Fiscal Issue Brief

Minnesota Premium Security Plan Funding

Office of Senate Counsel, Research, and Fiscal Analysis

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Introduction

Laws 2017, Chapter 13 enacted the Minnesota premium security plan, popularly referred to as "reinsurance", to limit annual premium increases experienced in the individual health insurance market. The plan is administered by the Minnesota Comprehensive Health Association (MCHA)[1]. Reinsurance mitigates increases in health insurance premiums by limiting the exposure of health insurance companies to certain claims, typically high-cost claims. Minnesota's reinsurance plan uses state and federal resources to pay for some high-cost claims that meet criteria determined by MCHA, within parameters established in law. Under the parameters of the state's reinsurance plan, MCHA pays health insurance claims between an attachment point (a threshold amount for an individual's claims in a benefit year) and a designated reinsurance cap established by MCHA's board.

Chapter 13 established the premium security plan account – an account within the special revenue fund – to pay for reinsurance claims and the cost of administering the premium security plan. Federal funding for the plan is provided under the federal Affordable Care Act through a section 1332 state innovation waiver from the federal Centers for Medicare and Medicaid Services (CMS). The waiver, which was granted in 2017 to include five benefit years from 2018 through 2022, provides funding to the state that would otherwise have been received by individuals in the form of premium subsidies had reinsurance not been enacted. The amount of this funding is calculated by CMS each year, and upon its receipt by the state, is deposited in the premium security plan account. For each benefit year, federal resources must be fully expended before state money is used to pay reinsurance claims.

Laws 2017, Chapter 13 authorized the premium security plan for benefit years 2018 and 2019. The reinsurance plan was extended to include benefit years 2020 and 2021 by Laws 2019, First Special Session, Chapter 9. In the 2021 session, Laws 2021, First Special Session, Chapter 7 extended the premium security plan to include benefit year 2022 and directed the Commissioner of Commerce to apply for an additional section 1332 state innovation waiver from CMS. Laws 2017, Chapter 13

[1] MCHA administered the state's high-risk pool that provided health insurance coverage, financed with an assessment on the fully insured market, to individuals with preexisting conditions who were denied coverage in the individual health insurance market. The high-risk pool was repealed when the federal Affordable Care Act required that all health insurance policies include coverage for individuals with preexisting conditions.

stipulated that any unused premium security plan account funds originally transferred into the account from the General Fund be transferred back to the General Fund at the end of FY 2021 and required the same for premium security plan account funds originally transferred from the Health Care Access Fund (HCAF). However, Laws 2017, First Special Session, Chapter 6 amended this provision so that any unused state funds are transferred to the HCAF. As amended by Laws 2019, First Special Session, Chapter 9, this transfer will occur at the end of FY 2023.

Summary of Minnesota Premium Security Plan Funding

Table 1 below summarizes funding for the premium security plan since its inception. The figures shown in Table 1 reflect estimates from the November 2021 forecast. Between FYs 2017, 2018, and 2020, $41.9 million of the existing MCHA balance was transferred into the premium security plan account[2]. In FYs 2018 and 2019, a total of $542.8 million was transferred into the premium security plan account; $400.8 million from the HCAF, and $142 million from the General Fund. Federal revenue under the section 1332 state innovation waver totaled $301.5 million through FY 2021 and is projected to total $249.8 million for FYs 2022 and 2023, for a combined total of $551.3 million for the current duration of reinsurance.

Table 1 also displays expenditures from the premium security plan account. Reinsurance payments increased steadily for each year the premium security plan has existed; the FY 2023 reinsurance payment amount is expected to decrease from FY 2022 due to the requirement that MCHA adjust reinsurance payments to account for existing resources in the premium security plan account. In addition to reinsurance payments and MCHA administrative expenditures, $247 million was transferred from the premium security plan account to the General Fund in FY 2020, and $5.9 million was transferred from the premium security plan account to the HCAF in FY 2021. Current projections for the reinsurance plan would leave an $81.7 million balance at the end of FY 2024, which would be transferred to the HCAF.

Table 1: Minnesota Premium Security Plan Account Resources and Expenditures, FY 2017 – FY 2024 (dollars in thousands)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Resources								
Balance Forward	0	38,547	314,078	592,238	536,744	217,730	159,623	81,403
GF Transfer-In	0	71,000	71,000	0	0	0	0	0
HCAF Transfer-In	0	200,750	200,000	0	0	0	0	0
MCHA Transfer-In	38,709	3,236	0	141	0	0	0	0
Federal Funding	0	0	130,720	84,758	86,064	142,727	107,045	0
Investment Income	88	1,045	13,157	10,332	1,736	1,039	693	423
Total Resources	**38,797**	**314,578**	**728,955**	**687,469**	**625,189**	**361,496**	**267,361**	**81,826**

[2] This balance remained after all the financial obligations under the high-risk pool were paid.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Expenditures								
Reinsurance Claims	0	0	136,125	150,305	160,210	195,400	185,400	0
MCHA Admin	250	500	592	420	249	525	558	165
GF Transfer-Out	0	0	0	0	247,000	0	0	0
HCAF Transfer-Out	0	0	0	0	0	5,948	0	0
Total Expenditures	**250**	**500**	**136,717**	**150,725**	**407,459**	**201,873**	**185,958**	**165**
Balance	**38,547**	**314,078**	**592,238**	**536,744**	**217,730**	**159,623**	**81,403**	**81,661**

Interaction Between Reinsurance and MinnesotaCare Funding

Under the federal Affordable Care Act, states can choose to create a Basic Health Plan (BHP) for individuals with income below 200 percent of the federal poverty guideline and receive federal funding to help pay for the plan. In 2013 the Legislature enacted changes (including creation of the BHP Trust Fund) to the state's MinnesotaCare program to conform with the federal BHP requirements.

Federal funding for MinnesotaCare is based on health insurance premiums sold through the state's health insurance exchange (MNsure). The state receives 95 percent of the subsidy amount an individual would receive if the individual purchased a benchmark plan (the second-lowest-cost silver plan) through MNsure. The subsidy an individual would receive if they purchased a plan through MNsure is based on their income and the premium for the benchmark plan. So, because the reinsurance program reduces market rate premiums, including the premium for the benchmark plan, the reinsurance program results in reduced federal funding for MinnesotaCare.

In the first two benefit years (2018 and 2019) of Minnesota's reinsurance program, an accumulated balance in the BHP Trust Fund was sufficient to offset the reduction in federal funding for MinnesotaCare. In 2019 the Legislature extended the reinsurance plan for benefit years 2020 and 2021 and appropriated $115.5 from the HCAF in FY 2021 and incorporated base funding of $72.5 million in FY 2022 for increased state expenditures for MinnesotaCare resulting from reduced federal BHP funding. With the addition of benefit year 2022 to the reinsurance program, the 2021 Legislature appropriated $41.4 million from the HCAF in FY 2022 and $43.7 million in FY 2023 for MinnesotaCare expenditures to offset the reduced federal revenue.

Funding for MNsure is also based on health insurance premiums. MNsure receives 3.5 percent of the premium amount for plans purchased through the exchange. MNsure absorbed the reduction in revenue that resulted from the first two years of the reinsurance program. In 2019, the Legislature appropriated $8 million from the General Fund in FY 2020 to offset the reduction in revenue for MNsure that resulted from the extension of the reinsurance program for benefit years 2020 and 2021. The 2021 Legislature transferred $3.8 million from the General Fund to MNsure to offset the reduction in revenue attributable to continuing the reinsurance program for benefit year 2022.

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