

State Flexibility White Paper - Draft

Compiled by the NAIC Health Innovations (B) Working Group

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Introduction: State and federal roles in regulating health insurance

State insurance regulators have primary responsibility for regulating insurance in the United States, including health insurance. While the Supremacy clause of the Constitution assures that federal law takes precedence over state laws, Congress has recognized and validated states' roles in regulating insurance within specific markets. The McCarran-Ferguson Act of 1945 protects state authority to regulate the business of insurance. 

Nonetheless, both states and Congress have taken steps to regulate health insurance. States generally supervise solvency, review health insurers' rates and the content of policies, and establish consumer protections for individual and group health insurance markets.

- Congress reserved for federal regulators the role of regulating self-funded employer health plans through the Employee Retirement Income Security Act of 1974.
- The Medicare Modernization Act (MMA) limited the authority of states to oversee Medicare Advantage plans to only solvency and licensing. 
- Medicaid is a joint federal and state program, administered by individual states according to federal guidelines

Over time, federal laws have added requirements for health insurers related to information privacy, availability of coverage, surprise billing, and some benefit mandates, among others.

In 2010, the passage of the Affordable Care Act (ACA) introduced extensive new federal regulations for individual health insurance markets. The ACA established requirements in each state's market related to risk pools, enrollment periods, coverage tiers, benefits, and consumer protections. It also created Marketplaces for consumers, and coverage supported by federal premium tax credits for eligible individuals.

While the ACA's reforms apply nationwide, Congress also provided mechanisms in the law for states to alter how the ACA functions on a state-by-state basis. The state flexibility sections of the ACA allow for states, individually or working together, to change how coverage is delivered or waive requirements of the law entirely, as long as the states meet specified criteria. Under two of the sections, states can access federal funding that would otherwise be used for ACA coverage in the state. Section 1331 of the ACA allows states to contract directly with health plans to cover some individuals who would otherwise qualify for Marketplace coverage. Section 1332 includes broad authority to waive portions of the ACA as long as states continue to make coverage as affordable and comprehensive to as many people as would be covered under the waived provisions of the ACA. Section 1333 provides a process for states to enter into multistate compacts in order to allow the sale of individual insurance products in multiple states. This paper reviews each of these three sections, summarizing state experiences and offering considerations for states as well as recommendations for consideration to allow for greater flexibility to improve coverage options within states. To date, the Enhanced Premium Tax Credits (EPTCs) have not been extended, and states may need to consider how the expiration may impact experiences and recommendations, including the impact on program funding such as 1332 pass-through funding.

Section 1331 Basic Health Programs

Section 1331 of the Affordable Care Act allows states to create a Basic Health Program (BHP), a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The Basic Health Program gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates above and below Medicaid and Children's Health Insurance Program (CHIP) levels.¹

Benefits under a Basic Health Program are required by the ACA to include at least the ten essential health benefits specified in the Affordable Care Act. The monthly premium and cost sharing charged to eligible individuals must not exceed what an eligible individual would have paid if he or she were to receive coverage from a qualified health plan (QHP) through the Marketplace. A state that operates a Basic Health Program receives federal funding equal to 95 percent of the amount of the premium tax credits that would have otherwise been provided to (or on behalf of) eligible individuals if these individuals enrolled

¹ Center for Medicare and Medicaid Services, *Basic Health Program*, <https://www.medicaid.gov/basic-health-program>, accessed September 28, 2025.

in QHPs through the Marketplace.² This amount may cover the costs of a state program, but depending on state circumstances and implementation choices, some additional state funding may be necessary.

Population eligible

Through the Basic Health Program, states can provide coverage to individuals who are citizens or lawfully present non-citizens, who do not qualify for Medicaid, CHIP, or other minimum essential coverage and have income between 133 percent and 200 percent of the federal poverty level (FPL). People who are lawfully present non-citizens who have income that does not exceed 133 percent of FPL but who are unable to qualify for Medicaid due to their non-citizen status, are also eligible to enroll.³ However, these individuals will no longer be eligible for premium tax credits beginning in 2027, so after 2026, federal BHP funding will not be available to states for this population.

Summary of federal statute, regulations, and guidance

Section 1331 of the ACA outlines the requirements for the Basic Health Program. Regulations finalized by HHS in 2014 further define the program, while subsequent regulation and guidance have refined the methods for calculating federal payments to states to support their programs.

The law authorizes the Secretary of HHS to approve state plans that establish how the state will contract with health plans to cover eligible enrollees. The ACA requires a competitive process to select the contracting health plans and provides several factors for consideration in making the contract awards. The statute lays out the process for the Secretary to determine the amount of federal funding for a state program, which includes 95% of the federal payments for premium tax credits and cost-sharing reduction that would otherwise go to Basic Health enrollees. The law also defines who is eligible for enrollment in Basic Health coverage and requires that BHP enrollees pay no more in premiums than they would for the second lowest cost silver plan in their states' marketplaces and no more in cost-sharing than would be applicable in a gold or platinum plan, depending on income.

The final regulation establishes a Basic Health Program Blueprint which states must develop and submit to HHS for certification. The Blueprint defines how the state will operate its Basic Health Program. The rule establishes eligibility and enrollment standards and enrollee

² Id. States also receive 95% of any payments the federal government would have made for cost-sharing reductions if the individuals were enrolled in Qualified Health Plans.

³ Id.

financial responsibilities. It requires states to offer at least two plan choices to enrollees, except where it is not feasible to do so.

The 2014 rule set up the initial funding formula for BHPs. Because the amount of funding is tied to premium tax credits and cost-sharing reductions (CSRs), changes to state or federal policy since 2014 that alter PTC or CSR payments have affected the funding available to states with BHPs. The end of federal payments to insurers for CSRs in 2017 eliminated the CSR portion of Basic Health funding. The enhanced premium tax credits authorized in 2021 significantly increased BHP funding for states. Later, in 2023, HHS established a reinsurance factor in determining BHP funding—this allows states to maintain BHP funding even when they operate a reinsurance program that lowers silver plan premiums and thus PTCs.

