



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
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Session # 3a: Actuarial Liabilities

Donna Novak, ASA, MAAA, FCA



Actuarial Liabilities

Donna Novak
NovaRest Consulting
Donna.Novak@NovaRest.com

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Learning Objectives

- Definition of "Actuarial" and "Liability"
- Types of actuarial liabilities
- How to estimate actuarial liabilities



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Actuarial Liability Versus a Reserve

- Why “Actuarial”
- Liability Vs Reserved
 - A reserve is accounted for as a liability



Liability Versus a Reserve (Cont.)

- Liabilities are for events that have happened
 - Unpaid incurred claims
 - Unpaid capitations
- Reserves are more forward looking
 - Premium deficiency reserve
 - LTC reserves





Types of Liabilities

- Premium Liabilities
- Claim Liabilities



Premium Liabilities

- Unearned Premiums
- Experience Rated Refunds





Claim liabilities

- Provider liabilities
- Unpaid claim Liability (UCL)
- Loss adjustment expense (LAE)



Provider Liabilities

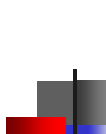
- Unpaid Capitations
- Withholds and bonuses
 - Based on incurred claims
 - Based on utilization
 - Base on average cost per service
 - Risk adjusted





Provider Liabilities (Cont.)

- Provider Insolvency
 - After an insolvency – UCL for past FFS claims replacing capitations
 - Before or After an insolvency – Deficiency reserve if higher claims and admin are going to be more than premiums



What is an Unpaid Claim Liability?

- Liability for claims that have been incurred, but have not been paid (IBNP)
- Page 3 of the Statutory Annual Statement
- Includes
 - Incurred but not reported (IBNR)
 - Claims in process of payment





What is the Appropriate Level to Calculate an Unpaid Claim Liability?

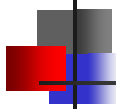
- Why this question?
- Options
 - Company
 - Line of business
 - Type of service
 - Hospital
 - Physician
 - Drug



Using Claim Triangles

- Description of claim triangle
- Calculation of completion factors
- Most recent months
- New lines of business
- Dental





Most Recent Three Months

	Completion Factor	Paid Claims	Incurred	PMPM
Apr-09	0.167068	8,497	50,861	16.33
May-09	0.081991	3,898	47,538	15.28
Jun-09	0.011809	1,178	99,720	31.89



1.050
1.020
0.925
0.880
0.817
0.775
0.647
0.618
0.415
0.167
0.082
0.012





Adjustments to Claim Triangles

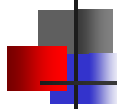
- Claim reversals or negative claims
- Claim backlogs
- Seasonality
- Large claims
- Provision for adverse deviation



Loss Adjustment Expense

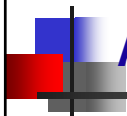
- Usually a percent of the unpaid claim liability





ASB ASOPs Provide Guidance

- ASOP 5 - Incurred claims
- ASOP 8 - Regulatory health filings
- ASOP 41 - Documentation standards
- ASOP 42 – Liabilities other than incurred claims
- Qualifications Standards - Requirements for actuaries signing actuarial opinions



Actuarial Liabilities

Questions???