

# Implications of Using Reinsurance Programs to Stabilize the Individual Market

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# Outline

- Reinsurance overview
- Method and Data
- Results
  - Risk selection incentives
  - Premiums
  - Budgetary costs
  - Change in uninsurance
- Discussion

# What is Reinsurance?

- Reimburses insurer for a portion of the costs of the most expensive enrollees
- A common proposal would reinsure 75% of costs above the threshold for the top 1% of spenders.
  - The 1% threshold is about \$35,000. This group accounts for about 25% of health spending.
- States that have public reinsurance programs include NY, AZ, CT, ID, MA, NH, NM.

# Methodology

- Medical Expenditures Panel Survey
- Estimated several models to predict 2004 expenditures using 2003 demographic characteristics and medical conditions
  - Used predictions to create four risk pools
- Calculated reinsurance threshold levels using 2004 data
- Calculated average subsidy for each risk pool based on actual expenditures
  - Subsidy amount was 75% of expenditures above reinsurance threshold

# Medical Conditions

- Priority conditions
  - Individual was asked whether he/she had ever been told by a doctor or other health care professional that they have (condition)
    - Diabetes
    - Asthma
    - High blood pressure
    - Heart disease
      - coronary
      - angina or angina pectoris
      - heart attack or myocardial infarction
      - stroke or transient ischemic attack
      - other
    - Emphysema
    - Joint pain
    - Arthritis
- Enumerated conditions
  - Individual lists the medical conditions they had since the last interview
  - MEPS coded the conditions using ICD-9-CM codes (235 possible conditions)

# 2004 MEPS Cross-Section Expenditure Levels

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2004 Expenditures Levels	Expenditures (\$2007)
Average	3,004
Minimum*	0
50th percentile	767
90th percentile	7,166
95th percentile	12,144
97th percentile	16,604
99th percentile	34,659
Maximum	272,440

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\*17.5% of sample had zero expenditures

Source: 2004 MEPS (20,197 individuals under 65 with no public insurance)

