

WHITE PAPER

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# **Performance, Risk Reduction, and Strategic Implications for ACA Insurers in States with Reinsurance Programs**

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## SUMMARY

State-based reinsurance programs implemented through Section 1332 waivers have become one of the most consequential, yet often underappreciated, drivers of financial performance in the ACA individual market. Although these programs are frequently discussed in the context of premium reduction and market stabilization, their most material impact occurs deeper in the income statement—reducing tail risk, improving capital efficiency, and reshaping the economics of members with high-cost chronic conditions.

This white paper examines state reinsurance programs through a financial and actuarial lens. It focuses on how reinsurance improves insurer profitability, reduces earnings volatility, and changes the marginal financial impact of members with chronic and catastrophic conditions. Using spend-based and condition-level loss ratio analysis, we highlight how reinsurance transforms previously unbounded risk into manageable exposure and creates new strategic opportunities for payers.

Finally, we explore how insurers can leverage these dynamics through condition-specific product strategies and consider the implications of a potentially shrinking ACA market on 1332 waiver funding and the long-term sustainability of reinsurance programs.

## HOW STATE REINSURANCE PROGRAMS IMPROVE FINANCIAL PERFORMANCE

At their core, state reinsurance programs transfer a portion of catastrophic claim risk away from insurers by reimbursing claims above a defined attachment point and below a cap. Although this structure lowers gross premiums, its more profound effect is on financial risk and profitability.

## REDUCTION IN TAIL RISK AND EARNINGS VOLATILITY

A small number of members with high-cost conditions disproportionately drive financial results in the individual market. Reinsurance truncates the right tail of the claims distribution, materially reducing exposure to catastrophic events associated with conditions such as advanced cancers, septic shock, end-stage renal disease (ESRD), and severe autoimmune disease.

From an actuarial perspective, this leads to:

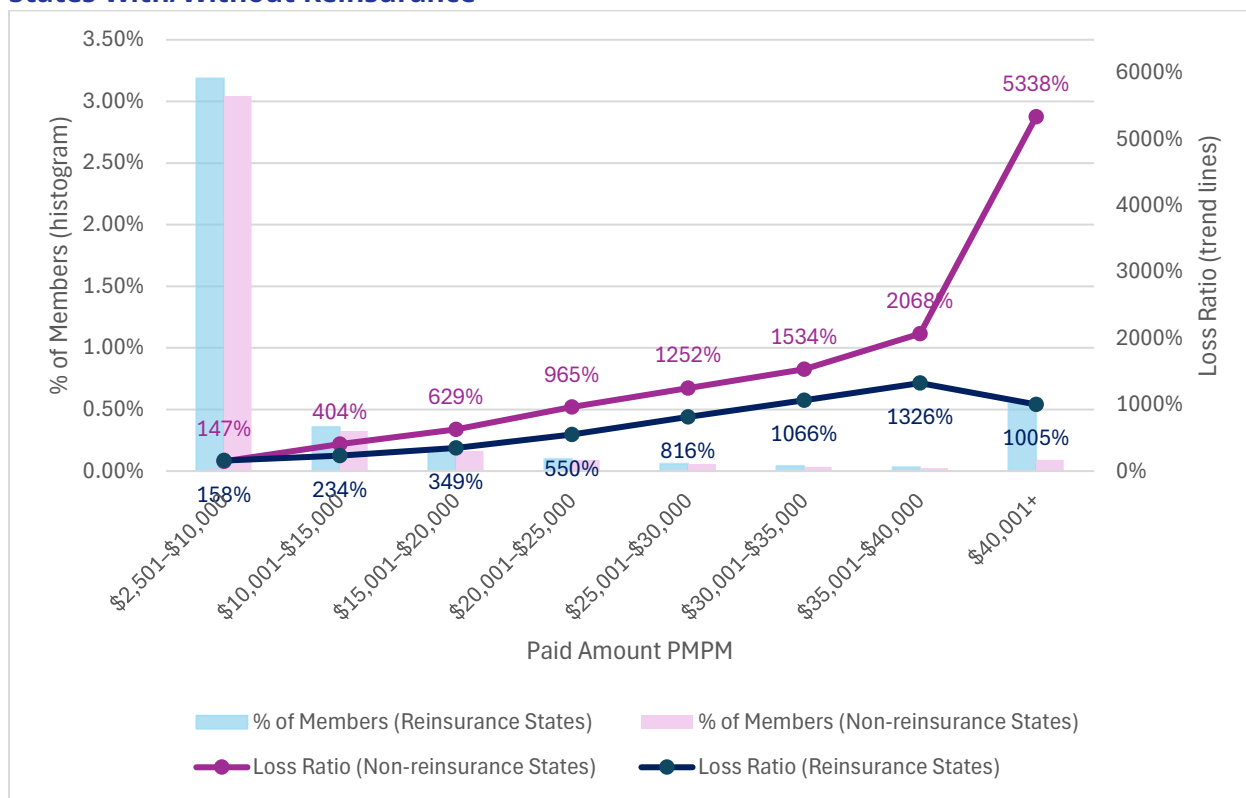
- Lower variance in medical loss ratios
- Fewer extreme downside scenarios in pricing models
- Greater confidence in forecasted margins

This reduction in tail risk directly improves risk-adjusted profitability and stabilizes year-over-year financial results.

