover low-income adults. And the individual marketplace, which operates under healthcare.gov in Louisiana, provides important federal subsidies that make private plans more affordable for those who are not covered by an employer, but who earn too much for Medicaid and too little to afford the full price of private coverage.

Despite these gains, more than 363,000 Louisianans still don't have health insurance. People earning low incomes, but too much to qualify for Medicaid, are three times more likely to be uninsured than their more affluent neighbors (see Figure 5). Those who earn just over the qualifying threshold for federal subsidies in the individual marketplace - or $1 over 400% of poverty - face a "benefit cliff" where costs can balloon. In Louisiana, a family of four earning $1 over the qualifying threshold will pay 53% more than a family earning just under the qualifying threshold due to this effect[1] - putting coverage out of reach for too many families.

The state has several policy options that could stabilize the individual marketplace and make health insurance more affordable. State-funded health insurance subsidies can help make insurance more accessible to low-income families and increase the number of families with insurance coverage. Eliminating the income cap for insurance subsidies can also help lower costs for middle-income residents and ease the benefit cliff effect. And, reinsurance programs - programs that offer payments to insurance companies to offset the costs of

[1] Based on premium tax credit of $442 per month for a family of four at 400% federal poverty level where the family pays a monthly premium of $839 or 9.86% of income. This is compared to $0 premium tax credit for a family of four at 400% federal poverty level +$1 where the family pays a monthly premium of $1,281 of 14.92% of income. Rates are based on Kaiser Family Foundation Health Insurance Marketplace Calculator.

enrollees with large medical claims - can help lower costs for those above the federal poverty threshold. These policies have been proven effective in other states, and can help make health insurance more affordable in Louisiana, too.

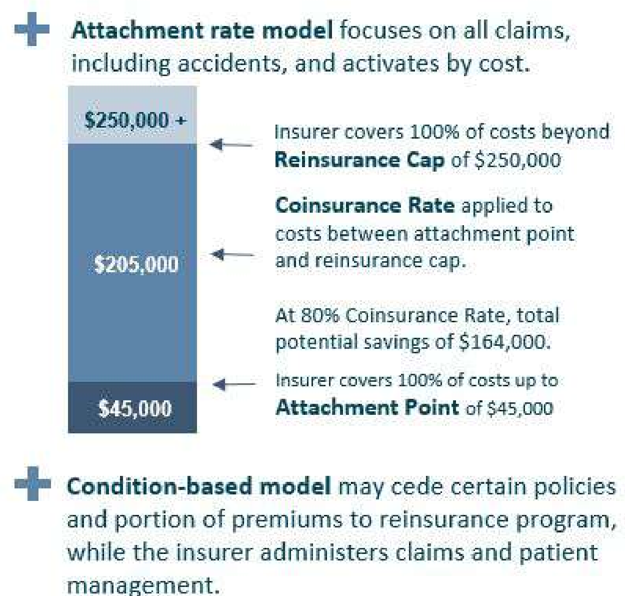
Investing in a state reinsurance program can help bring down costs in the individual marketplace

As the cost of health insurance continues to rise, a growing number of states have implemented reinsurance programs to help lower the cost of coverage in the individual marketplace. States that have invested in reinsurance programs have seen a nearly 20% decrease in premiums on average, with savings to consumers ranging from 6% to 43% depending on the size of the program. (See Figure 3 for details).

Since 2017, 12 states have established state reinsurance programs under the Affordable Care Act, using 1332 State Innovation Waivers approved by the Centers for Medicare & Medicaid (CMS) to help fund these programs. The waiver allows states to use federal dollars equal to the amount the federal government saves thanks to lower premium subsidies in the individual marketplace. Most states reinvest this money into their reinsurance programs.

1. How does reinsurance work?

Reinsurance brings down the overall cost of private health insurance by reimbursing health insurers for a portion of the cost of covering the most expensive patients. As insurers are reimbursed, these savings are passed on to consumers in the form of lower premiums. For example, if premiums in Louisiana total $100 million per year in the individual marketplace, and a reinsurance program of $10 million were established, premiums could be expected to go down by 10 percent.