# 2003-2004 MEPS Panel Sample Size

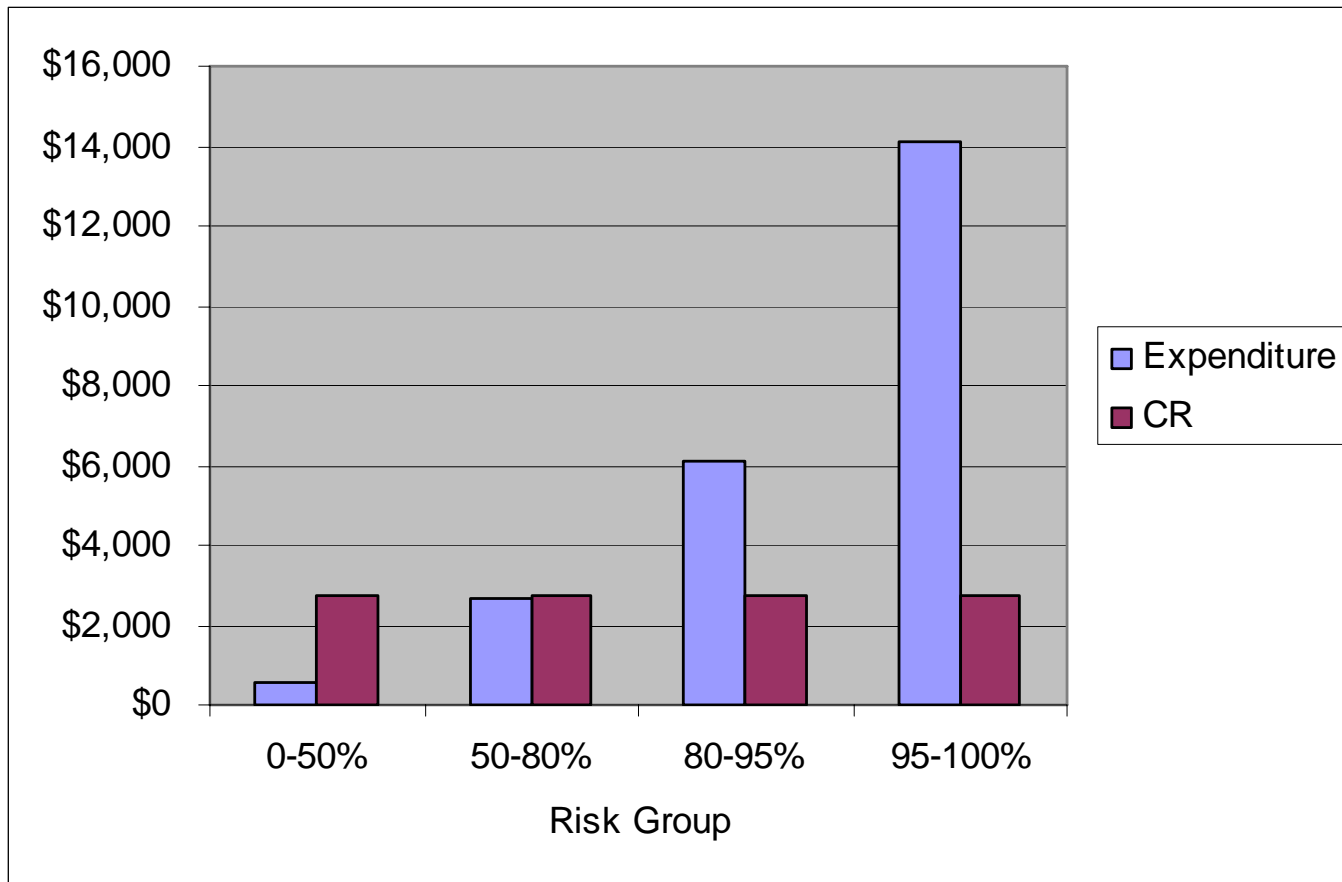
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2003-2004 MEPS Panel	Sample Size
Total sample	16,256
Under 65	13,786
Under 65, no public insurance	9,760
Under 65, no public insurance, non-missing priority conditions	9,589

