September 5, 2012

Patient Protection Act to Charge Plans New Transitional Reinsurance Fee in 2014

Starting in 2014, the healthcare law will impose a new reinsurance program fee that will affect sponsors of both insured and self-funded health plans. This new fee is intended to stabilize premiums for coverage in the individual insurance market, and it will have a significant cost impact on plan sponsors. It is important that health plan sponsors be aware of the reinsurance program fee and include this assessment in financial projections for 2014 through 2016. Like other aspects of the healthcare reform law, this provision has gotten little attention even though it has the possibility of representing substantial new costs passed back to employers.

Under the healthcare law, states will establish “transitional reinsurance programs” intended to reduce the uncertainty of insurance risk in the individual market during the first three years of operation of the state health insurance exchanges (2014 through 2016). It basically creates insurance for insurers by shifting the risk of covering high expenses from the primary insurer to a reinsurer. If a state chooses not to establish a reinsurance program, the US Department of Health and Human Services (HHS) will establish the program and perform the reinsurance functions for that state. These programs are to be financed through “contribution funds from contributing entities,” meaning a quarterly reinsurance assessment on health insurance issuers and TPAs on behalf of self-insured group health plans. Reinsurance payments are required to be collected beginning on January 15, 2014.

The contribution will be based on a per capita amount which, along with other details, will be set forth in future guidance expected to be released later in 2012. Preliminary projections estimate that the annual fee could be at least $60 per covered life in an insured or self-insured health plan and this amount could even be higher depending on the methodology the agency uses to calculate the assessment.

The contribution requirement is imposed on insurers in the case of fully-insured individual and group health plan coverage, and on TPAs on behalf of self-insured plans. It is unclear who is ultimately liable for the reinsurance payments made with respect to self-insured plans. It appears that the self-insured plan is ultimately liable for the fee and the TPA would remit the contribution on the plan’s behalf. Reinsurance contributions must be made for all “reinsurance contribution enrollees,” a term that includes all individuals covered by a plan for which reinsurance contributions must be made, including spouses and dependents. The only types of coverage expressly excluded from application of the RA are HIPAA-excepted benefits (e.g., limited-scope dental and vision benefits that are offered separately).

This new fee will result in additional costs for employer plan sponsors and, depending on whether the plan at issue is self-administered, certain additional reporting obligations. We are hopeful that future guidance will clarify the calculation methodology and provide other means for mitigating the cost impact and minimizing the administrative burden for employers. Should you have questions about this or any aspect of healthcare reform, contact your Conner Strong & Buckelew account representative toll free at 1-877-861-3220. For a complete list of Legislative Updates issued by Conner Strong & Buckelew, visit our online Resource Center.

connerstrong.com 877-861-3220 news@connerstrong.com Change My Preferences

CONNER STRONG & BUCKELEW

INSURANCE | RISK MANAGEMENT | EMPLOYEE BENEFITS