State experiences

The experience of the states that have adopted BHPs under the ACA can help guide those that are continuing to consider the option. Effective in 2015, Minnesota and New York converted state coverage options that pre-existed the ACA to BHPs, grandfathering in certain provisions. New York in 2024 converted its BHP to a Section 1332 waiver and is now seeking to revert it back to a BHP, which is discussed further below. Oregon launched a new BHP in July 2024 and the District of Columbia plans to convert some Medicaid enrollees to a new BHP in 2026.

Minnesota

MinnesotaCare offers comprehensive and affordable health insurance coverage for Minnesota children, parents, and adults without children. MinnesotaCare was established as a state-run program in 1992 to provide coverage for children and parents who were not eligible for Medicaid but still required financial assistance .

In 2015, Minnesota became the first state to take up the Basic Health Program option, sunsetting its Section 1115 Medicaid waiver and converting coverage to the Section 1331 option (Minnesota Department of Human Services). In the first full fiscal year that the program was operational, federal funding covered 70% of MinnesotaCare's costs⁴.

⁴ Minnesota Management and Budget. "BHP Trust Fund - February 2025 Forecast." 2025.
https://mn.gov/dhs/assets/BHP_Trust_Fund_Feb25_tcm1053-671717.pdf.

MinnesotaCare covers adults ages 19-62 with incomes between 134-200% FPL who don't have access to other types of insurance, and legal immigrants including children from 0-200% who are otherwise not eligible for Medicaid⁵.

MinnesotaCare was never intended to offer coverage instead of employer-sponsored insurance and today continues to require that enrollees must have no access to employer-sponsored insurance⁶.

In 2024, MinnesotaCare covered 101,900 Minnesotans on average each month, about 60% of them adults without children, and the remainder families with children⁷.

MinnesotaCare is administered by the Minnesota Department of Human Services, which is also the state's Medicaid agency. In compliance with BHP regulations, MinnesotaCare is administered through managed care, as was its predecessor state program. Rates paid to providers in the program mirror the rates paid in the state's Medicaid program (Minnesota Statutes 256L.11 Subd. 1). MinnesotaCare's coverage mimics Minnesota's Medicaid benefits including things like behavioral health care, eyeglasses, and dental coverage, but excluding benefits such as waived services and coverage for long-term care. MinnesotaCare lowered premiums from a maximum payment of \$80 to \$28 per month due to increased federal funding available from enhanced premium tax credits.

When MinnesotaCare was established, so too was the Health Care Access Fund (HCAF), a state account that receives revenue from a statewide tax on hospitals and other providers. The provider tax, then set at 2% of gross receipts, provided additional funding for MinnesotaCare and included providers and a premium tax on HMOs. The tax rate and base have varied over the years, but it remains a funding source for the non-federal share of BHP costs, with concerns remaining on impact to affordability.

In SFY2024, federal funds covered about 87% of the state's MinnesotaCare costs. That is expected to change over the next four federal fiscal years, with a projection of federal funds covering 75% of costs in SFY29⁸.

⁵ Minnesota Department of Human Services. "Minnesota Health Care Programs Eligibility Policy Manual." 2025. <https://hcopub.dhs.state.mn.us/epm/3.htm>.

⁶ Id.

⁷ Minnesota Department of Human Services, Reports and Forecasts Division. "February 2025 Forecast." 2025. https://mn.gov/dhs/assets/forecastDHS_202502_tcm1053-671523.pdf.

⁸ Minnesota Management and Budget

New York

New York's Essential Plan provides low cost coverage to New Yorkers with income above Medicaid limits and those ineligible for Medicaid due to Medicaid's five year bar for immigrants. Prior to the ACA, New York covered individuals with income up to 150% of the FPL and lawful immigrants not eligible for Medicaid in the state's Family Health Plus program. The Basic Health Program allowed the state to access federal funds to cover those previously served by Family Health Plus as well as a wider set of eligible enrollees. New York has expanded eligibility and shifted funding mechanisms in recent years to maintain affordable coverage for New Yorkers and respond to federal funding limits.

The Essential Plan covers New Yorkers under age 65, not eligible for Medicaid and CHIP, without an affordable offer of coverage, up to an income limit of 250% of FPL (increased from 200% in 2024). The plan charged premiums of \$20 per month to enrollees above 150% of FPL until 2021, when it eliminated all premiums. There is no deductible and limited cost-sharing for individuals over 150% of FPL.

New York's Medicaid agency administers the Essential Plan and contracts with health plans to deliver it, largely overlapping with the health plans that provide Medicaid managed care. Provider payments started somewhat above Medicaid rates and have increased since 2021.

In 2024, New York transitioned its BHP to a Section 1332 waiver. This change allowed the state to raise the Essential Plan's eligibility threshold to 250% of the FPL, offer state subsidies for certain Marketplace enrollees, and provide reimbursement to insurers to adjust for the transition of enrollees between 200% and 250% of FPL out of the Marketplace and into the Essential Plan.

In October 2025, New York submitted a request to CMS to terminate the Section 1332 waiver and return the Essential Plan to a BHP. The state identified federal changes to premium tax credit eligibility for lawful immigrants as the reason for the change, saying associated reductions in waiver pass-through funding would leave the state with unsustainable funding obligations.

Oregon

Oregon launched the Oregon Bridge Plan in 2024. The state sought to maintain coverage gains from the pause in Medicaid eligibility redeterminations during the COVID-19 public health emergency and reduce churn of consumers on and off of Medicaid.

Oregon's BHP covers consumers with income between 138% and 200% of the FPL. The benefits are almost identical to those in Medicaid, covering dental benefits in addition to the essential health benefits.