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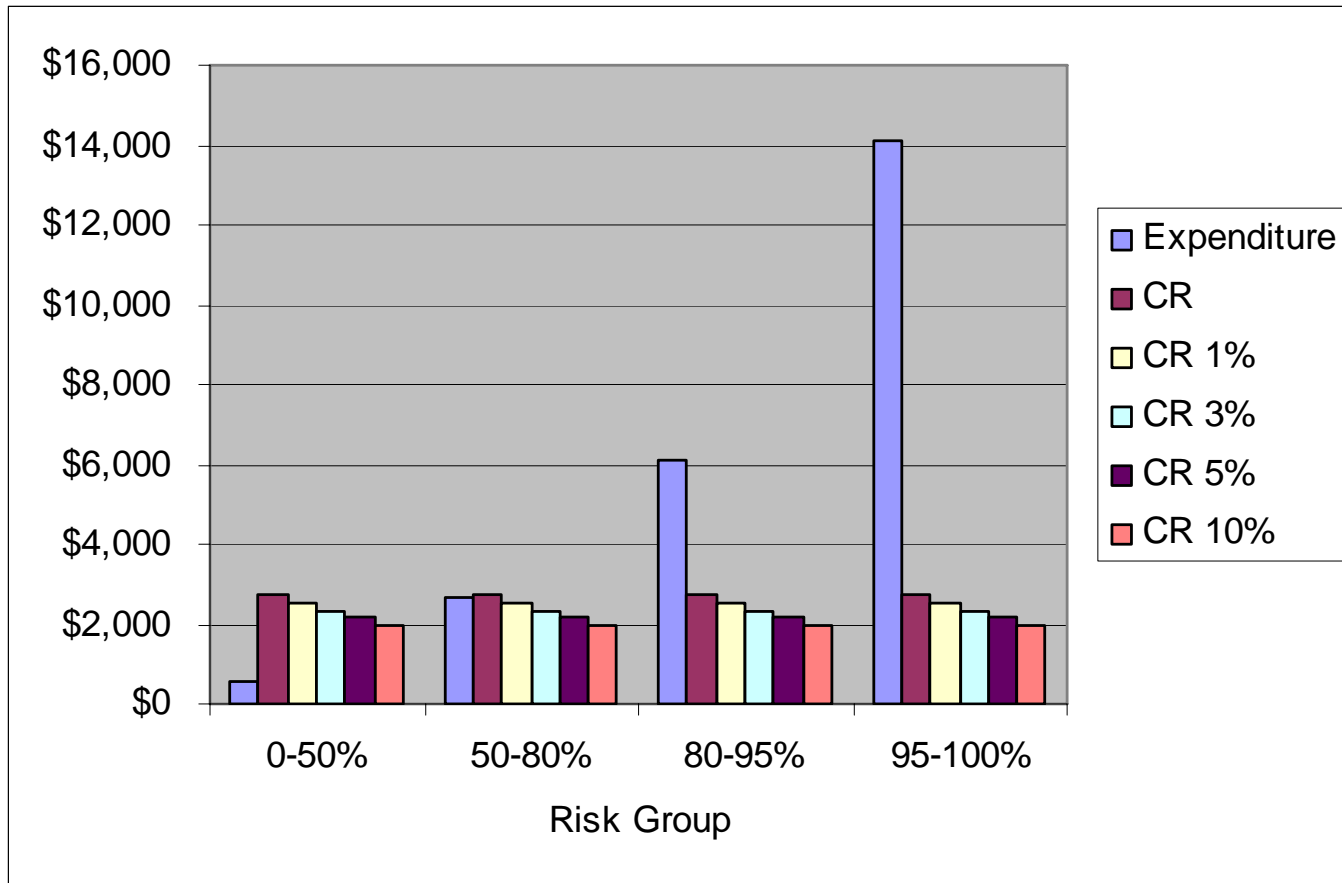
Source: 2003-2004 MEPS

