

# 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,  
pursuant to § 38.2-6603 B of the Code of Virginia*



November 1, 2023

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# COMMONWEALTH OF VIRGINIA



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November 1, 2023

***Transmitted via Email***

The Honorable Glenn 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 Terry G. Kilgore  
Vice Chair, Committee on Commerce  
and Energy  
Virginia House of Delegates

Members of the Senate Committees on Finance and Appropriations and Commerce and  
Labor

Members of the House Committees on Appropriations and Commerce and Energy

Dear Governor Youngkin, Senators Howell, Barker and Saslaw, and Delegates Knight  
and Kilgore:

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Scott A. White'.

Scott A. White  
Commissioner of Insurance

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## Executive Summary

The Commonwealth Health Reinsurance Program (CHRP) is designed to lower the cost of health insurance for consumers in the individual market by reimbursing carriers for a portion of their high-cost claims. As directed by the General Assembly in 2021, the Virginia Bureau of Insurance (Bureau) applied for and received federal approval to establish a reinsurance program in the individual health insurance market for five years beginning in benefit year 2023 (i.e., January 1-December 31, 2023.)

The approved 2023 CHRP targets a 15 percent reduction in average member premium and is funded in part by \$331.9 million in federal pass-through funding. For benefit year 2024, the program will again target a 15 percent reduction in average member premium. This has resulted in approved individual market rates for 2024 that are on average 2.5 percent lower than they were in 2023. In addition to lower premiums in 2023 and 2024, the Virginia individual market has seen increased carrier coverage and competition, with all counties having at least two carrier choices, and 78 percent of localities having three or more carrier choices.

## Introduction

Pursuant to [§ 38.2-6603 B](#) of the Code of Virginia (Code), the State Corporation Commission (Commission) is required to submit a report on the operation of the Commonwealth Health Reinsurance Program (CHRP) to the Governor and the Chairs of designated legislative committees annually by November 1.

The report is required to include the following program information for the relevant benefit year:<sup>1</sup>

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 CHRP on individual health insurance coverage rates.

## Background

During the 2021 Session, the Virginia General Assembly passed House Bill 2332. The Governor signed it into law as [Chapter 480](#) of the 2021 Virginia Acts of Assembly. In conformity with the statutory requirements, the Commission submitted a State

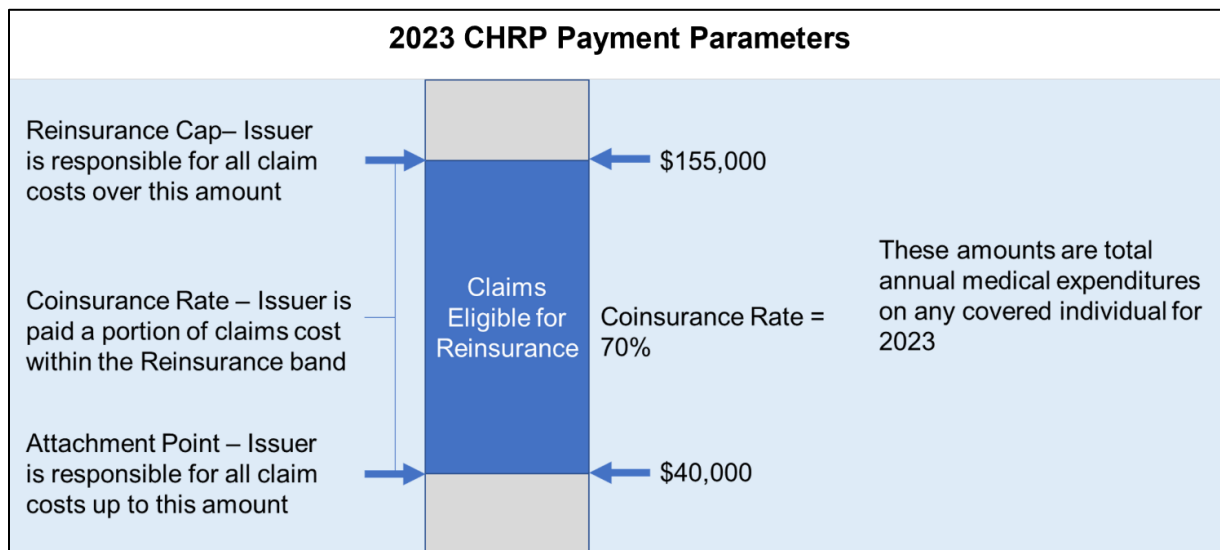
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<sup>1</sup> This report uses the terms benefit year and plan year. Benefit year 2023 for the CHRP applies to individual health insurance claims during plan year 2023 (January 1-December 31, 2023).

Innovation Waiver application under Section 1332 of the Patient Protection and Affordable Care Act (ACA),<sup>2</sup> seeking federal approval to establish the CHRP beginning January 1, 2023. On May 18, 2022, the U.S. Department of Health & Human Services and the U.S. Department of the Treasury approved Virginia's application for an initial period of up to five years, beginning in 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 ACA protections. The program provides federal pass-through funding to the state for any resulting federal savings.