Oregon uses its Medicaid managed care entities to administer the plans and initially uses Medicaid-level provider payment rates. The state plans to reconsider payment rates as funding allows.

The state's actuarial analysis showed consumers with income greater than 200% of FPL would pay more in premiums due to decreased silver loading (see Individual Market Effects below). While Oregon considered several proposals to mitigate the impact of higher individual market premiums, it determined that none were feasible.

District of Columbia

The District of Columbia received approval in 2025 to move Medicaid-enrolled adults and caregivers with incomes above 138% of FPL to a Basic Health Program, referred to as the Healthy DC Plan. Through 2025, DC covered childless adults in Medicaid up to 210% of the FPL and caregivers up to 216%.

The Basic Health Program allows DC to access greater federal funds as it makes the Healthy DC Plan available to enrollees up to 200% of FPL. These consumers will pay no premiums or cost-sharing. Consumers with incomes above 200% of FPL will transition to Marketplace plans with premium tax credits.

DC's Health Benefit Exchange (Marketplace) administers the Healthy DC Plan and contracts with three managed care plans to offer coverage, each of which participate in Medicaid managed care.

Considerations for consumers, states, and insurance markets

Basic Health Programs have the potential to impact consumer costs both for those who enroll in the BHP and for Marketplace consumers who do not. BHPs require administration by state agencies and potential investment from the state budget. States evaluating the establishment of a BHP should weigh a range of considerations to determine the most appropriate choice given state-specific circumstances and priorities.

Consumer coverage impacts

BHPs offer an opportunity to provide moderate-income consumers with coverage that is equal to or potentially more affordable than they could find through the Marketplace. They also have the potential to ease enrollment and coverage transitions for consumers, particularly those whose income fluctuates between the Medicaid and premium tax credit ranges.

Federal law requires that BHP premiums be no more than consumers would face for a benchmark Marketplace plan with cost-sharing limited to the level of gold and platinum

plans. In practice, however, states with BHPs have offered coverage that is substantially more affordable, both in premiums and cost-sharing, than required by the law. DC, New York, and Oregon offer BHP plans with no premiums and no or minimal cost-sharing. Minnesota applies premiums only to consumers with incomes at the higher range of eligibility and cost-sharing lower than Marketplace plans, with some enrollees exempt from cost-sharing.

Enrolling and maintaining enrollment in a BHP is likely to be simpler for consumers than enrollment in a Marketplace plan with premium tax credits. Marketplace enrollment requires selection of a plan, often from dozens of choices at differing metal levels, and reconciliation of premium tax credits at tax time. States have chosen to operate BHPs more like Medicaid managed care, with longer periods of continuous enrollment, limited plan choices, and no reconciliation requirement.

BHP benefits, too, are often more similar to Medicaid benefits packages than Marketplace plans, with the inclusion of dental and vision services.

The establishment of a BHP can also affect affordability for consumers who enroll in Marketplace plans—see the Individual Market Effects section below.

State considerations

Budget

Federal funding under the BHP formula is available to cover a substantial portion of a state's BHP costs. State funding, however, may be necessary to make up any difference between available federal funds and the costs of a BHP. Due to the link between BHP funding and premium tax credits, policy changes that increase PTCs offer states greater BHP funding and reduce the need for state dollars, while decreased PTCs lower federal support for BHPs and increase state spending.

States have been able to offer more affordable and more robust coverage through BHPs than is available in their Marketplaces by using provider payment rates closer to those used in Medicaid than the commercial rates paid by Marketplace plans. The gap between lower Medicaid rates and higher Marketplace provider payment rates determines how much "room" a state has to increase the generosity of BHP plans relative to Marketplace plans. States with higher provider payments in Marketplace plans, and thus higher Marketplace premiums and PTCs, are more likely to be able to fully fund a BHP with 95% of PTCs that would otherwise be paid on behalf of enrollees. The size of the gap is also determined by a state's choice of provider payment levels in the BHP—states that pay a multiple of their Medicaid rates may need to invest greater state funds to cover BHP costs.

States considering a BHP should plan for the possibility of changes to their BHP funding due to changes in the PTC amounts (and cost-sharing reduction payments, if any) paid in their

states. The 2017 federal decision to end cost-sharing reduction payments removed these funds from BHP funding, though the BHP funding formula was subsequently adjusted to account for this change. The enhanced premium tax credits enacted in 2021 have increased federal funds for BHPs, but the increase may be temporary if the enhanced credits expire.

Medicaid and Marketplace roles in implementation

While the eligibility criteria for BHP enrollment mirror those of premium tax credits for Marketplace coverage, many of the potential benefits of a BHP for consumers and states stem from the similarity of BHP coverage with Medicaid. For consumers, Medicaid-like affordability and benefits can make BHP coverage more favorable than Marketplace coverage. For states, using Medicaid as a starting point for provider payment rates, health plan contracting, eligibility determinations, and other program administration can offer efficiencies and cost savings in operating a BHP.

A state contemplating a BHP, then, should consider the extent to which it can align rules between Medicaid and the BHP as well as the resources available to the state's Medicaid agency (or another state agency, such as a state-based Marketplace) to implement the eligibility updates required by administration of a BHP.

BHPs have the potential to ease coverage transitions for consumers whose eligibility shifts between Medicaid, BHP, and Marketplace coverage. This may be most likely to be achieved in a state with a state-based Marketplace, so Medicaid, BHP, and Marketplace systems can more easily coordinate with each other. Nonetheless, Oregon has implemented a BHP while using the federal platform for Marketplace eligibility.

Individual market effects

States, especially state insurance regulators, should consider the effects of a BHP on a state's market for individual coverage. BHPs serve individuals who would otherwise be eligible for Marketplace coverage and for cost-sharing reduction plan variations since their incomes are between 138% and 200% of the federal poverty level. Covering this population in a BHP removes them from the individual market risk pool and can affect costs and market stability for the remaining risk pool.

