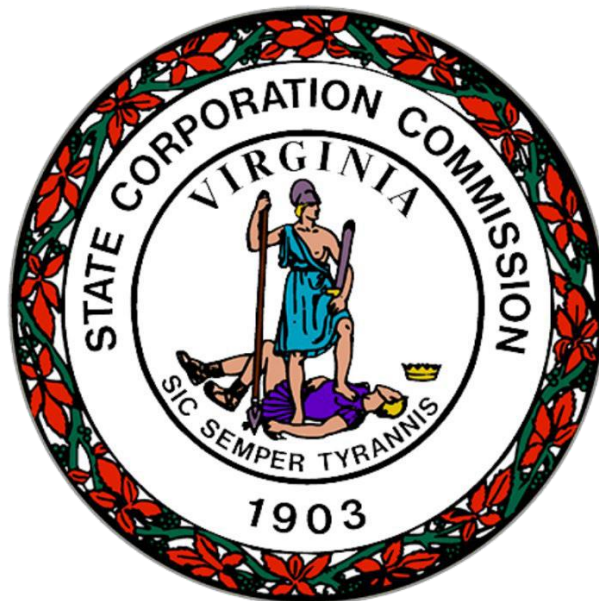


Operation of the Commonwealth Health Reinsurance Program

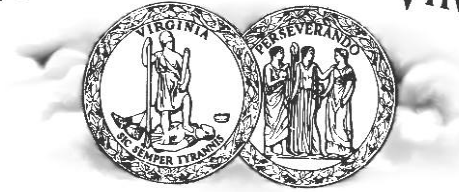
A Report submitted to the Governor and to the Senate Committees on Finance and Appropriations, and Commerce and Labor, and the House of Delegates Committees on Appropriations, and Commerce and Energy



November 2022

COMMONWEALTH OF VIRGINIA

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November 2022

The Honorable Glenn A. Youngkin
Governor
Commonwealth of Virginia

The Honorable Janet D. Howell
Co-Chair, Committee on Finance and Appropriations
Senate of Virginia

The Honorable George L. Barker
Co-Chair, Committee on Finance and Appropriations
Senate of Virginia

The Honorable Richard L. Saslaw
Chair, Committee on Commerce and Labor
Senate of Virginia

The Honorable Barry D. Knight
Chair, Committee on Appropriations
Virginia House of Delegates

The Honorable Kathy J. Byron
Chair, Committee on Commerce and Energy
Virginia House of Delegates

Dear Governor Youngkin and Chairs Howell, Barker, Saslaw, Knight and Byron:

Pursuant to [§ 38.2-6603 B](#) of the Code of Virginia, the State Corporation Commission, Bureau of Insurance, submits this report on the operation of the Commonwealth Health Reinsurance Program.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Scott A. White', written in a cursive style.

Scott A. White
Commissioner of Insurance

Introduction

Pursuant to [§ 38.2-6603 B](#) of the Code of Virginia (Code), the State Corporation Commission (Commission) is required to submit an annual report on the operation of the Commonwealth Health Reinsurance Program (CHRP) to the Governor and the Senate Committees on Finance and Appropriations, and Commerce and Labor, and the House Committees on Appropriations, and Commerce and Energy.

The report is required to include, at a minimum, the following information for the CHRP for the relevant benefit year:

1. Amounts deposited into the CHRP Fund;
2. Requests for reinsurance payments received by eligible carriers;
3. Reinsurance payments made to eligible carriers;
4. Administrative and operational expenses incurred for the program; and
5. Quantifiable impact of the program on individual health insurance coverage rates.

Since the CHRP will not begin until 2023 and will not receive or pay any claims until 2024, there is limited information to report. This report provides background on the establishment of the CHRP, future program funding, and operational expenses, and the impact of the program on 2023 health insurance premiums.

Background

In 2021, the Virginia General Assembly passed [HB 2332](#), the CHRP. The Governor signed it into law on March 31, 2021, as Chapter 480 of the 2021 Virginia Acts of Assembly. This bill required the Commission to submit a waiver request under Section 1332 of the Affordable Care Act (ACA)¹ for federal approval to establish a reinsurance program beginning January 1, 2023.

Section 1332 of the ACA permits a state to apply for a State Innovation Waiver (also referred to as a Section 1332 waiver) “to pursue innovative strategies for providing residents with access to high quality, affordable health insurance, while retaining the basic protections of the ACA.” The program also provides pass-through funding to the state for approved initiatives that result in federal savings.

On December 30, 2021, the Commission’s Bureau of Insurance (Bureau) submitted an initial waiver application to secure federal authorization and pass-through funding to support the establishment of a reinsurance program in Virginia. On May 18, 2022, federal reviewers issued a letter approving Virginia’s State Innovation Waiver application to establish the CHRP for an initial period of up to five years, beginning in 2023. Per enactment language, the remaining Virginia statutes establishing the CHRP became effective on June 17, 2022, 30 days after the Commission provided notice of federal approval.

