Transitional Reinsurance Program

**Summary:** For 2014, 2015, and 2016, requires States to establish a nonprofit reinsurance entity that collects payments from insurers in the individual and group markets and makes payments to such insurers in the individual market that cover high-risk individuals. Requires the Secretary to establish Federal standards for the determination of high-risk individuals, a formula for payment amounts, and the contributions required of insurers, which must total $25 billion over the 3 years.

**Status Update:** On July 11, 2011, the Department of Health and Human Services issued a proposed rule regarding reinsurance, risk corridors, and risk adjustment, which was published in the Federal Register on July 15, 2011. Comments due by 5 pm on September 28, 2011.

**Next steps:**
- September 28, 2011 (5 pm) – Comments due to July 15, 2011 proposed rule.
- January 1, 2014 – Each state must establish the program for the individual market.
- December 1, 2015 – Reinsurance program ends.

**Additional information:**
- Insurance Information Institute topic document on Reinsurance -- [http://www.iii.org/media/hottopics/insurance/reinsurance/](http://www.iii.org/media/hottopics/insurance/reinsurance/)

**Long summary:**
**Sec. 1341. Transitional reinsurance program for individual markets in each State (as modified by sec. 10104)**
By January 1, 2014, each state is required to establish a transitional reinsurance program. States may establish (or contract with) one or more applicable reinsurance entities to carry out this program.

**Model regulation.** The Secretary, in consultation with the National Association of Insurance Commissioners (NAIC), as part of establishing the model regulation for Exchanges must also include provisions for states to establish and maintain a reinsurance program under which health insurance issuers, and third party administrators on behalf of group health plans, are: (1) required
to make payments to the reinsurance entity for any plan year beginning January 2014 (and ending December 1, 2016) and (2) the applicable reinsurance entity collects payments and uses the payments to make reinsurance payments to issuers that cover high risk individuals in the individual market (excluding grandfathered health plans) for any plan year beginning in such 3-year period. Such model regulation must include the method by which individuals will be identified as high risk on the basis of: (1) a list of at least 50 but not more than 100 medical conditions identified as high-risk conditions and that may be based on the identification of diagnostic and procedure codes indicative of individuals with preexisting, high-risk conditions; or (2) any other comparable objective method of identification recommended by the American Academy of Actuaries.

**Payment amount.** The formula must provide for equitable allocation of available funds through reconciliation and allows it to be designed to provide a schedule of payments that specifies the amount that will be paid for each of the identified health conditions or uses any other comparable method for determining payment amounts that is recommended by the American Academy of Actuaries and that encourages the use of care coordination and care management programs for high risk conditions.

**Required contributions.** The Secretary must include in the regulations the method for determining the amount each issuer and group health plan is required to contribute for each plan year beginning in the 36-month period beginning January 1, 2014. The contribution amount may be based on the percentage of revenue of each issuer and the total costs of providing benefits to enrollees in self-insured plans or on a specified amount per enrollee and may be required to be paid in advance or periodically throughout the plan year. The method for determining contributions must be designed so that: (1) the contribution amount for each issuer proportionally reflects each issuer’s fully insured commercial book of business for all major medical products and the total value of all fees charged by the issuer and the costs of coverage administered by the issuer as a third party administrator; (2) the amount may include an additional amount to fund the administrative expenses of the reinsurance entity; (3) the aggregate contribution amounts for all states shall, based on the best estimates of the NAIC and without regard to administrative amounts, equal $10 billion for plan years beginning in 2014, $6 billion for plan years beginning 2015, and $4 billion beginning in 2016; and (4) in addition to the aggregate contribution amounts, each issuer’s contribution amount for any calendar year reflects its proportionate share of an additional: $2 billion for 2014, $2 billion for 2015, and $1 billion for 2016. States may collect additional amounts from issuers on a voluntary basis.

**Expenditure of funds.** Contribution amounts collected for any calendar year may be allocated and used in any of the three calendar years for which amounts are collected based on the reinsurance needs of a particular period or to reflect experience in a prior period; amounts remaining unexpended as of December 31, 2016 may be used to make payments under any reinsurance program of a state in the individual market in effect in the 2-year period beginning on January 1, 2017.

**Definition of an Applicable reinsurance entity.** Applicable reinsurance entity is a not-for-profit organization, the purpose of which is to help stabilize premiums for coverage in the individual market in a state during the first three years of operation of an Exchange when the risk of adverse selection related to new rating rules and market changes is greatest; and the duties of which shall be to carry out the reinsurance program by coordinating the funding and operation of the risk-spreading mechanisms designed to implement the reinsurance program. States may have more than one reinsurance entity, and two or more states may to enter into agreements to provide for a
reinsurance entity to carry out such program in all such states. Applicable reinsurance entity is exempt from federal taxes (except for any taxes on unrelated business income).

Coordination with state high-risk pools. Each state must eliminate or modify any state high-risk pool to the extent necessary to carry out the reinsurance program established under this section. States may coordinate its high-risk pool with such program to the extent not inconsistent with the provisions of this section.

Legislative text:

SEC. 1341. TRANSITIONAL REINSURANCE PROGRAM FOR INDIVIDUAL MARKET IN EACH STATE.

(a) IN GENERAL.—Each State shall, not later than January 1, 2014—
(1) include in the Federal standards or State law or regulation the State adopts and has in effect under section 1321(b) the provisions described in subsection (b); and
(2) establish (or enter into a contract with) 1 or more applicable reinsurance entities to carry out the reinsurance program under this section.