One way a BHP alters a state individual market is through muting the effects of silver loading. Through silver loading, insurers add to silver plan premiums the cost of providing enhanced actuarial value plans to lower-income consumers. The higher silver plan premiums raise premium tax credits, making bronze and gold plans more affordable for subsidized consumers (subsidized consumers' costs for silver plans are unchanged since PTCs rise with their premiums). With a BHP, Marketplace plans don't cover individuals with income below 200% of the FPL, the enrollees eligible for silver plan variations with 87% or 94% actuarial value. The silver load in BHP states only needs to account for the 73% actuarial

value plans available for consumers with income between 201% and 250% of the FPL. This minimal silver load reduces the affordability boost for bronze and gold plans that would be available in the absence of a BHP. So the BHP reduces affordability for some higher-income Marketplace enrollees at the same time it provides more generous coverage for those enrolled in the BHP. The size of this effect varies with state circumstances, so states should evaluate the impacts and weigh how the coverage and affordability benefits for lower-income consumers compare to added costs for those with greater incomes.

Covering consumers with income below 200% of FPL in a BHP also reduces the size of the individual market. And if those who become eligible for a BHP are significantly more or less in need of health care services than others in the individual market, the individual risk pool could see improvement or deterioration. A less healthy risk pool could raise premiums for unsubsidized consumers, particularly for those over 400% of FPL who may lose subsidies with the expiration of enhanced PTCs. Changes in the size and health status of the risk pool could also lead insurers to reconsider their participation if the market is too small or too risky for their business goals.

Section 1332 State Innovations Waivers

Summary of statutes, regulations, and guidance

Section 1332 of the Affordable Care Act (ACA) allows states the flexibility to pursue innovative approaches to high-quality health care coverage by waiving certain requirements of the ACA. These waivers, referred to as State Innovation waivers, allow states to adapt coverage options to meet the needs of their states while still retaining the ACA's basic consumer protections. Section 1332 of the ACA provides that "State legislation" must grant the authority to implement the law.⁹

Only certain provisions of the ACA are deemed waivable. They include:

- Requirements for QHPs, including essential health benefits (42 U.S.C. §§ 18021 – 18024)
- Provisions relating to Exchanges, including requirements for plans such as quality and network adequacy, enrollment periods, navigators, and establishing a single risk pool for markets (42 U.S.C. §§ 18031-18033)
- Cost sharing reductions for low-income individuals (42 U.S.C. § 18071);
- Provisions relating to Advanced Premium Tax Credits (26 U.S.C. § 36B); and

⁹42 U.S.C. § 18052, available at <https://www.law.cornell.edu/uscode/text/42/18052>.

- The requirement for large employers to provide coverage and accompanying tax penalty if they do not (26 U.S.C. § 4980H).

Provisions that cannot be waived by a 1332 waiver include guaranteed issue requirements, age rating, and prohibitions on use of health status and gender rating.

Guardrails and the limitations they introduce

In order to receive approval from the Department of Health and Human Services (HHS) and the Treasury Department, states must meet four statutory guardrails.

- **Comprehensiveness:** The first guardrail requires that coverage must be at least as **comprehensive** as coverage without the waiver.
- **Affordability:** The second guardrail requires that the state plan must provide coverage and cost-sharing protections as **affordable** as coverage available to people absent the waiver.
- **Comparable Number of Insured:** The third guardrail requires that **the number of people with health coverage be comparable** with the waiver in place to without the waiver.
- **Deficit-Neutrality:** The last guardrail requires that the waiver be **deficit-neutral** to the federal government over ten years.¹⁰

The guardrails provide strong, clear guidance to ensure that state reforms meet federal standards and do not result in a race to the bottom. However, conversely, when combined, they may also provide limits on the types of innovation that states can pursue under the 1332 waiver option. For example, expanding the number of people covered while maintaining or improving affordability and comprehensiveness is likely to increase expenditures, and thus violate the deficit neutrality guardrail without the addition of state funds.

State experiences

Twenty-one states have applied for and successfully received section 1332 waivers – in fact, some states have multiple waivers. Most states have waivers leveraging federal pass-through funds to support reinsurance programs for individual market stability. A handful of states have sought further market reforms through section 1332 waivers – including Colorado, Washington, Nevada, and New York (New York’s waiver and its current status are

¹⁰ See United States of Care, Using 1332 Waivers to Promote Access to Affordable Coverage, updated February 2025, available at: <https://unitedstatesofcare.org/wp-content/uploads/2023/05/1332-Chart.pdf>.

discussed in more detail above as part of the 1331 Section). However, several states have been denied section 1332 waivers for proposed reforms, or have received determinations that their applications were incomplete.

Reinsurance waivers and related state choices

The most common use of 1332 waivers to date has been to allow operation of state-based reinsurance programs. Through reinsurance, insurers with high-cost enrollees receive payments from the reinsurance program to offset some of their spending for these enrollees. These payments allow for lower base premiums.

As of 2025, 19 states operate state-based reinsurance programs by waiving the single risk pool requirement under section 1312(c)(1) of the ACA to the extent that it would otherwise require excluding total expected state reinsurance payments when establishing the market-wide index rate.¹¹ Most states use a claims-based model, where qualifying insurers are reimbursed for a percentage (“coinsurance rate”) of an enrollee’s claims costs exceeding a specified threshold (“attachment point”) and up to a specified ceiling (“reinsurance cap”). Alaska uses a conditions-based model, where insurers are reimbursed for all medical and prescription drug costs of enrollees with one or more of pre-determined high-cost conditions. Idaho uses a hybrid conditions and claims cost-based model for its section 1332 state-based reinsurance program.^{12,13}

The scope and impact of a reinsurance program is dependent on the amount of state funding that states use to leverage further federal passthrough of savings. CMS’ analysis of the impact of section 1332 state-based reinsurance programs demonstrate high success in the ability of such programs to retain insurers and reduce rates in the individual market.¹⁴

Reinsurance Example: Colorado

Colorado’s approved 1332 waiver consists of two programs that reduce individual market premiums. Program one, the reinsurance program, has operated under a Section 1332 waiver since 2020. Program two, the Colorado Option program, began implementation in Plan Year 2023 and includes a standardized health insurance plan and required premium

¹¹ CCIO Data Brief on State Innovation Waviers: Section 1332 Waivers, April 2024, available at <https://www.cms.gov/files/document/ccio-data-brief-042024-508-final.pdf>.