¹ Section 1332, Patient Protection and Affordable Care Act - [42 U.S. Code § 18052](#).

The CHRP is designed to operate as a traditional reinsurance program where insurance carriers participating in the ACA individual market are reimbursed for a percentage of an enrollee's annual claims costs exceeding a specified threshold (or "attachment point") and up to a specified ceiling (or "reinsurance cap"). For the 2023 plan year, the approved program will reimburse valid claims between an attachment point of \$40,000 and a cap of \$155,000 at a reimbursement or "coinsurance" rate of 70%.

Program Funding

The CHRP will be funded through state general funds and federal pass-through funding provided under the waiver. Virginia Code [§ 38.2-6604 A](#) establishes a special fund for the operations of the CHRP where state general fund appropriations for the reinsurance program, federal pass-through funding, and any other funds appropriated for reinsurance will be deposited. The statute also states that any moneys remaining in the special fund will carry over into subsequent fiscal years and will not revert to the general fund, as is required under the terms of the waiver.

Federal Pass-through Funding

The CHRP is designed to be primarily funded through pass-through funds provided by the federal government based on federal premium tax credit savings resulting from lower premium costs in the Virginia marketplace. By reducing baseline premium prices, the CHRP saves federal expenditures on these income-based premium tax credits. These estimated savings are provided to Virginia to fund operations and claims payments from the CHRP.

The Bureau submitted the pass-through funding report for the 2023 reinsurance program for federal review on September 21, 2022. That report was prepared by the Bureau and the actuarial consultant, Oliver Wyman. It contained individual market premium rates for each Virginia county and city and projected market enrollment and estimates of the impact of the reinsurance program on premium cost. This data will be used by federal reviewers to determine the amount of pass-through funding Virginia will receive for the CHRP.

Prior to federal extension of the premium tax credit enhancement under the Inflation Reduction Act,² this federal funding was expected to fund 78% of the CHRP. However, under current premium tax credit enhancements, the Bureau now anticipates that share to increase to around 95% of program costs because the CHRP premium reduction results in increased federal savings from these enhanced premium tax credits.

State Funding

According to the terms of the federal waiver, Virginia must appropriate adequate funding to support the state share of the reinsurance program to receive the federal pass-through funds. The 2022-2024 Virginia Appropriations Act included \$20 million for FY 2024 for the state share of reinsurance funding. Federal reviewers have confirmed that this funding constitutes full funding of the state share and will allow the release of federal

² [Public Law No: 117-169 \(08/16/2022\)](#).

funds in Spring 2023.

Administrative and Operational Expenses

The FY 2020-2022 Appropriations Act provided \$350,000 to the Commission for the “development and submission of a state innovation waiver request pursuant to § 1332 of the Affordable Care Act, to establish the Commonwealth Health Reinsurance Program, pursuant to House Bill 2332, 2021 General Assembly, and to implement the bill’s provisions for the program.” This funding was directed towards actuarial services providing analysis necessary to support Virginia’s Section 1332 waiver request, development of the waiver request and publicizing the public comment hearing on the waiver. In future years, these expenditures will be paid out of the CHRP special fund and will not require a separate appropriation. A breakdown of FY 2022 administrative expenditures is provided in the following table:

FY 2022 CHRP Expenditures

<u>Item</u>	<u>Expenditure</u>
Market Scan - Contract Actuary	\$25,000
Model Reinsurance Scenarios – Contract Actuary	\$25,000
Advertisements for Public Comment Hearing on Waiver	\$16,000
Actuarial/Economic Analysis to set Reinsurance Parameters – Contract Actuary	\$55,000
Adjust Analysis for Enhanced APTC Extension Scenario – Contract Actuary	\$12,000
Preparation/Submission of Waiver Application – Contract Actuary	\$15,000
Total	\$148,000

Reinsurance Claims and Payments

The health insurance carriers will submit their reinsurance claims after the 2023 benefit year has ended, with a statutory deadline of April 30, 2024. The Bureau will evaluate the claims to qualify for reimbursement and assess whether the amount of the carrier claims is consistent with federal claims data. Carriers will be notified by September 30, 2024, of their reinsurance payments. The Bureau will disburse payments to carriers no later than November 15, 2024. While the Bureau may be able to provide preliminary information on estimated payments for the 2023 reinsurance report, final reinsurance payments for 2023 will not be available until the 2024 report.

Impact of the CHRP Program

Insurance carriers originally submitted 2023 individual market premium rates that were, on average, 2.0% higher for 2023 over 2022. Once the CHRP went into effect, the Bureau directed the carriers to revise their rates taking reinsurance into account. The expected lower claims costs for insurers under the reinsurance program resulted in a 17.2% reduction in premiums from 2022 to 2023 for a reduction of 19.5% over the 2023 baseline without reinsurance. In real terms, the program reduces the average per member per month premium by \$102.86, from \$598.66 before reinsurance to \$495.80 after reinsurance.