(b) MODEL REGULATION.—
(1) IN GENERAL.—In establishing the Federal standards under section 1321(a), the Secretary, in consultation with the National Association of Insurance Commissioners (the "NAIC"), shall include provisions that enable States to establish and maintain a program under which—
(A) health insurance issuers, and third party administrators on behalf of group health plans, are required to make payments to an applicable reinsurance entity for any plan year beginning in the 3-year period beginning January 1, 2014 (as specified in paragraph (3)); and
(B) the applicable reinsurance entity collects payments under subparagraph (A) and uses amounts so collected to make reinsurance payments to health insurance issuers described in subparagraph (A) that cover high risk individuals in the individual market (excluding grandfathered health plans) for any plan year beginning in such 3-year period.
(2) DETERMINATION OF HIGH-RISK INDIVIDUALS.—The method by which individuals will be identified as high risk individuals for purposes of the reinsurance program established under this section. Such method shall provide for identification of individuals as high-risk individuals on the basis of—
(i) a list of at least 50 but not more than 100 medical conditions that are identified as high-risk conditions and that may be based on the identification of diagnostic and procedure codes that are indicative of individuals with pre-existing, high-risk conditions; or
(ii) any other comparable objective method of identification recommended by the American Academy of Actuaries.

(B) PAYMENT AMOUNT.—The formula for determining the amount of payments that will be paid to health insurance issuers described in paragraph (1)(B) that insure high-risk individuals. Such formula shall provide for the equitable allocation of available funds through reconciliation and may be designed—
(i) to provide a schedule of payments that specifies the amount that will be paid for each of the conditions identified under subparagraph (A); or
(ii) to use any other comparable method for determining payment amounts that is recommended by the American Academy of Actuaries and that encourages the use of care coordination and care management programs for high risk conditions.

(3) DETERMINATION OF REQUIRED CONTRIBUTIONS.—
(A) IN GENERAL.—The Secretary shall include in the provisions under paragraph (1) the method for determining the amount each health insurance issuer and group health plan described in paragraph (1)(A) contributing to the reinsurance program under this section is required to contribute under such paragraph for each plan year beginning in the 36-month period beginning January 1, 2014. The contribution amount for any plan year may be based on the percentage of revenue of each issuer and the total costs of providing benefits to enrollees in self-insured plans or on a specified amount per enrollee and may be required to be paid in advance or periodically throughout the plan year.
(B) SPECIFIC REQUIREMENTS.—The method under this paragraph shall be designed so that—
(i) the contribution amount for each issuer proportionally reflects each issuer’s fully insured commercial book of business for all major medical products and the total value of all fees charged by the issuer and the costs of coverage administered by the issuer as a third party administrator;
(ii) the contribution amount can include an additional amount to fund the administrative expenses of the applicable reinsurance entity;
(iii) the aggregate contribution amounts for all States shall, based on the best estimates of the NAIC and without regard to amounts described in clause (ii), equal $10,000,000,000 for plan years beginning in 2014, $6,000,000,000 for plan years beginning 2015, and $4,000,000,000 for plan years beginning in 2016; and
(iv) in addition to the aggregate contribution amounts under clause (iii), each issuer’s contribution amount for any calendar year under clause (iii) reflects its proportionate share of an additional $2,000,000,000 for 2014, an additional $2,000,000,000 for 2015, and an additional $1,000,000,000 for 2016.

Nothing in this subparagraph shall be construed to preclude a State from collecting additional amounts from issuers on a voluntary basis.

(4) EXPENDITURE OF FUNDS.—The provisions under paragraph (1) shall provide that—
(A) the contribution amounts collected for any calendar year may be allocated and used in any of the three calendar years for which amounts are collected based on the reinsurance needs of a particular period or to reflect experience in a prior period; and
(B) amounts remaining unexpended as of December, 2016, may be used to make payments under any reinsurance program of a State in the individual market in effect in the 2-year period beginning on January 1, 2017. Notwithstanding the preceding sentence, any contribution amounts described in paragraph (3)(B)(iv) shall be deposited into the general fund of the Treasury of the United States and may not be used for the program established under this section.
(c) APPLICABLE REINSURANCE ENTITY.—For purposes of this section—

(1) IN GENERAL.—The term "applicable reinsurance entity" means a not-for-profit organization—

(A) As revised by section 10104(r)(3), the purpose of which is to help stabilize premiums for coverage in the individual market in a State during the first 3 years of operation of an Exchange for such markets within the State when the risk of adverse selection related to new rating rules and market changes is greatest; and

(B) the duties of which shall be to carry out the reinsurance program under this section by coordinating the funding and operation of the risk-spreading mechanisms designed to implement the reinsurance program.

(2) STATE DISCRETION.—A State may have more than 1 applicable reinsurance entity to carry out the reinsurance program under this section within the State and 2 or more States may enter into agreements to provide for an applicable reinsurance entity to carry out such program in all such States.

(3) ENTITIES ARE TAX-EXEMPT.—An applicable reinsurance entity established under this section shall be exempt from taxation under chapter 1 of the Internal Revenue Code of 1986. The preceding sentence shall not apply to the tax imposed by section 511 such Code (relating to tax on unrelated business taxable income of an exempt organization).

(d) COORDINATION WITH STATE HIGH-RISK POOLS.—The State shall eliminate or modify any State high-risk pool to the extent necessary to carry out the reinsurance program established under this section. The State may coordinate the State high-risk pool with such program to the extent not inconsistent with the provisions of this section.