¹² Maine also used a hybrid program from plan years 2019-2021, see *id.*

¹³ Daniel Meuse, Section 1332 Innovation Waivers in the New Federal Paradigm, presentation to NAIC Health Innovations Working Group, April 22, 2025. Another source for further summaries and analysis of state reinsurance waivers is State Health Access Data Assistance Center (SHADAC). Resource: 1332 State Innovation Waivers for State-Based Reinsurance [Internet]. University of Minnesota, Minneapolis (MN) [cited November 8, 2025]. Available from: <https://www.shadac.org/publications/1332-state-innovation-waivers>.

¹⁴ See <https://www.cms.gov/files/document/ccio-data-brief-042024-508-final.pdf>.

reduction targets. Colorado is generating \$339,125,752 in 1332 waiver passthrough funding in 2025 which was also impacted by the availability of EPTC.

Colorado House Bill 19-1168 established the state-based individual market reinsurance program starting in plan year 2020. The reinsurance program uses a tiered payment parameter structure to emphasize savings for certain areas of the state that have historically had the highest rates by paying more toward consumer claims in higher cost areas. For example, Tier 2 (the Eastern Plains) and Tier 3 (the Western Slope) receive higher coinsurance rates to achieve higher premium reductions relative to Tier 1 (the Denver Metro). A claims-based attachment point reimbursement model is used to reimburse issuers annually following the applicable plan benefit year. Colorado's 1332 waiver reinsurance program will have saved Coloradans over \$2.1 billion between 2020 and 2025.

Reinsurance Example: Wisconsin

Wisconsin's initial Section 1332 waiver was approved in July, 2018, for January 1, 2019-December 31, 2023. Then, Wisconsin received a 5-year waiver extension that runs January 1, 2024-December 31, 2028. Through its 1332 waiver, Wisconsin operates a reinsurance program called the Wisconsin Healthcare Stability Plan (WIHSP). The goal of WIHSP is to create a stable individual insurance market where consumers have a choice of health plans. It aims to maintain affordability of premiums by reimbursing insurers for a portion of the high-cost claims they paid for individuals in a given plan year. State law requires the commissioner of insurance to set payment parameters to define the portion of insurer costs that WIHSP reimburses each year by May 15th before the applicable plan year. For plan year 2024, 15 individual market insurers received reinsurance payments. The total budget for WIHSP payments is \$265 million per year which is comprised of the federal pass-through and state funds. The amount of state funding that goes into the WIHSP budget each year varies based upon the level of federal pass-through received. The annual federal pass-through has ranged from \$127 million to \$229 million.

Other Approved 1332 Waivers

In recent years, several states have used 1332 waivers in ways to impact the individual market beyond reinsurance. Colorado's experience is described in more detail below. Other states that have recently sought and received approval for innovations beyond reinsurance include Nevada and Washington.

Colorado Option Program

The Colorado General Assembly passed House Bill 21-1232 in June 2021 to create the Colorado Option program and to allow the state to apply for a 1332 waiver amendment to capture passthrough savings generated from the Colorado Option. The driving principles of

the Colorado Option program are to make health insurance in the individual and small group markets more accessible and affordable.

To support these goals, the Colorado Option program creates a standardized health benefit plan offered in the individual and small group markets. Issuers must offer Colorado Option Plans at the bronze, silver, and gold metal levels in all counties where they offer non-Colorado Option plans. Colorado Option plans captured 47% of all enrollments on Colorado's state-based exchange during Plan Year 2025 open enrollment. In the small group market, enrollment in 2023 was 160 consumers (0.1%) and in 2024 was 450 consumers (0.3%).

- Health insurance companies are also required to reduce premiums on Colorado Option plans. These premium rate reduction requirements, which rely on the 1332 waiver authority, are incorporated into "target premiums" each year for issuers. These targets establish the measure, or "trigger", by which a Colorado Option public hearing may be initiated. In cases where issuers fail to meet their targets, the Commissioner of Insurance is authorized to hold a public hearing to investigate the reasons why premiums remain above the targets. These premium rate reduction targets and the associated public hearing process give the Commissioner of Insurance the ability to set a reimbursement rate between an issuer and hospital/health-care provider for Colorado Option plans, which then passes on savings to consumers in the form of lower premiums.

In 2024, Colorado's insurance commissioner vacated all adjudicatory hearings because carriers and hospitals negotiated reimbursement rate reductions to lower premiums for Colorado Option plans.¹⁵ The vast majority of Colorado Option plans failed to meet the 2024 10% premium reduction target set by statute. Only 11 plan-county combinations (2.2%) achieved the 10% reduction target.¹⁶ The premium differences between the lowest cost Colorado Option and the non-Colorado Option plans were not statistically significant.¹⁷



¹⁵ Colorado Division of Insurance, ACA Section 1332 Waiver Reinsurance & Colorado Option Programs, December 12, 2024.

¹⁶ FTI Consulting, [Impact of the Colorado Public Option on Premiums and Market Competition](#), November 11, 2024.

¹⁷ Mathematica, Analysis of the Colorado Option pursuant to § 10-16-1310, C.R.S., January 16, 2026.

Waivers Applied for But Not Approved

A handful of states have applied for section 1332 waivers and have not received approval – either due to the state withdrawing the application, the federal government determining that an application was incomplete, or receiving a denial or a revocation of the application. Examples of these applications are below.