A key feature of reinsurance programs is that they are "invisible" to consumers, meaning that patients with expensive medical needs are not aware of the reimbursement to their insurer and they receive the same rates, benefits, and patient experiences as lower-cost patients. Importantly, the protections that ensure that patients with high medical costs have the same experience as those with less expensive medical needs - including those with pre-existing conditions - are written into the Affordable Care Act (ACA), including eliminating lengthy health status questionnaires, which can be a barrier to getting insurance. If the ACA is overturned, patients would again be at risk, including in Louisiana where state law provides inadequate protections.

There are two models for reinsurance programs. The majority of state reinsurance programs - 10 of the 12 that have been approved - use an "attachment rate" model, where payments to the insurer kick in once costs reach a certain level, or attachment point. States have differing attachment points, coinsurance rates, and caps on reinsurance. One state, Alaska, uses the "condition based" model, in which state reinsurance payments are

limited to costs associated with enrollees who have certain medical conditions. Maine, meanwhile, uses a combination of both. The [temporary federal reinsurance program] that ran from 2014 to 2016 to help stabilize the individual marketplace in the first years of the ACA was based on an attachment rate model, which may account for states' familiarity with and affinity for this model. (See Appendix 1 for details on state models.)

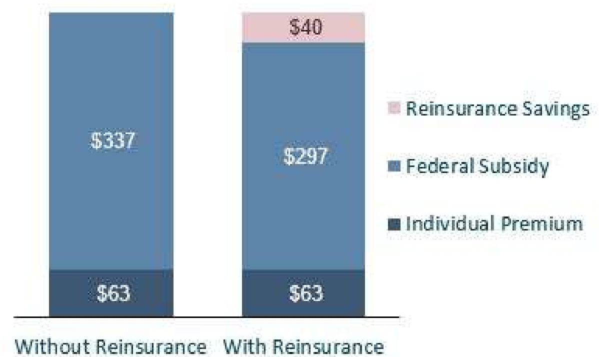
2. How are reinsurance programs funded?

Reinsurance programs are funded through a combination of state and federal dollars. Federal dollars are made available through 1332 State Innovation Waivers in the amount equal to what the Federal government saves in decreased premium subsidies. States with higher numbers of individuals receiving federal subsidies in the individual marketplace receive higher amounts of federal funding for their reinsurance programs.

States have taken a variety of approaches to funding the state share of reinsurance programs. For example, Maine assessed fees on health insurers and third-party administrators (TPAs), drawing funding from all forms of health insurance except self-funded and self-administered plans. Alaska's program is financed by a portion of the state's premium tax that applies to all lines of insurance. Minnesota uses general funds as one of several sources — spreading the cost of reinsurance across all taxpayers — along with a portion of the state's 2% provider tax, which applies to hospitals and other providers. The share of total program costs borne by states varies widely (as seen in Figure 3).

Figure 2: Funding for reinsurance programs comes from federal and state sources

$ **Federal** savings from reduced premium subsidies may be reinvested into state reinsurance programs



$ **State revenue sources** vary from policy assessments (ME), state premium taxes (AK), general funds (MN), to state provider assessments (MN) or a combination (CO).

Source: LBP analysis and "State Reinsurance Programs: Design, Funding, and 1332 Waiver Considerations for States" Manatt Health March 2018

Figure 3. Reinsurance programs have led to an average decrease in premiums of nearly 20%, though state investment and premium savings vary widely by state

State (Date of Enactment)	Percent Change in Avg. Individual Market Premiums	Federal Pass-Through Funding (millions)	State Funding (millions)	Percent of Program Cost Born by State	Enrollment in Year of Enactment
AK (2017)	-34.70%	$58.8M	$1.5M	2.50%	14,200
MN (2018)	-20%	$131M	$140M	51.70%	106,500
OR (2018)	-6%	$54.5M	$35.5M	39.40%	143,200
ME (2019)	-9.40%	$65.3M	$27.7M	29.80%	62,100
MD (2019)	-43.40%	$373.4M	$88.6M	19.20%	181,500
NJ (2019)	-15.10%	$180.2M	$143.5M	44.30%	331,000
WI (2019)	-10.60%	$127.7M	$72.3M	36.10%	203,000
State Average	**-19.90%**	**$141.5M**	**$72.3M**	**31.90%**	**148,500**
Total		**$990.6M**	**$509.1M**		