The CHRP is designed to operate as a traditional reinsurance program. It reimburses individual market health insurers for a percentage of an enrollee's annual claims costs exceeding a specified threshold (or "attachment point"), up to a specified ceiling (or "reinsurance cap"). For 2023, the CHRP plans to reimburse claims between an attachment point of \$40,000 and a reinsurance cap of \$155,000, at a rate of 70 percent. For example, for an enrollee with \$140,000 in covered medical claims in 2023, the CHRP would reimburse \$70,000 (\$140K - \$40K = \$100K in eligible claims; 70 percent of \$100K = \$70K).



## Program Funding

The CHRP is funded through state general funds and federal pass-through funding. These and any other appropriated funds for CHRP operations and claims payments will be deposited into a special fund that will be established in FY 2024 (i.e., July 1, 2023 – June 30, 2024) pursuant to [§ 38.2-6604 A](#) of the Code. Any moneys remaining in the special fund will carry over into subsequent fiscal years and not revert to the general

<sup>2</sup> Section 1332, Patient Protection and Affordable Care Act, [42 U.S. Code § 18052](#).

fund, as required under the terms of the waiver.

### State Funding

According to the terms of the federal waiver, Virginia must appropriate adequate funding to support its share of the reinsurance program as a condition of receiving the federal pass-through funds. Virginia's 2022-2024 Appropriations Act includes \$20 million in FY 2024 general funds to be used toward the state's portion of funding the 2023 CHRP. These funds will be deposited into the CHRP Fund once it is established in FY 2024.

### Federal Pass-through Funding

Federal pass-through funds are intended to fund a large part of the CHRP. These funds are based on federal premium tax credit savings resulting from the reduction in premium costs in the Virginia marketplace. By reducing baseline premiums, the CHRP reduces federal expenditures on these income-based premium tax credits. These estimated savings are then provided to Virginia to help fund program operations and claims payments.

On September 21, 2022, the Bureau submitted for federal review the pass-through funding report for the 2023 CHRP. The report, prepared by Bureau staff and a contract actuary, contained individual market premium rates for each Virginia county and city, and projected market enrollment and estimates of the CHRP impact on premium costs. Based on an analysis of that report, in a letter issued on April 28, 2023, the Centers for Medicare and Medicaid Services (CMS) indicated that Virginia would receive \$331,877,124 in pass-through funding for the 2023 CHRP. These funds are not deposited into the CHRP fund at the time of the award, but rather drawn down into the CHRP fund as needed to fund administrative expenditures and claims payments.

### **Administrative and Operational Expenses**

The Bureau retained a contract actuary to address the actuarial analysis, actuarial certifications, economic analysis, data, and assumptions required for program operation and compliance with the terms of Virginia's Section 1332 waiver. The contract actuary:

- Prepared the 2023 CHRP pass-through funding report used to calculate federal funding for the program;
- Updated rate templates to capture additional information necessary to administer the CHRP; and
- Analyzed carrier-submitted data to provide an estimate of 2024 CHRP costs for several different premium reduction targets and supported the Bureau in setting 2024 program parameters.

In addition, the Bureau will rely on federal health insurance claims data provided by the CMS as the basis for evaluating the CHRP claims submitted by carriers. This data is attested to by carriers and validated as a part of the federal risk adjustment program

established under 42 U.S.C. § 1806. There is a charge for the development and production of reports specific to Virginia’s program parameters.

Table 1 provides a breakdown of FY 2023 administrative and operational expenditures.

<b>Table 1. Reinsurance Administrative and Operational Expenditures, FY 2023</b>	
<b>Administrative and Operational Expenses</b>	<b>Expenditures</b>
2023 CHRP Pass-Through Funding Report – Contract Actuary	\$10,140
Updated Rate Templates – Contract Actuary	\$10,600
Actuarial/Economic Analysis to Model 2024 CHRP Scenarios and Parameters – Contract Actuary	\$65,700
Federal Claims Data Services – CMS	\$8,000
<b>Total</b>	<b>\$94,440.00</b>

## **Reinsurance Claims and Payments**

Since final 2023 CHRP claims cannot be submitted until after the 2023 benefit year has ended and will not be paid until after they have been evaluated, the program will not disburse payment until fiscal year 2025. The steps in the reinsurance claims and payments process are as follows:

1. By April 30, 2024: Carriers submit CHRP claims data to the Bureau to evaluate whether claims qualify for reimbursement and are consistent with federal claims data.
2. By September 30, 2024: The Bureau notifies carriers of the amount of their reinsurance payments.
3. By November 15, 2024: The Bureau disburses reinsurance payments to carriers.