# Expected Expenditures and Community Rated (CR) Premiums per Enrollee by Risk Group

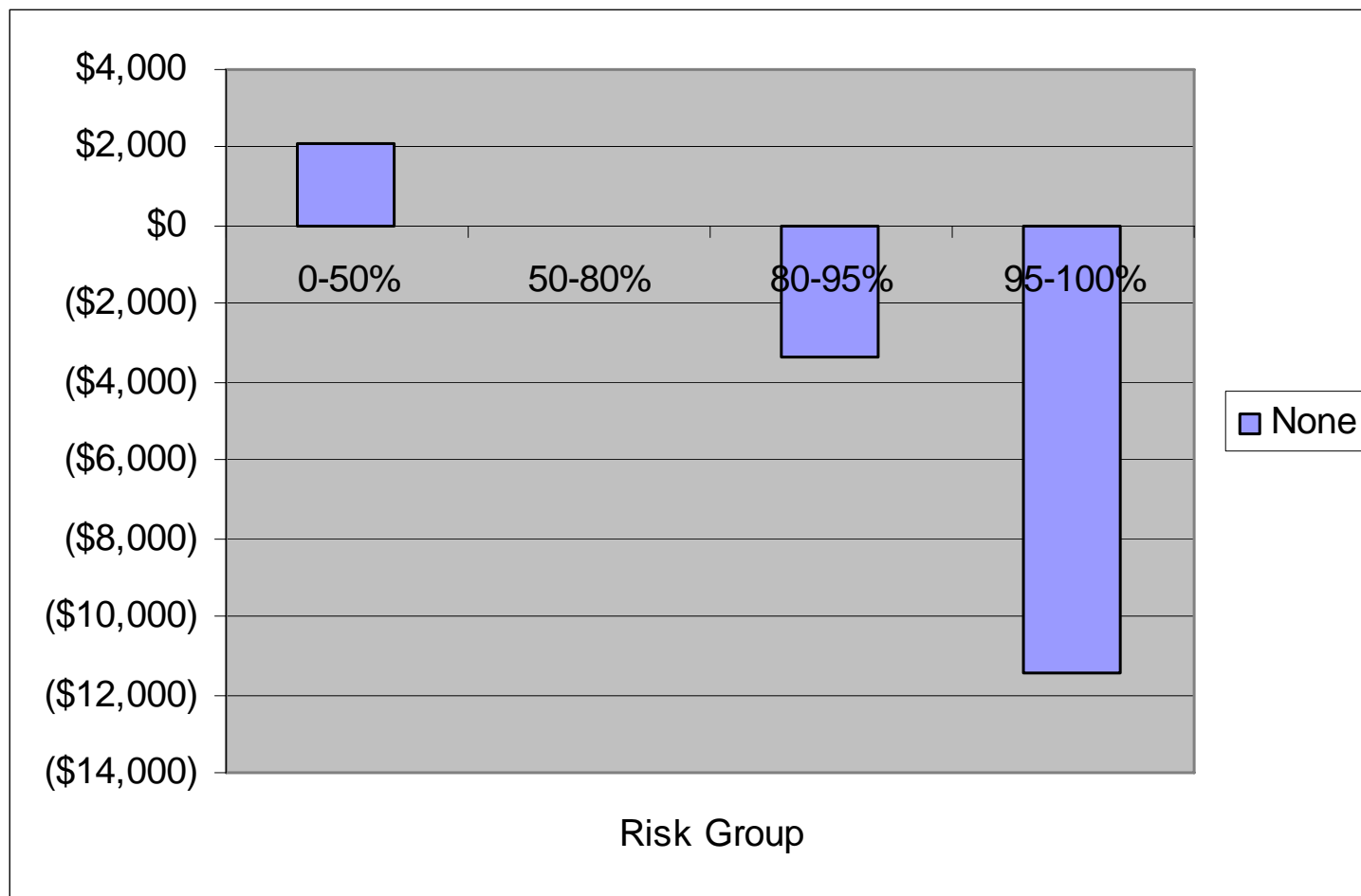




