

Fact Sheet

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Employer Cost of PPACA's Reinsurance Program

*Obscure Assessment on Employer Plans Will Be At Least
\$61.25 Per Covered Individual in 2014*

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The Patient Protection and Affordable Care Act (PPACA) requires each state to establish a Transitional Reinsurance Program to help stabilize premiums for coverage in the individual market during the first three years of Exchange operation (2014 through 2016).¹ The Reinsurance Program is supposed to partially offset the risk in the individual market for high-cost enrollees that might otherwise exist because of the enrollment individuals with unknown health status through the Exchanges. If a state declines to establish a Reinsurance Program, the Department of Health and Human Services (HHS) will do so on its behalf.² The program is funded by "contributions" collected from health insurance issuers and third party administrators (TPAs) on behalf of group health plans—including employer-sponsored plans—that provide "major medical" plans.³ Although employer-sponsored plans will be assessed for the Reinsurance Program they are not eligible to receive any benefits under the program.⁴

Total Cost of the Reinsurance Program

PPACA requires at least \$12.0 billion be collected in 2014, \$8.0 billion in 2015, and \$5.0 billion in 2016, *plus* any amounts needed for the administrative expenses of the Reinsurance Program and any additional amounts the states may want to collect for the Reinsurance Program in their state.⁵ It is important to note that the assessment levied under the Reinsurance Program is *in addition to* the \$10.0 billion in taxes over 5 years on health insurance companies beginning in 2014, *and* the \$2.6 billion in taxes over 7 years on fully insured and self-insured plans to fund comparative effectiveness research beginning in 2013.⁶

Who Pays for the Program?

PPACA requires health insurance issuers and TPAs on behalf of group health plans to make payments for the Reinsurance Program.⁷

- HHS will collect from "self-insured plans and third-party administrators."⁸ Quarterly payments begin January 15, 2014, and run through 2016.
- If a State does not elect to collect from the fully insured market, HHS will collect contributions from both fully insured and self-insured plans.⁹
- Although PPACA provides that a TPA makes the reinsurance contribution "on behalf of a group health plan," the final regulations provide that HHS "would collect contribution funds from self-insured plans *and* third-party administrators."
- Insurers and TPAs will likely pass all (or some part) of the cost on to the plan participants and plans they administer.

How Much Do Employers Pay?

Each year HHS will set the "national contribution rate."¹⁰ Generally, the national contribution rate is defined as "the per capita amount" each health insurance issuer or TPA on behalf of a self-insured group health plan must pay for each individual covered by a plan.¹¹ States must annually notify HHS of any additional contribution rate they intend to collect for administrative expenses or reinsurance payments.¹² In October 2012, HHS is supposed to publish an advance notice identifying the precise amount the national contribution rate will be in 2014 in an annual "notice of benefit and payment parameters."¹³

- **In 2014, the national contribution rate will be at least \$61.25 for each individual covered by a plan, and probably more than \$64.40 when administrative costs *and* additional state payments are included.**¹⁴
- **In 2015, the national contribution rate will exceed \$42.90 per covered individual.**
- **In 2016, the national contribution rate will exceed \$26.80 per covered individual.**

Reinsurance Contributions 2014-2016 – An Example

Company A sponsors a group health plan with 100,000 covered lives (employees and dependents) and would be assessed a minimum of \$6.44 million in 2014. Assuming the Company's plan maintains the same number of covered lives it would be assessed a minimum of \$4.29 million in 2015 and \$2.68 million in 2016. The minimum assessment over the three year period amounts to \$13.4 million.

¹ PPACA § 1341(a).

² 45 CFR § 153.210(c).

³ PPACA § 1341(b); 45 CFR § 153.400(a)(2); 77 Fed. Reg. 17235. However, stand-alone vision, dental and other plans defined as HIPAA excepted benefits are exempt.

⁴ The "contributions" are given to the insurers that provide coverage to higher-risk populations in the individual market (PPACA § 1341(b)(2); 45 CFR § 153.230; 77 Fed. Reg. 17248).

⁵ 45 CFR § 153.220(c)(3). PPACA requires contributions to be collected for the reinsurance programs in an amount equal to \$10 billion in 2014, \$6 billion in 2015, and \$4 billion in 2016. PPACA also requires an additional amount equal to \$2 billion in 2014, \$2 billion in 2015, and \$1 billion in 2016 will be collected and deposited in the general fund of the U.S. Treasury — this funding (\$5 billion) was used to make payments to employers who applied and were approved for the Temporary Early Retiree Reinsurance Program that ended this year.

⁶ Joint Committee on Taxation, Estimated Revenue Effects Of The Amendment In The Nature Of A Substitute To H.R. 4872, The "Reconciliation Act Of 2010," JCX-17-10, March 20, 2010, available at: <http://www.jct.gov/publications.html?func=startdown&id=3672>.

⁷ PPACA § 1341(b)(1)(A).

⁸ 77 Fed. Reg. 17227.

⁹ *Id.*

¹⁰ 45 CFR § 153.220(e).

¹¹ 45 CFR § 153.20 ("contribution rate," "contributing entity," and "reinsurance contribution enrollee").

¹² 45 CFR § 153.220(h) and (h)(1).

¹³ 77 Fed. Reg. 17223.

¹⁴ Applied Economic Strategies estimate based on latest available Census Bureau data. In 2010, 195.874 million people were covered by private health insurance (\$12 billion / 195.874 million = \$61.25). Moreover, in 2010, 9.541 million people were over age 64, covered by Medicare, and directly purchased health insurance. Given that private Medicare plans are exempt from making reinsurance contributions, this suggests the national contribution rate for 2014 will be at least \$64.40 for each individual covered by a plan (\$12 billion / (195.874 million - 9.541 million) = \$64.40).