



Backgrounder

AMERICAN ACADEMY of ACTUARIES

Medical Reinsurance

Policymakers have been considering proposals that would offer government-provided reinsurance to health plans as part of an overall solution to address some of the problems in the health care system. Under recent proposals, government-provided medical reinsurance would reimburse eligible entities (insurers or self-funded plans) for the cost of individuals who have high claim costs. To properly assess the potential impact of these programs on health insurance premiums and the uninsured, it is important to understand the current private reinsurance market, as well as the design details of any potential government-sponsored reinsurance program.

Basically, reinsurance is insurance for insurance companies. Under an excess reinsurance program, the reinsurer pays all or a portion of the insurer's claims over a pre-defined threshold, known as the attachment point. Compared to the health insurance market as a whole, the commercial medical reinsurance market is very small. Reinsurance is typically purchased by small to mid-sized insurers who are looking primarily for help in managing their risks. A similar coverage, called stop-loss insurance, is purchased by small to mid-sized self-funded employer plans for similar reasons. The largest entities that assume medical risk today, whether large health plans or large employers, do not currently purchase any type of protection against large medical claims. Their risk pools are large enough to absorb the losses associated with unexpected high claims.

Unlike commercial reinsurance, most recent government-provided reinsurance proposals would not charge premiums. Instead, the reinsurance claims incurred by the government would be funded through general tax revenues. The extent to which such a reinsurance program could reduce a plan's costs depends, in part, on the reinsurance attachment point. The lower the attachment point, the higher the potential plan savings

However, a reinsurance program would result in a one-time premium savings only. Transferring losses from a health plan or insurer to the government would not reduce overall health cost trends unless measures are taken to encourage plans to manage costs. In fact, reinsurance programs themselves could contain disincentives to manage costs (e.g., if there is no health plan or insurer cost sharing above the attachment point), thereby running the risk of actually increasing overall health spending and health costs trends. Nevertheless, though reinsurance does not reduce overall health costs by itself, a reinsurance program could help meet the goals of reduced premiums and expanded health insurance coverage if it is designed properly and incentives for all parties involved are properly aligned.

Additional Resources from the American Academy of Actuaries

- *Medical Reinsurance: Considerations for Designing a Government-Sponsored Program* (January 2005)
This issue brief provides a primer on the current commercial medical reinsurance market. It then outlines some of the issues policymakers should consider when designing and implementing a government-sponsored medical reinsurance program.
- *Backgrounder – Medical Reinsurance* (September 2005)
This backgrounder provides further insight on the various considerations and design options that would need to be addressed when developing a medical reinsurance program.