**WHERE REINSURANCE MATTERS MOST**

The value of reinsurance emerges once annual paid spend approaches reinsurance attachment points. Figure 1 shows how members are distributed by total annual paid per member per month (PMPM) spend in states with reinsurance and states without reinsurance separately. Additionally, it shows the loss ratio<sup>1</sup> performance.

**Figure 1. Comparison of Enrollment Distribution and Loss Ratio by Claims Corridors in States With/Without Reinsurance**



As Figure 1 demonstrates, the medical loss ratio (MLR) performance begins to diverge at approximately \$2,500 PMPM spending (\$30,000 in annual spend). Most state reinsurance programs start providing financial protection between \$30,000 to \$50,000 in total annual

<sup>1</sup> Loss ratio is defined as paid claims net of pharmacy rebates, reinsurance and high-cost risk pool recoveries, risk adjustment receivables divided by gross premiums.

member spend. The biggest improvement in financial performance exists in the highest cost group (\$40,000+ PMPM or \$480,000+ per year).

Reinsurance programs clearly improve the aggregate financial performance by mitigating tail risk for payers in addition to reducing premiums for members.

How can payers leverage reinsurance programs strategically?

### STRATEGIC IMPLICATION FOR PROVIDER CONTRACTING

Provider-sponsored and narrow network plans often rely on unit cost reductions to drive premium competitiveness. In reinsurance states, however, a portion of these savings accrue to the reinsurance program rather than directly to the insurer.

As a result:

- The premium impact of unit cost reductions is dampened
- The return on investment (ROI) of aggressive contracting strategies differs from non-reinsurance states
- Payers must explicitly account for reinsurance when evaluating contracting leverage

Ignoring this interaction can lead to unrealistic expectations for premium competitiveness.

### STRATEGIC IMPLICATION FOR CONDITION-SPECIFIC PLANS

The condition-level results provide quantitative validation for condition-specific benefit designs. Table 1 shows a sample of hierarchical condition categories (HCCs) and the loss ratio improvement driven by reinsurance program.

**Table 1. Loss Ratio Improvement Driven by Reinsurance Program**

HCC	Description	MLR Improvement Driven by Reinsurance
HCC001	HIV/AIDS	37%
HCC102	Autistic Disorder	16%
HCC066	Hemophilia	1,278%

Table 1 provides quantitative validation for condition-specific benefit strategies. States with reinsurance experience significantly improved overall financial performance among members with HCCs.

Because reinsurance absorbs the extreme tail:

- Plans targeting several chronic populations benefit from significantly mitigated downside risk.
- Margins become sensitive to care quality, utilization management, and adverse event prevention significantly more than catastrophic luck.
- Incremental improvements (e.g., avoiding one hospitalization or optimizing specialty pharmacy adherence) have outsized financial impact.

Reinsurance effectively converts high-risk HCCs from existential threats into manageable actuarial cohorts. This transformation enables insurers to design targeted products that attract and better serve members with chronic conditions while competing on value rather than risk avoidance.

State reinsurance programs have fundamentally reshaped the ACA individual market by reducing volatility, improving capital efficiency, and changing the economics of chronic and high-cost members. As this analysis demonstrates, these effects are measurable, condition-specific, and strategically actionable. Given funding pressures, it will be increasingly important that states continue reinsurance programs to avoid market instability.

At the same time, growing uncertainty around ACA enrollment and 1332 waiver funding introduces new risks. Insurers that fail to explicitly incorporate reinsurance dynamics into pricing, product design, and long-term planning risk misallocating capital and misjudging profitability.

Wakely partners with payers to translate complex actuarial dynamics into actionable strategy. We welcome the opportunity to discuss how these insights apply to your market and strategic objectives.

**ABOUT THE AUTHOR**

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Founded in 1999, Wakely Consulting Group, an HMA Company, is well known for its top-tier healthcare actuarial consulting services. With nine locations nationwide, Wakely boasts deep expertise in Medicare Advantage, Medicaid managed care, risk adjustment and rate setting, market analyses, forecasting, and strategy development. The firm's actuaries bring extensive experience across all sectors of the healthcare industry, collaborating with payers, providers, and government agencies.

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