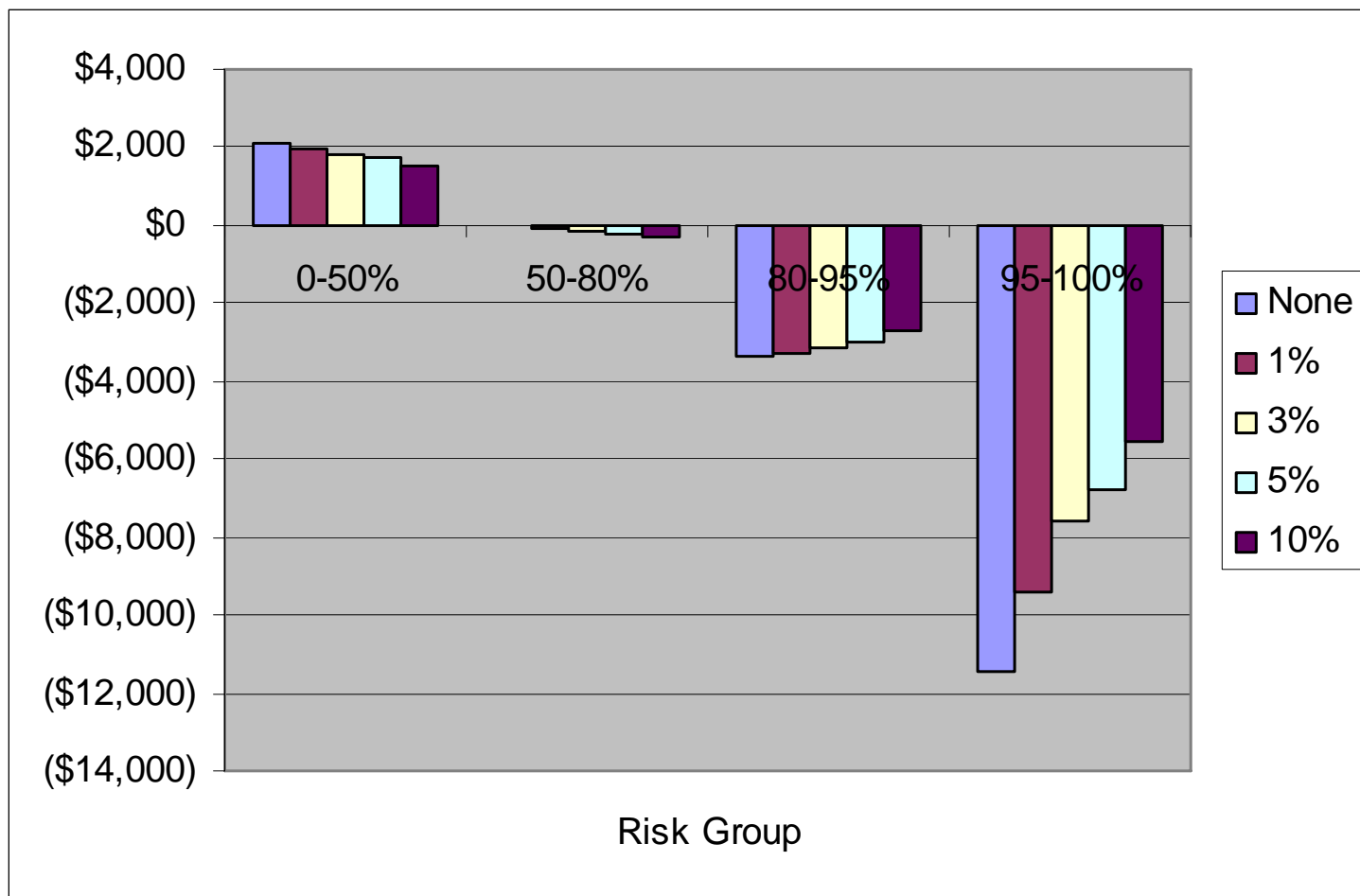
# Expected Expenditures and Community Rated (CR) Premiums per Enrollee by Reinsurance Threshold and Risk Group



