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Explaining ‘Risk Corridors,’ The Next Obamacare Issue

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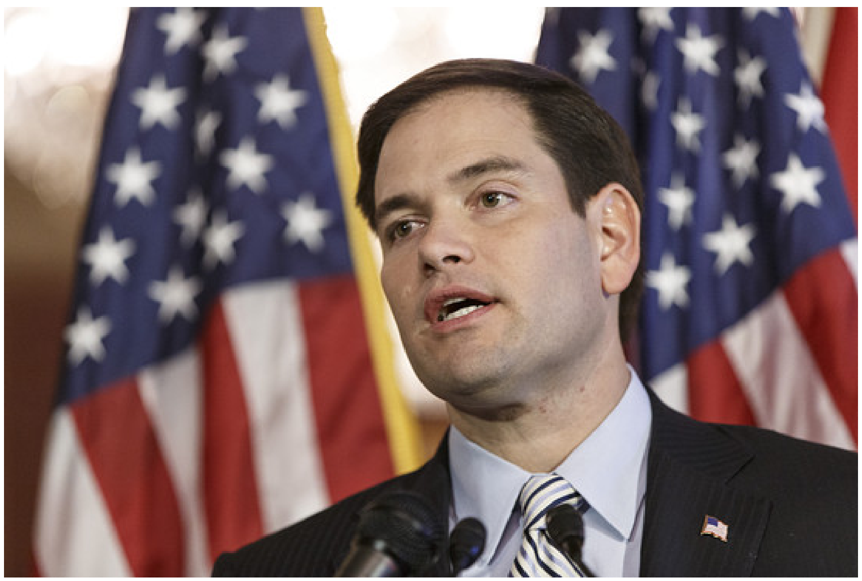

Sen. Marco Rubio has introduced legislation to eliminate an Affordable Care Act program that c
help insurers in the next few years. *ASSOCIATED PRESS*

By Louise Radnofsky and Jennifer Corbett Dooren

To one side, it's a massive bailout of insurance companies that could cost taxpayers billions of dollars. To the other, it's an important protection for consumers that might not cost anything.

Welcome to the debate over the "risk corridor" provision in the 2010 Affordable Care Act. With the federal HealthCare.gov website working better and millions of Americans signing up for new coverage, the once-obscure provision has taken center stage in efforts by Republicans to dismantle the law known as Obamacare.

The idea of risk corridors is to compensate insurance companies that end up with bigger costs than they expected. Under the law, they must sell policies equally to everyone, regardless of their medical history, so it's possible some insurers could end up with an especially unhealthy pool of customers.

If an insurer's actual claims in 2014 are at least 3% greater than the claims projected when the insurer set 2014 rates, the government must reimburse the insurer for half of the excess. If actual claims jump 8% beyond projected claims, the government covers 80% of the excess. (This fact sheet from the American Academy of Actuaries has a handy chart.)

Federal officials say they're counting on the program, which lasts through 2016, to forestall any nervousness among insurers about their initial customer base and prevent them from raising rates. They point to a similar plan put in place when Medicare was expanded last decade to include Part D coverage of prescription drugs.

"The temporary risk corridor provision in the Affordable Care Act is an important protection for consumers and insurers as millions of Americans transition to a new coverage in a brand new marketplace. The policy, modeled on the risk corridor provision in Part D that was supported on a bipartisan basis, was estimated to be budget neutral, and we intend to implement it as designed," said **Aaron Albright**, a spokesman for the Centers for Medicare and Medicaid Services.

This Weekly Standard editorial lays out the conservative case against risk corridors.

"The insurers are counting on this massive bailout to avoid a bloodbath of losses from Obamacare," write **James Capretta** and **Yuval Levin**. "It is hard to imagine that many Americans, regardless of their political leanings, want taxpayers to be on the hook for covering the losses of shareholder-owned insurance companies."

The two writers say that the messy rollout of the law means that the government could end up on the hook for "hundreds of millions and perhaps billions of dollars." Scrapping the program or at least insisting that it be budget-neutral is the next step for people who want to unwind the law, they say.

Sen. **Marco Rubio** of Florida and Rep. **Tim Griffin of Arkansas**, both Republicans, are already pushing bills that would do that, and more could follow as Republicans look for issues to bring up in negotiations over extending the U.S. debt ceiling.

Exactly what the risk-corridor program will cost is open for debate because it also is designed to collect money from insurers that end up with a healthier-than-expected pool of customers. That is why Obama administration officials are saying it could be budget-neutral.

The importance of the program grew when President **Barack Obama** said in November that he wanted people to be allowed to keep old policies that would otherwise have been canceled. Insurers said the abrupt change could make the balance of risk worse by keeping healthier people out of the new exchanges set up by the Affordable Care Act.

In rules released just ahead of the Thanksgiving holiday, the administration said it was exploring ways to beef up the risk-corridors program in light of the president's move. The rules don't set out exactly how the program would change or what it would cost.

Two other parts of the law are also designed to smooth out imbalances in the risk pool. A provision known as the "belly-button tax" requires every company that provides insurance–big employers, organized labor, and insurance carriers—to pay a $63 levy on each person covered. That goes into a fund to compensate insurance carriers who end up paying big medical bills for new customers who buy on the government exchanges.

It's still in place, although the Obama administration has indicated it wants some of the entities that have to pay it this year to be let off in 2015 and 2016.

A third provision, known as risk adjustment, calls for insurers that end up with a healthier mix of participants to compensate those that end up with riskier members. This program is permanent but is less controversial because it doesn't call for any federal spending.

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