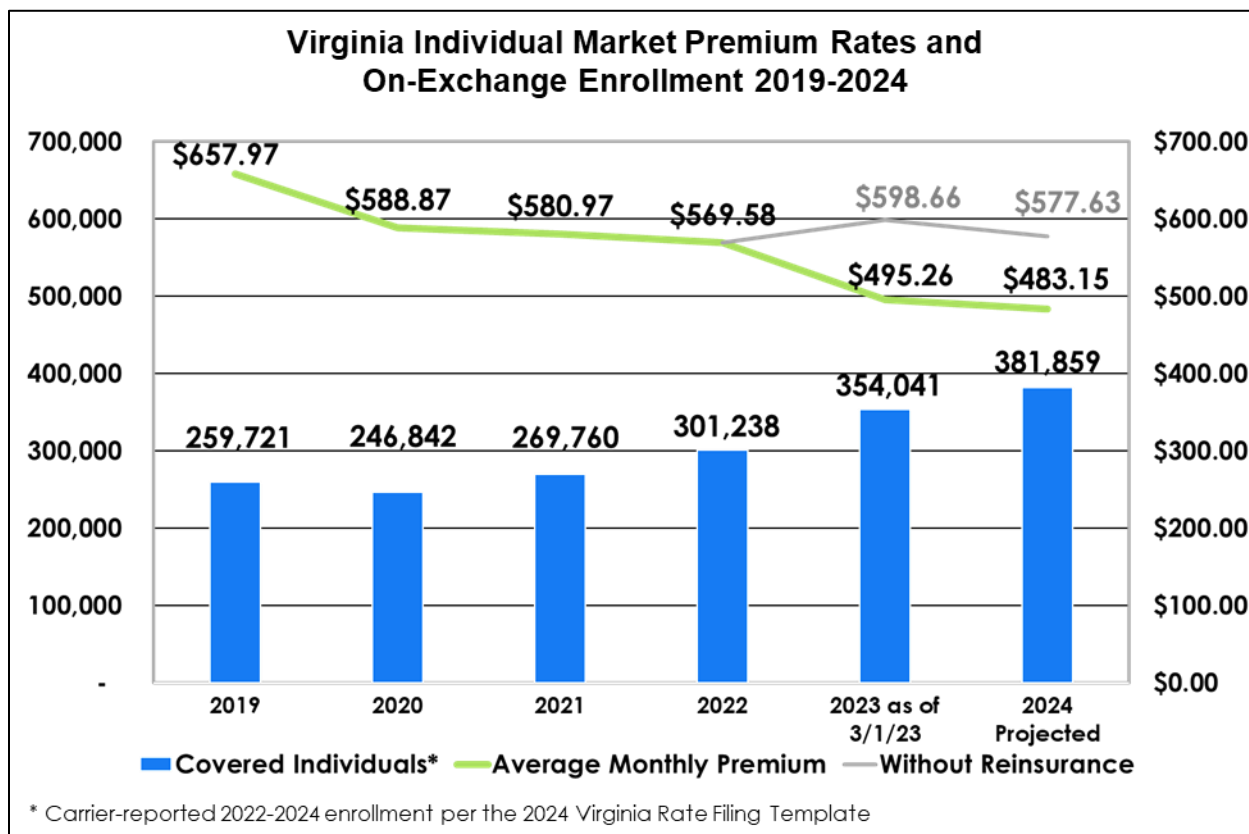
Carriers are currently submitting quarterly reports of estimated CHRP claims for the 2023 benefit year. The Bureau will begin receiving federal claims reports later in FY 2024. Data on carrier reinsurance claims and payments for the 2023 CHRP will be available as part of next year’s reinsurance program report.

## **Program Impact**

The CHRP is designed to make individual health insurance coverage more affordable, particularly for unsubsidized individuals, encouraging a more stable membership base that will support increased competition among issuers in future years and, as a result, heightened consumer choice.

## Premium Reduction

During the 2023 Special Session I, the Virginia General Assembly directed the Bureau to continue the CHRP in benefit year 2024 with a target average member premium reduction of 15 percent - the same target used for the 2023 CHRP.<sup>3</sup> Carrier rate revisions after the 2024 CHRP level was established resulted in a reduction of 16.4 percent from the average 2024 baseline premium without reinsurance. The CHRP is expected to reduce the average per member per month (PMPM) premium for benefit year 2024 by \$94.48, from \$577.63 before reinsurance to \$483.15 after reinsurance. This represents a 2.4 percent decrease in the average individual market premium in 2024 versus 2023.



## Marketplace Coverage and Competition

While Virginia maintained the same number of qualified health plans in the individual health insurance market from 2022 to 2023, there was one new carrier, and existing carriers expanded their service areas for 2023. This resulted in all localities having individual marketplace coverage from multiple carriers, with thirty localities (22 percent) gaining coverage from at least one additional carrier. In addition, the proportion of localities covered by three or more carriers more than doubled, from 34 to 78 percent. This increased competition provides Virginians with more choices to meet their health

<sup>3</sup> 2023 Va. Acts ch. 1 (2023 Special Session I)

insurance needs.

### **Conclusion**

Virginia has now established the CHRP for both 2023 and 2024, lowering premium rates in the individual market by reimbursing carriers for high dollar claims. The Bureau will continue its work administering the program, while it prepares to evaluate carrier claims and make reinsurance payments.