



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
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Session 9: Issues with Medical Liabilities

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Issues with Medical Liabilities

Day 2

Topics to Cover

- UCL when historic data is limited or not available
- GAAP deferred acquisition costs
- High deductible plans/stop loss
- Others raised in Day 1

UCL with limited history

- Situations
 - New product
 - Gap in history
 - History not applicable
- Possible solutions
 - Pricing assumptions/loss ratio
 - Analogous products
 - Actual to expected analysis



GAAP deferred acquisition costs

- Goal is to match revenues and expenses
- Will discuss applicability later
- Products which have unlevel expense pattern
 - Individual medical
 - LTC
 - Other individual products
- Generally closely tied to contract reserve model

GAAP deferred acquisition (cont'd)

- GAAP/Statutory comparison
 - GAAP
 - Contract reserve based on net level premium
 - Capitalize and amortize acquisition costs
 - Statutory allows contract reserve at one or two year full preliminary term
 - Essentially recognizes lower benefit ratio in first two durations to offset higher expenses
 - Contract reserves alone often less than GAAP

High deductible plans

- More important with growth
 - Increased cost sharing
 - CDHPs
- Ultimate high deductible plan is stop loss
- Multiple problems
 - Level premiums with increasing claims
 - Difficulty in assigning incurred dates to claims
 - Seasonality in completion patterns

High deductible plans (cont'd)

- Solutions
 - Loss ratio method for estimating liabilities
 - Widely used for stop loss
 - Don't see used for CDHP much
 - Additional early period liability to recognize claim seasonality
 - Not allowable under GAAP
 - See limited use for statutory
 - Assignment of incurred date
 - Use policy year or underwriting year dating (often for stop loss)
 - Use date of first occurrence
 - Use traditional dating
 - Use of seasonal completion factors
 - Accuracy/credibility trade off

Alternatives for Current Month PMPM

- Selection more focused as plans reserves decrease
- Alternatives
 - Seasonality modeling
 - Prescription drug analysis
 - Authorizations

Controls in Actuarial Process

- SOX/Model Audit Rule changes focus on controls
- Observation: actuarial process performed well often with little documentation of controls
- Key Controls
 - Reconciliation of data to general ledger
 - Operational information observed
 - Hindsight analysis
 - Peer review
 - Verification of recorded
 - Review of results versus expectations

Potpourri

- Negative claims in lags
- “best estimate” liabilities
- Retroactive eligibility
- Treatment of backlogs
- Large claim information
- Steps to learn operational information
- Alternative liability models
- Treatment of non-daily claim payments
- Stop loss liabilities
- Selecting completion factors
- Provider liabilities/risk sharing
- Limited medical liability plans
- Allocation of cells/granularity of calculation
- Retroactive eligibility



Premium Deficiency Reserves

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Learning Objectives

- Overview of PDR and the issues
- Discussion of tough issues from yesterday's discussion



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NAIC Health Reserve Guidance Manual

- Provides guide for how actuaries should reserve for health insurance.
- Gives guidance on how reserves are calculated.
- Shows how reserves/liabilities are documented.
- Assists examiners in reviewing reserves/liabilities.



AAA PDR Paper

- Provides guide for how actuaries should reserve for health insurance.
- Provides specific examples illustrating financial impacts.





PDR Issues

- Deficiency Reserves Issues
 - Relationship to Gross Premium Valuation
 - Block of business and Cross Subsidizing blocks
 - Time period for calculation
 - Assumptions
 - Insolvent capitated providers



Documentation

- Documentation is needed even if it is determined that a reserve is not needed
- Documentation - should document policy groupings and other assumptions used to determine if reserve was indicated.





Tough Real Life Issues

- Discussion from the issues identified in the advanced session on previous day



Premium Deficiency Reserves

Unanswered
Questions???