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Insurers Could Get Multi-Millions in Obamacare Bailout

By Eric Pianin

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The insurance industry may be next in line to receive a hefty government bailout. That's what could happen if signups for Obamacare fall short of expectations triggering an obscure provision in the Affordable Care Act that makes up any serious losses.

The potential price tag: millions of taxpayer dollars or more over a 3-year period.

So-called "risk corridors" were included in the 2010 health law to compensate insurance companies for major coverage losses in the event that far more older and sick people signed up for health plans than younger, healthy people and drove up their costs after they had set the premiums. If actual claims exceed projections by more than 3 percent under Obamacare, the government will compensate the industry for those losses.

The new federal and state-run insurance exchanges – plagued by hundreds of technical glitches and other operational problems – have reported signing up just 106,185 people nationwide through Nov. 2, amid signs that relatively few young adults are turning to the program for coverage.

That problem could be compounded by President Obama's call last week for insurance companies to reverse course and restore millions of individual health care plans that were cancelled because they don't meet the new higher standards under Obamacare. Some health industry officials and state insurance commissioners fear Obama's request could destabilize the already troubled new exchanges and further discourage younger people from enrolling.

"Premiums have already been set for next year based on an assumption of when consumers will be transitioning to the new marketplace," Karen Ignagni, president of America's Health Insurance Plans, said in a recent statement. "If now fewer younger and healthier people choose to purchase coverage in the exchange, premiums will increase and there will be fewer choices for consumers."

So far, California, Florida and Kentucky agreed to support the rule change, while Washington State, Vermont and Arkansas have declined.

About a half-dozen other state insurance commissioners, including officials from North Carolina and Kansas, boycotted a meeting at the White House Wednesday, saying in a letter, “We have serious reservations about both the process and the policy issues surrounding such an important meeting.”

“There is so much uncertainty here,” Larry Levitt, a senior vice president of the Kaiser Family Foundation, said in an interview Wednesday. “We don’t really know how many people had their policies cancelled to begin with. We don’t know yet how many insurance commissioners will allow those cancellations to be withdrawn, or how many insurers will choose to withdraw those cancelations, or how many people will stick with their old policies.”

Even with so much uncertainty, some experts say the Department of Health and Human Services will end up spending “hundreds of millions of dollars” to compensate insurance companies for their losses in the coming year. That cost explode over three years if the administration’s drive to sign up at least 7 million people by early next year turns out to be a bust.

“We’re probably talking about under a half-billion-dollars initially in the short term, but it could well be over $1 billion in the long term,” said Michael Tanner, a health care expert with the libertarian Cato Institute.

In a letter to insurance commissioners last week, the administration said that it hoped to stabilize the market by exploring "ways to modify the risk corridor program final rules to provide additional assistance" to help mitigate the premium fluctuation problem.

White House spokesman Jay Carney said that if the policy shift produces unexpected increases in coverage costs, the Department of Health and Human Services “can mitigate those costs with insurers.”

Sen. Marco Rubio (R-Fla.) has warned of a costly bailout and said he will press for passage of a bill to prevent the government for reimbursing insurers for higher than expected health insurance coverage costs. “The president’s action now exposes taxpayers to a bailout of the health-insurance industry if and when the law fails,” he said.

However, Obama warned insurance company CEO’s at a White House meeting last Friday that his Obamacare “fix” to reverse plan cancellations doesn’t come with a “blank check” for insurers, according to *Politico*.

The concept of risk corridors was first introduced as part of the 2003 Medicare Part D prescription drug legislation, a costly plan introduced by George W. Bush. It was aimed at getting insurance companies to make realistic projections of their coverage costs and premium requirements.

Under the Obamacare version of the safety net, insurers are required before each year from 2014 to 2016 to estimate to HHS how much they expect to pay out in medical claims relative to premiums, with a plus or minus 3 percent margin of error.

If an insurer has lower-than-expected claims or higher than expected gains of more than 3 percent, then the government and the insurers share in the gain or the loss. If the gains or losses exceed eight percent, the government claims 80 percent of those additional gains or incurs 80 percent of the additional losses.

The Congressional Budget Office assumed the risk corridors would be “budget neutral” with insurers’ collections equal to payments. But that was based on the assumption that the Obamacare system would succeed in enrolling 7 million people in the first year, and that roughly a third would be under the age of 35.

If the administration recruits far fewer young people, the cost to insurers will be much higher than anticipated – and the government would have to compensate them for their losses.

“I think it’s reasonable to assume more insurers will have claims higher than expected, so there may be a net flow from the Treasury to insurers rather than it being budget neutral,” said Levitt, a leading expert on the Affordable Care Act.

Tanner of Cato said he doubts that many insurers will agree to renew cancelled health insurance plans – as Obama has requested – which could minimize the government’s liability in the short run.

“But I think you’re going to have a bigger adverse selection problem down the road that they may be on the hook for,” Tanner said. “I think that people are probably overestimating the problem in the short term and underestimating it in the long term.”