Source: Chris Sloan, Neil Rosacker and Elizabeth Carpenter, "State-Run Reinsurance Programs Reduce ACA Premiums by 19.9% on Average" Avalere, March 13, 2019 Note: While there are currently 12 reinsurance programs approved by CMS, this analysis focuses on 7 states.

3. Who benefits from reinsurance?

Reinsurance is designed to reduce premiums and help stabilize the individual marketplace. Ultimately, consumers who need private insurance - either from a temporary life transition or because their job doesn't offer coverage - benefit when reinsurance programs are successful. However, not all consumers will benefit from savings due to premium reductions. Those who qualify for premium tax credits - earning below 400% of poverty - will not experience a decrease in costs. Savings associated with these consumers are passed to the federal government and then returned to the state, which is reinvested back into the reinsurance program. Those who earn above the qualifying threshold for subsidies, including those who experience a "benefit cliff," will see the decrease in premiums.

Figure 4. Reinsurance programs lower premiums for moderate income Louisianans

	250% Federal Poverty Level		450% Federal Poverty Level	
	Before Reinsurance	After Reinsurance	Before Reinsurance	After Reinsurance
Income for Single Individual (Based on 2020 FPL)	$31,225	$31,225	$56,205	$56,205
Monthly Premium for Silver Plan*	$337	270**	$337	270**
Federal Tax Credit	($121)	($54)	Not eligible	Not eligible
Premium Paid	$216	$216	$337	$270
Change in Premium	None	None	None	$68 decrease

*Premiums vary by region in Louisiana. This rate is based on a New Orleans zip code.
**After reinsurance assumes 20% reduction in premiums.

Reinsurance is a valuable tool to provide stability and decrease premiums in the individual marketplace for those with moderate incomes, especially for those on the margins of the middle class. It is also a familiar program for many state regulators and some legislators given the temporary federal reinsurance program that ran in the early years of the ACA. Additionally, the structures, both for federal pass-through funding and state administration, are well established. However, other interventions, such as state subsidies for low-income families or extending the income cap for subsidies, could do more to provide coverage for those with the lowest incomes who also experience the highest rates of uninsurance.

State health insurance subsidies would reduce costs for lower income Louisiana residents

Louisianans who are already struggling to make ends meet deserve special attention when considering initiatives that could reduce health insurance costs in the individual marketplace. While reinsurance is a valuable tool for stabilizing the marketplace, it is also limited. Louisiana should consider state subsidies as a tool to expand coverage and affordability for families least able to afford it.

Figure 5. Uninsured rates are higher for lower-income adults in Louisiana
(Based on 2017 estimates)

Source: Louisiana Health Insurance Survey 2017 (Table 2.2: Estimated Uninsured Adults (19-64) by FPL) and ACS data

Increasing subsidies for low-income individuals would increase insurance coverage rates and expand participation in the marketplace. Federal subsidies in the form of Premium Tax Credits (PTCs) are currently available to those with incomes between 138% and 400% of poverty in Louisiana (those below 138% of are covered under Medicaid expansion). These tax credits protect consumers from spending more than a certain percentage of their income on health insurance - ranging from 3.42% to 9.86% of income. While these protections have helped bring down uninsured rates, those least able to afford coverage still face uninsured rates more than triple that of higher income groups.