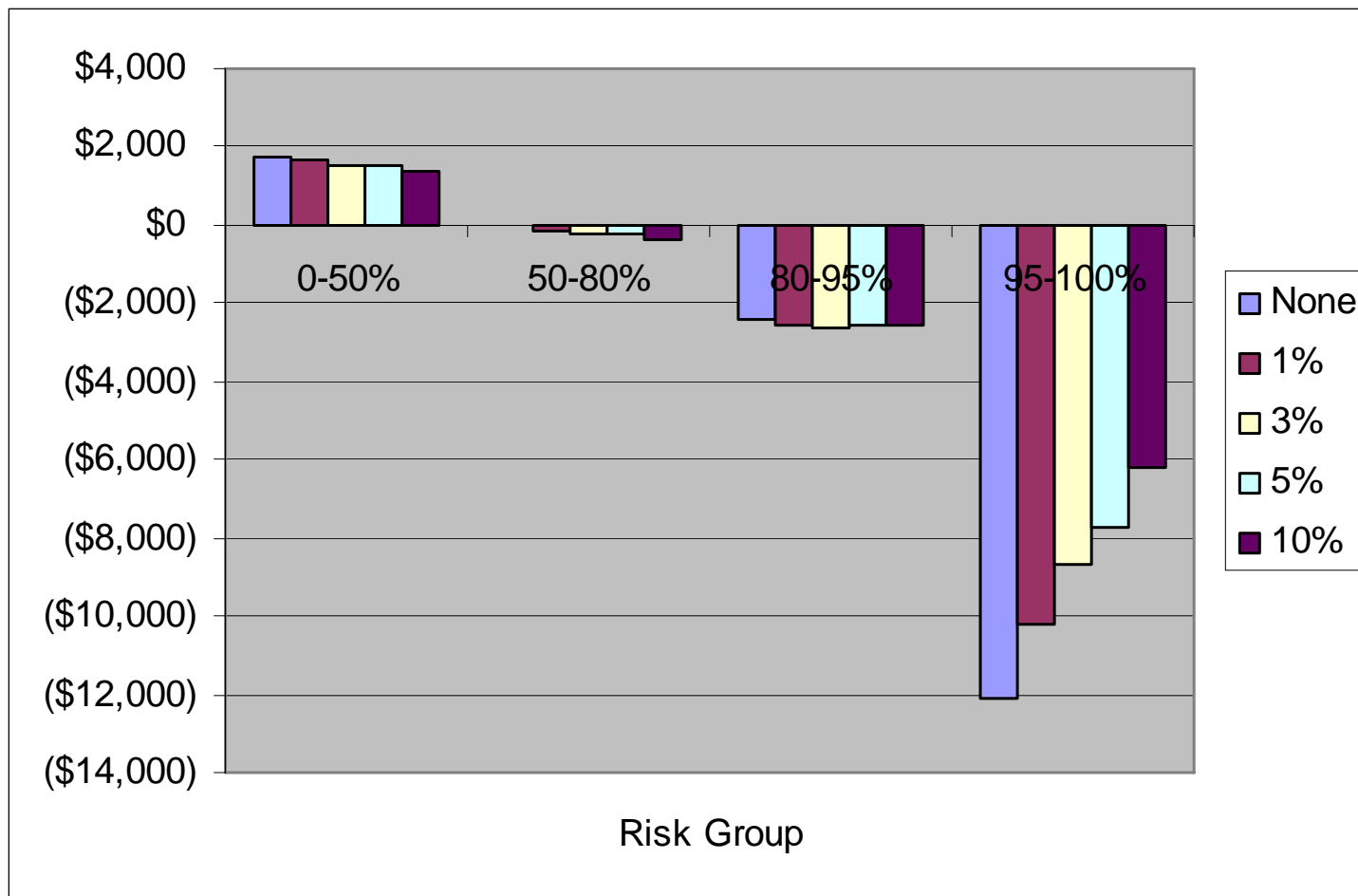
# Expected Profit (or Loss) per Enrollee Under No Reinsurance by Risk Group



