



Precedence – Federal Government Reinsuring Risk *October 4, 2006*

Federal Government reinsuring risk – Property & Casualty

- Disaster Relief (1950) – Fund in which President decided which disaster qualified
- National Flood Insurance Program (1968)
- Disaster Relief Act (1970) expanded previous law to include grants for temporary housing and legal services
- National Flood Insurance Program was placed under the Federal Emergency Management Agency (FEMA) (1978) {Note – President Bush requested \$3.3 billion in FY06 for FEMA. After hurricanes Katrina and Rita, there was an additional supplemental of \$60 billion for FEMA. In their paper, *Government as Reinsurer* (Summer 2004), Blumberg & Holahan estimated that it would cost the federal government \$5.2 billion for a government health reinsurance program for the individual and small group markets. }
- Terrorism Risk Insurance Act of 2002 – The federal government pays 90% of the costs of any terrorist attack after losses exceed \$10 billion.

Federal Government reinsuring risk – Secondary Mortgage Market

- Home Owners Loan Corporation (1933) – Used federal government-backed bonds to purchase mortgages on which people defaulted.
- Federal National Mortgage Association (Fannie Mae) replaced HOLC in 1938 – helped to develop a secondary market for FHA-insured mortgages.
- Veterans Administration (VA) loan program (1944) – federal government guarantees that it will compensate lenders for losses on mortgage loans made to veterans.
- Federal Home Loan Mortgage Corporation (Freddie Mac) (1970) – was charged with expanding the secondary mortgage market for conventional mortgage originators.

Federal Government reinsuring risk – Medicare

- Prospective Payment System (PPS) for hospitals (1983/1984) – outlier payments for costs and/or length of stay for higher than expected. Medicare pays hospitals 80% of costs above the threshold that defines outlier.
- Medicare Reform proposal - Bush I Administration (1990) – failed to get enacted – proposed outlier pool funded from the Medicare trust fund – would have paid 45% of the cost of HMO Medicare enrollees with expenditures above \$50,000.
- Medicare Modernization Act (2003) – risk corridors – if an insurer has an individual with expenses in excess of a complicated formula of costs, the Centers for Medicare and Medicaid Services provides a reinsurance payment.