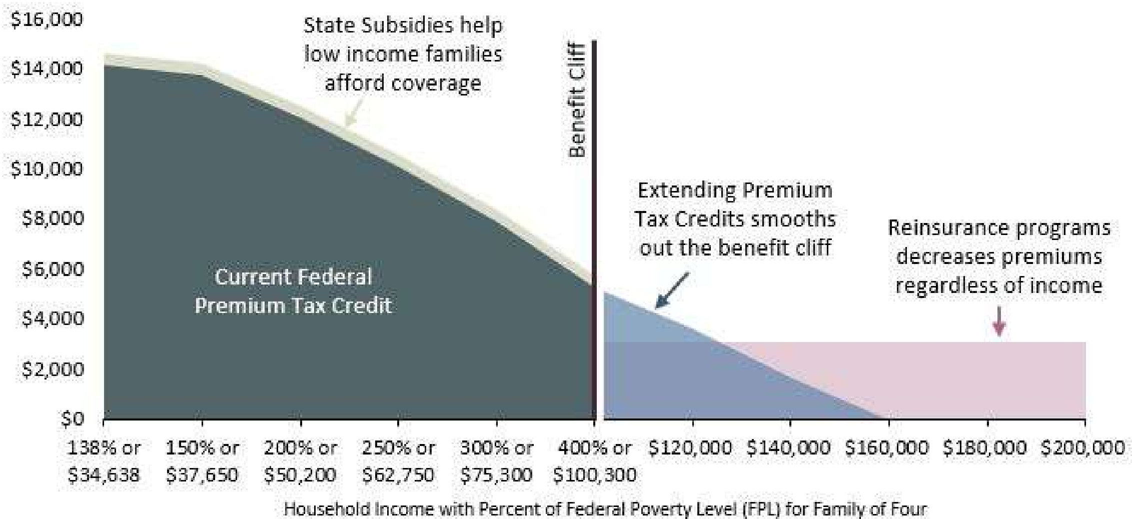
Figure 6. Federal Premium Tax Credits protect lower income consumers

Income		Expected Premium Contribution Remaining After PTC	
Percentage of poverty line	Annual dollar amount	Premium contribution as % of income (in 2019)	Monthly contribution
Family of Four (4)			
138 – 150%	$34,638 – $37,650	3.42 – 4.15%	$99 – $130
150 – 200%	$37,650 – $50,200	4.15 – 6.54%	$130 – $274
200 – 250%	$50,200 – $62,750	6.54 – 8.36%	$274 – $437
250 – 300%	$62,750 – $75,300	8.36 – 9.86%	$437 – $619
300 – 400%	$75,300 – $100,400	9.86%	$619 – $825
> 400%	$100,400	N/A	N/A
Individual			
138 – 150%	$16,753 – $18,210	3.42 – 4.15%	$48 – $63
150 – 200%	$18,210 – $24,280	4.15 – 6.54%	$63 – $132
200 – 250%	$24,280 – $30,350	6.54 – 8.36%	$132 – $211
250 – 300%	$30,350 – $36,420	8.36 – 9.86%	$211 – $299
300 – 400%	$36,420 – $48,560	9.86%	$299 – $399
> 400%	$48,560	N/A	N/A

Source: Health Reform Beyond the Basics

Some states have experimented with programs to increase insurance rates among this population. For example, Massachusetts created Commonwealth Care (CommCare) in 2006 to provide subsidized health insurance to those below 300% of the federal poverty level (FPL) who were not able to access health insurance through their job or a publicly financed program. By comparing insurance rates for those on either side of the program's cutoff points (150%, 200%, 250% and 300% of FPL), economists at the Massachusetts Institute of Technology and Harvard found that take-up rates among eligible individuals increased by 14% to 24% with the equivalent of a $40 per month state subsidy, with larger effects at lower income levels. Louisiana could increase coverage for lower and moderate income individuals through a similar state subsidy program.