Georgia

Georgia originally received approval for its 1332 waiver in November 2020 effective for Plan Year 2022. This waiver included a reinsurance program (“Part I”) and the Georgia Access Model (“Part II”), where private entities such as carriers, web-brokers, and agents would provide marketing, outreach, and the front-end shopping experience for consumers.¹⁸ However, federal administrations changed from the Trump Administration to the Biden Administration in January of 2021, and in June 2021, CMS sent correspondence to Georgia asking for updated analyses on Part II of its waiver in the context of new federal priorities and guidance. On August 9, 2022, CMS suspended implementation of the Georgia Access Model, citing lack of compliance with the coverage guardrail that requires that the number of people with health coverage be comparable with the waiver as to without the waiver.

Iowa

On August 21, 2017, Iowa submitted a 1332 State Innovation Waiver application, known as the Iowa Stopgap Measure, to the U.S Treasury Department and the U.S. Department of Health and Human Services. The Iowa Stopgap Measure was designed to stabilize Iowa's Affordable Care Act (ACA)-compliant individual market through a series of modifications: (1) a requirement that all insurers in the individual market offer a single standard plan, similar to the ACA's silver plan; (2) elimination of CSR subsidies for those with incomes between 200 and 250 percent of the federal poverty level (FPL); (3) a new premium tax credit structure (tax credits would vary by age and income and would be extended to individual market enrollees with incomes above 400 percent of the FPL); and (4) federally funded reinsurance on all annual individual market claims above \$100,000.¹⁹

Iowa submitted additional information to address CMS questions about compliance of the Measure with the 1332 guardrails. However, after additional questions and information from CMS, in October of 2017, Iowa's Insurance Department submitted a letter of withdrawal for

¹⁸ Fact Sheet – Georgia: State Innovation Waiver under Section 1332 of the PPACA, November 1, 2020, available at https://www.cms.gov/ccio/programs-and-initiatives/state-innovation-waivers/section_1332_state_innovation_waivers-1332-ga-fact-sheet.pdf.

¹⁹ Nowak, Sarah A., Preethi Rao, Jodi L. Liu, and Christine Eibner, The Effects of Iowa's Proposed Stopgap Measure on Health Insurance Costs and Coverage. Santa Monica, CA: RAND Corporation, 2017. https://www.rand.org/pubs/research_reports/RR2228.html.

its 1332 waiver application, indicating that 1332 waivers are not designed to fix the collapsing individual market and that Congress needed to pass legislation to address the circumstances.²⁰

Considerations for consumers, states, and insurance markets

Reinsurance

Consumer coverage impacts

State-based reinsurance programs have successfully lowered base premiums, aiding in the affordability of coverage for some consumers, generally those who do not qualify for premium tax credits. At this point, the waivers are relatively straightforward in design, meet the ACA's statutory guardrails, and may improve issuer participation and reduce year to year volatility.

However, premium tax credits insulate many lower income individual market enrollees from base premium costs. Consumers eligible for premium tax credits pay a set percent of their household income for benchmark plans, whether or not a reinsurance program is in effect.

Budget

A key consideration for states is how to fund the state share of reinsurance costs. Reinsurance program costs are determined by the program structure and the claims experience of participating insurers, while federal pass through funds are set by the amount of premium reduction a reinsurance program is expected to achieve. The state is responsible for covering any difference between the program costs and available federal pass through funds.

The share of costs covered by federal funds varies by state and by year depending on state-specific factors and changes in policy. Federal funds can cover virtually all of a state reinsurance program's costs or less than half. Policies that increase premium tax credits due to state residents, such as the enhanced premium tax credits, boost the pass through funds available to a state. Conversely, a reduction in premium tax credits (except for those resulting from the waiver itself) limits the pass through funds.

States have chosen different methods for funding their state share of costs. About half of reinsurance programs use assessments on health insurance premiums. Other states use

²⁰ Letter available at <https://www.cms.gov/ccio/programs-and-initiatives/state-innovation-waivers/downloads/ia-letter-withdraw-1332-waiver.pdf>.

broader premium taxes, general funds, shared responsibility payments (individual mandate penalties), or a mix of these sources.

The continued success of reinsurance waivers depends on stable state and federal financing and clear guidance on future pass-through funding levels.

Other waiver types

States have used the flexibility of section 1332 waivers to make other changes in their health insurance markets. Hawaii was the first state to implement a section 1332 waiver; it replaced the ACA's Small Business Health Options Program (SHOP) with its pre-existing employer coverage program. Colorado (as described above) and Nevada require Marketplace insurers to meet premium reduction targets in addition to their reinsurance programs. Washington offers access to Marketplace coverage regardless of immigration status, without changing eligibility for federal premium tax credits. These uses show that section 1332 can be used for specific state objectives, provided the state meets the guardrails established in federal law.

Section 1333 Health Care Choice Compacts

Background

Summary of statute and 2019 request for information

Section 1333 of the Public Health Service Act, codified at 42 USC §18053, establishes statutory authority for states to create "health care choice compacts". The law directs HHS/CMS, in consultation with NAIC, to issue regulations for the creation of these compacts. The regulations are required under section 1333 to authorize two or more states to enter into an agreement where a qualified health plan could be sold in the individual markets of all the states and only be subject to the laws and regulations of the state where the plan is written or issued. Section 1333 clarifies that such health care choice compacts are also subject to the following requirements:

- A state must be **authorized by state law** to enter into a health choice compact;
- A compact must provide coverage that is at least as **comprehensive** as essential health benefits and offered through Marketplaces;
- A compact must provide coverage and cost sharing protections against excessive out-of-pocket spending that are at least as **affordable** as those under federal law;

- A compact must provide coverage to at least a **comparable** number of its residents as would be provided under federal law;
- A compact **may not increase the Federal deficit**; and
- A compact **may not weaken state enforcement** of market conduct, unfair trade practices, network adequacy, and consumer protection standards (such as rate review), and disputes arising under the contract of the state where the purchaser resides.