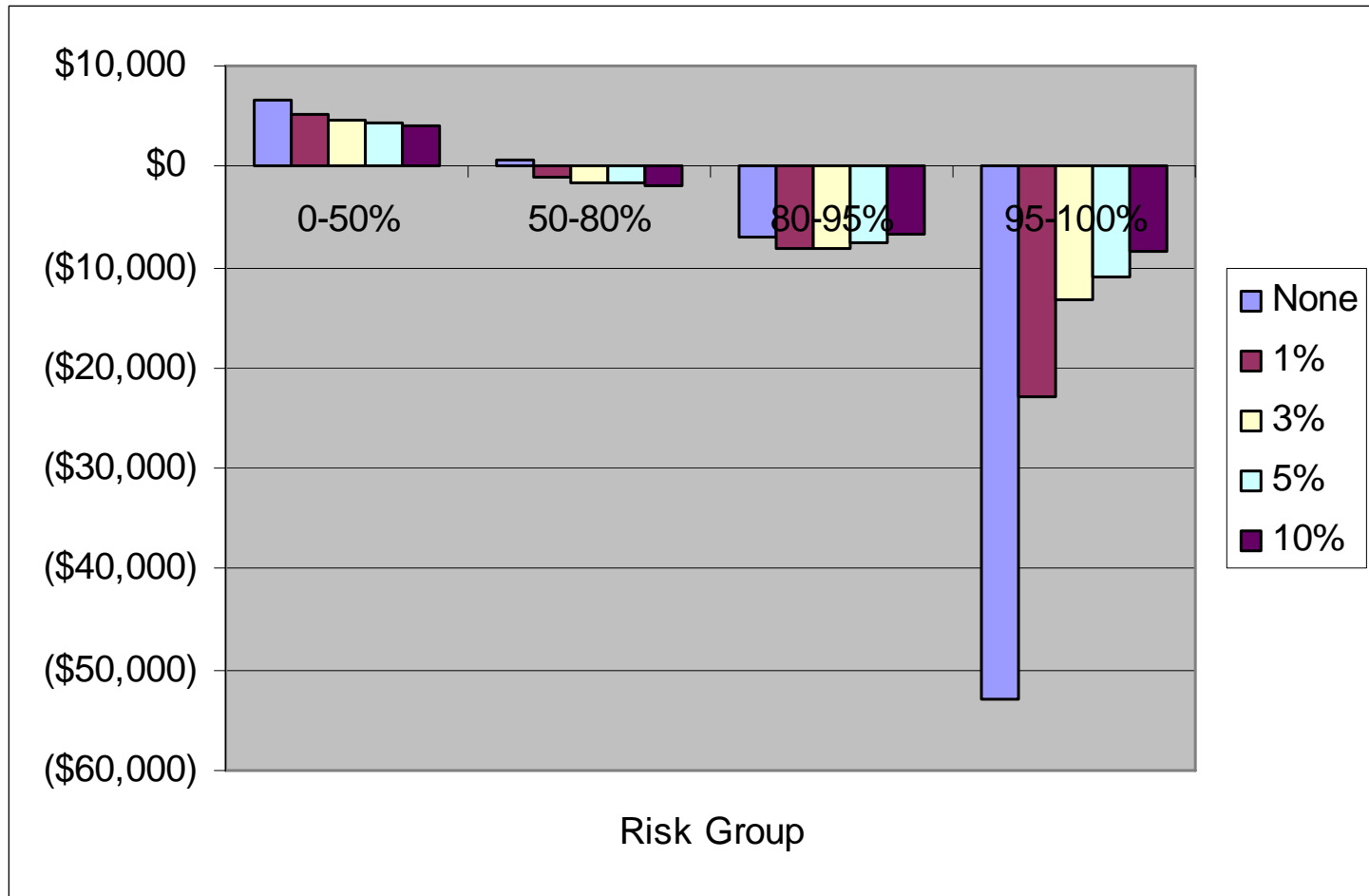
# Expected Profit (or Loss) per Enrollee by Reinsurance Threshold and Risk Group



# Expected Profit (or Loss) per Enrollee by Reinsurance Threshold and Risk Group (20 – 24 year olds only)



# Expected Profit (or Loss) per Enrollee by Reinsurance Threshold and Risk Group (60 – 64 year olds only)



# State Budget Outlays and Reduction in Uninsurance by Reinsurance Threshold

Reinsurance Threshold	Budget (mn)	Reduction in Premium	Reduction in Uninsurance
1%	\$495	7%	0.7%
3%	\$1,039	14%	1.4%
5%	\$1,354	19%	1.9%
10%	\$1,979	27%	2.7%

Assumes 2.7 million people in the individual market and a takeup factor of 0.1.

# Study Limitations

- Do not know severity of medical conditions and how well they are managed
  - General findings should not change—more severe and less-managed conditions would increase predicted expenditure variance
- Do not exactly replicate underwriting process—insurers have more historic data and supplement quantitative approach with qualitative information
  - Again, predicted expenditure variance likely to increase

# Limitations and Potential of Typical Reinsurance Programs

- Limitations
  - Insurers still have strong incentives to risk select
  - Large budgetary cost to lower premiums, inefficiently targeted by income
  - Insurers have reduced cost containment incentives...for exactly the expensive cases we worry most about
- Potential
  - May reduce risk premiums of small insurers (but even small insurers can probably diversify away much of this risk)
  - Combining reinsurance with diagnosis-based risk-adjustment programs addresses these limitations