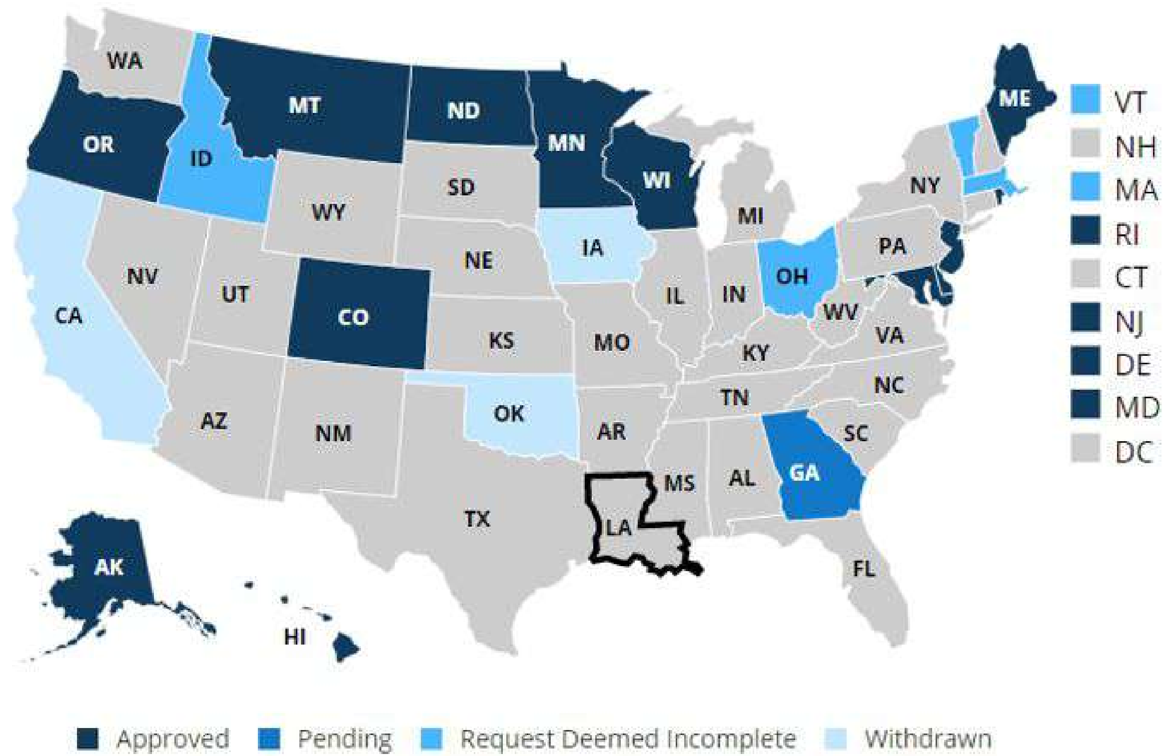
Extending premium tax credits to people with higher incomes reduces premiums for middle income earners. Research has also shown that raising or eliminating the income cap to qualify for premium tax credits (PTC) may be an even more effective tool than reinsurance, because it allows policymakers to target moderate-income consumers, older adults, those living in high-cost areas, and those whose premiums take up an especially large share of their income. Extending tax credits would also insulate the marketplace from future rate shocks as consumers are protected from paying more than 10% of their income on premiums and therefore more able to afford coverage as premium increases are absorbed by subsidies.



Providing state subsidies to low income residents or extending the existing premium tax credit structure are important options for controlling the cost of healthcare, especially for lower income families. While structures built into the Affordable Care Act make reinsurance a more readily accessible option, and while reinsurance is beneficial in many ways, policy makers should also assist those who are unable to afford coverage. Creating additional state subsidies for lower income people and extending the income cap for existing subsidies would provide a meaningful path forward.

Access to affordable health insurance is an important factor in building family economic security. While Medicaid expansion has successfully reduced the uninsured rate for the lowest income Louisianans, far too many families still struggle to pay for health care. As lawmakers head into the first legislative session of this new decade, they should prioritize ensuring all Louisianans have access to high-quality, affordable health insurance. And, for those in the individual marketplace, these policies - a state reinsurance program and subsidies for low and moderate income families - can help ensure Louisianans can go to their doctor when they are sick, take care of their families through medical emergencies without the financial burden of uninsured medical care, and take care of themselves with regular preventative care visits.

Appendix 1. Select Approved 1332 Waiver by State (Selected based on being used for reinsurance programs.)