Thus, health care choice compacts under section 1333 must meet similar guardrails to waivers approved under section 1332, with the additional caveat that state consumer protections where the purchaser of insurance resides cannot be weakened. Section 1333 also does not contemplate states receiving pass-through funding, unlike section 1332 waivers.

CMS released a [Request for Information](#) on health care choice compacts in March 2019. At that time, [NAIC commented](#) that states already have authority to permit sales of non-domiciled plans to their residents and thus, separate federal authority to do so was not needed. The comments noted concern about the risks of market instability if plans were sold across state lines and stated that federally-directed sales of health insurance coverage across state lines would frustrate the ability of state insurance regulators to fulfill one of their central obligations—to provide protection and counsel to insurance consumers in their states. CMS did not promulgate proposed regulations in 2019.

On June 30, 2025, CMS sent a letter to NAIC President Jon Godfread seeking input to inform the development of Section 1333 regulations. The NAIC responded in a letter to CMS on October 2, 2025. In that letter, the NAIC emphasized that state regulators value the flexibility available under the Affordable Care Act, which allows state regulators to respond to individual market characteristics that are best managed at the state level. NAIC held that federal regulations that allow states to maintain flexibility in state or compact decision-making will ensure their effectiveness in guiding the development of compacts.

[Comparison with other multi-state compact authority](#)

The National Center for Interstate Compacts at the Council of State Governments maintains a database of enacted Interstate Compacts. The database currently contains 271 Interstate Compacts, covering a wide range of policy areas, from setting boundaries between states,

to water rights and disaster response among many other areas. The Council notes that benefits of compacts may include the following:²¹

- Providing state-developed solutions to shared and complex policy
- Settling interstate disputes
- Responding to national priorities in consultation or partnership with the federal government
- Helping states maintain sovereignty in matters traditionally reserved for the states
- Creating economies of scale to reduce administrative costs
- Addressing regional issues that affect multiple states

The multi-state compact most familiar to insurance regulators is the Interstate Insurance Product Regulation Commission (IIPRC). IIPRC allows for multi-state approval of annuity, life insurance, disability income, and long-term care insurance products. Each of these are fixed indemnity products that are largely independent of state-specific market considerations. Insurers pay a fixed indemnity payment amount to (or on behalf of) a consumer and the amount of the payment is not tied to the cost or network participation of a service provider. IIPRC describes its history on its website²²:

The IIPRC was created and established as a "joint public agency" by Compacting States that enacted the Interstate Insurance Product Regulation Compact (Compact Statute). The Compact Statute delegates to the Commission a limited regulatory function traditionally within state insurance departments, that is, to accept, review, and approve or disapprove individual and group annuity, life insurance, disability income, and long-term care insurance products submitted by insurance companies for use in Compacting States. The Commission adopts Uniform Standards, Rules and filings requirements constituting the exclusive provisions applicable to the content and approval of such products, rates and advertising on behalf the Compacting States.

The IIPRC came into existence in March 2004, when it was enacted into law by the first state, Colorado, creating an offer to its sister states and then by the second state Utah, constituting an acceptance of the Compact. Article XIII, Section 2 of the Compact Statute required enactment by twenty-six (26) Compacting States or, alternatively, by States representing greater than forty percent (40%) for the Commission to become operational. Both of these

²¹ CSG National Center for Interstate Compacts, "Frequently Asked Questions," available at <https://compacts.csg.org/faq/>.

²² Interstate Compacts and the Insurance Compact, <https://www.insurancecompact.org/about/faq>.

operational thresholds were met in May 2006 and 27 Compacting States held the Commission's inaugural meeting in June 2006. The Commission's product operations commenced in June 2007, when the first product filing was submitted, and was approved in July 2007. As of May 16, 2022, 44 states, the District of Columbia, and Puerto Rico (46 Compact Member Jurisdictions) representing approximately 75% of the nationwide premium volume for asset-based insurance products have adopted over 100 Uniform Standards covering all individual product lines and several employer/employee group products.

In the years following the passage of the Affordable Care Act, an organization called "Competitive Governance Action" proposed a "Health Care Compact."²³ The purpose of the Health Care Compact was to restore "authority and responsibility for health care regulation to the member states."²⁴ It would allow member states to enact legislation to suspend the operation of all federal laws, rules, regulations and orders regarding health care that are inconsistent with the laws and regulations adopted by the member state pursuant to the compact. It would also give member states the rights to federal funds in an amount equal to total spending on health care in the member state during federal fiscal year 2010.²⁵ Nine states²⁶ adopted legislation authorizing them to enter into the Compact, but no further action to receive Congressional consent or otherwise stand up the compact has taken place.

Section 1333 of the ACA establishes a somewhat different model of compact in that it requires approval by a federal official, the Secretary of Health and Human Services.

Considerations for consumers, states, and insurance markets

Potential areas of regulation impacted by HCC compact

Health care choice compacts, as outlined in the ACA, are subject to a number of restrictions, including application only to qualified health plans in the individual market. Potential areas of regulation could include mandated benefits (so long as essential health benefits continue to be met), and plan standards, such as plan design (so long as other guardrails continue to be met).

²³ Health Care Compact, website, available at <https://www.healthcarecompact.org/about.html>.

²⁴ CSG National Center for Interstate Compacts, "Health Care Compact." available at <https://compacts.csg.org/faq/>.

²⁵ Health Care Compact website, "The Problem & Solution" available at <https://www.healthcarecompact.org/about.html>

²⁶ CSG National Center for Interstate Compacts, "Health Care Compact" available at <https://compacts.csg.org/faq/>.