Source: Kaiser Family Foundation, Tracking Section 1332 State Innovation Waivers, Published: Aug 29, 2019. Accessed October 2019

Alaska - Condition Based Model

Allow federal pass through funding to partially finance the state's Alaska Reinsurance Program (ARP). The ARP would fully or partially reimburse insurers for incurred claims for high-risk enrollees diagnosed with certain health conditions.

Date Submitted: 12/29/2016 Date Approved: 7/7/2017

Colorado - Attachment Model

Allow federal pass through funding to partially finance a reinsurance program to be administered by the Colorado Department of Insurance. The reinsurance program will reimburse insurers 60% of claims paid between $30,000 and an estimated $400,000 cap.

Date Submitted 5/20/2019 Date Approved 7/31/2019

Delaware - Attachment Model

Allow federal pass through funding to partially finance Delaware Health Insurance Individual Market Stabilization Reinsurance Program. The reinsurance program will reimburse insurers 75% of claims paid between $65,000 and $215,000.

Date Submitted 7/10/2019 Date Approved 8/20/2019

Maine - Attachment Model Hybrid

Allow federal pass through funding to partially finance reinstatement of the Maine Guaranteed Access Reinsurance Association (MGARA), the state's reinsurance program that operated in 2012 and 2013. The MGARA will reimburse insurers

90% of claims paid between $47,000 and $77,000 and 100% of claims in excess of $77,000 for high-risk enrollees diagnosed with certain health conditions or who are referred by the insurer’s underwriting judgment.
Date Submitted 5/9/2018 Date Approved 7/30/2018

Maryland - Attachment Model
Allow federal pass-through funding to partially finance the Maryland Reinsurance Program. The plan will reimburse insurers 80% of claims between an attachment point that is to be determined and a cap of $250,000.
Date Submitted 5/31/2018 Date Approved 8/22/2018

Minnesota - Attachment Model
Allow federal pass-through funding to partially finance the Minnesota Premium Security Plan (MPSP), a reinsurance program that would reimburse insurers 80% of claims above $50,000 and up to a cap of $250,000.
Date Submitted 5/5/2017 Date Approved September 22, 2017.
Although the federal government approved pass-through funding for the reinsurance program, it did not approve pass-through funding for BHP, thus providing the state with less federal funding than it had sought.

Montana - Attachment Model
Allow federal pass through funding to partially finance a reinsurance program to be administered by the Montana Reinsurance Association Board and the Commissioner of Securities and Insurance. The reinsurance program will reimburse insurers 60% of claims paid between $40,000 and an estimated $101,750 cap.
Date Submitted 6/19/2019 Date Approved 8/16/2019

New Jersey - Attachment Model
Allow federal pass-through funding to partially finance the Health Insurance Premium Security Plan. The plan will reimburse insurers 60% of claims between $40,000 and $215,000.
Date Submitted 7/2/2018 Date Approved 8/16/2018

North Dakota - Attachment Model
Allow federal pass through funding to partially finance the Reinsurance Association of North Dakota (RAND). RAND would reimburse insurers 75% of claims paid between $100,000 and $1,000,000.
Date Submitted 5/10/2019 Date Approved 7/31/2019

Oregon - Attachment Model
Allow federal pass-through funding to partially finance the Oregon Reinsurance Program (ORP). The ORP would reimburse insurers 50% of claims between an attachment point (to be determined) and an estimated $1 million cap.
Date Submitted 8/31/2017 Date Approved 10/18/2017

Rhode Island - Attachment Model
Allow federal pass-through funding to partially finance a reinsurance program to be administered by HealthSourceRI. The reinsurance program will reimburse insurers 50% of claims paid between $40,000 and an estimated $97,000 cap.
Date Submitted 6/28/2019 Date Approved 8/26/2019

Wisconsin - Attachment Model
Allow federal pass-through funding to partially finance the Wisconsin Healthcare Stability Plan (WIHSP). The WIHSP will reimburse insurers 50%-80% (exact percentage to be determined) of claims between $50,000 and $250,000.
Date Submitted 4/19/2018 Date Approved 7/29/2018