Section 1333 of the ACA also makes clear what state regulatory authority cannot be weakened under such a compact:

- market conduct
- unfair trade practices
- network adequacy
- consumer protection standards (such as rate review), and
- disputes arising under the contract of the state where the purchaser resides.

Additionally, a plan issued under a section 1333 Compact must be licensed in each state or voluntarily submit to each state's regulatory authority. It must also clearly notify consumers that the policy may not be subject to all of the laws of the state where the consumer lives.

Pros and cons for states

Multi-state compacts under Section 1333 could allow a range of market adjustments, from the same qualified health plan being offered in multiple states to the combination of multiple states' markets. Combining risk pools could potentially improve market stability, encourage more market participants, and create better leverage for insurers to negotiate better rates.

In its October 2025 consultation letter to CMS, the NAIC held that state flexibility and input will be paramount in making Section 1333 waivers effective. NAIC cautioned against federal regulations that limit how states work together to harmonize differing rules; how a compact is governed; and how a compact is funded.

Given the extensive federal regulation of qualified health plans under the ACA, states may value greater input into QHP standards and certification processes. A Section 1333 compact could be the vehicle through which states could provide that input. As noted in the NAIC's 2025 letter to CMS, flexibility is very important to states when discussing both section 1332 and section 1333 waivers. Consumer protection is of paramount importance to state insurance regulators, and a key element of the Section 1333 compact is that plans offered across state lines would continue to be subject to important consumer protections laws in each state in which they are offered.

The potential for state flexibility and increased stability for plans offered in the individual market is one of the more attractive features of a Section 1333 compact. States would be able to minimize the impact of significant policy changes at the federal level on the individual market, which is particularly vulnerable. The most recent example of the impact of these policy changes on the individual market is the rate increases for the individual market for plan year 2026, which were influenced not only by the expiration of the enhanced premium tax credits, but also federal changes to catastrophic plan eligibility and proposed rules revising eligibility requirements.

States that are part of a Section 1333 compact would be able to work together to develop plans that meet the unique needs of the member states and may be more nimble in responding to threats to the stability of the individual market, like significant network changes. Furthermore, states participating in a Section 1333 compact would also be able to closely coordinate changes to consumer protection and market conduct laws to minimize the impact of state level policy changes on the Section 1333 compact plans.

However, maintaining a nimble and coordinated compact would require an effective and flexible governance structure for the compact itself. An effective compact would require long-range planning and cooperation between governors, state agencies and legislatures. Legislatures in particular may require multi-year lead times in developing new policy. Thus, creating a smoothly functioning compact will require a concentrated, coordinated effort over a several year period, with no funding currently identified to support these efforts.

In contrast with the insurance products reviewed and approved by the IIPRC, health insurance often depends on state-specific factors. Rather than an indemnity model, comprehensive health insurance operates on an expense-incurred model and relies on localized provider contracting and networks. State policymakers may wish to retain more authority over health insurance policy and regulation than they have over the life, disability, and long-term care insurance handled by IIPRC.

The biggest unknown about the Section 1333 compact today is the lack of federal regulations outlining specifics, including the interpretation of the five guardrails, details about the approval process by CMS, funding, and procedural issues. These outstanding questions are also a significant deterrent for states that are contemplating such waivers.

Discussion, including combining waiver authorities

Each of the ACA's waiver authorities offer states flexibility to design coverage options that meet the needs of their states. Below are potential areas where federal guidance could assist in greater state flexibility aligned with greater opportunities for consumer protection.

Section 1331 waivers offer important flexibilities and federal funding opportunities for states to design coverage options that best suit their state needs. However, they may also have adverse impacts on individual market health.

Section 1332 waivers have been used widely to provide individual market stability and in more recent years have been used to implement innovations that address coverage needs of states. However, consistent interpretation of guardrails is needed, as is greater certainty and transparency surrounding the process for pass-through calculations.

Section 1333 waivers have not yet been implemented. Some have argued that standards for an individual market plan offered through a compact put regulation of state insurance products beyond federal changes and offer insurers, consumers, and regulators greater certainty, stability, and predictability.²⁷ Others caution that compacts are not likely to increase options, reduce operational complexity for insurers, or reduce premiums. Other issues that would need to be resolved include risk adjustment at the state level.²⁸ It is also unclear how a section 1333 compact could help stabilize markets without the ability for federal pass-through funds. This raises the question of whether an accompanying 1332 waiver would also be needed for states pursuing such an option. Clear federal guidance is needed around a number of issues before states can contemplate further pursuing these compacts.

Pursuing any of these flexibility options alone or in combination requires long-range planning and cooperation between governors, state agencies, and legislatures, as well as funding for actuarial modeling and venues for robust stakeholder engagement. Careful design is needed to avoid anti-selection and prevent risk pool fragmentation. Federal funding for planning and technical assistance would greatly help states take further advantage of the ACA's state flexibility provisions.

Conclusion

State flexibility under the ACA has already shown success in achieving greater affordability for consumers across many states. The law's flexibility options have the opportunity to play an increased role in maintaining accessible health coverage for consumers as the federal regulatory landscape changes. States are anticipating increased Medicaid disenrollments and future challenges for ACA market risk pools, among other tests for state health insurance regulation. Ever increasing health care costs also continue to drive premiums upward, leading to affordability challenges for individuals and small businesses. Clear and consistent guidance as well as flexibility from the federal government will help states to pursue state innovation options that best meet their coverage needs.

²⁷ See "Section 1333 Health Care Choice Compacts: Opportunities for States to improve the individual health insurance market through state compacts under the Affordable Care Act", by Peter J. Nelson, July 2024, available at <https://files.americanexperiment.org/wp-content/uploads/2024/07/Health-Care-Choice-Compacts.pdf>.

²⁸ See "A blast from the past: Dusting off ACA Section 1333 Compacts", Stacey Pogue, March 2025, available at <https://chir.georgetown.edu/a-blast-from-the-past-dusting-off-aca-section-1333-compacts/>.

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