



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
August 12- 13, 2009**

**Session # 10: Issues with Actuarial Liabilities
for Medicare Products**

**Darrell Spell, FSA, MAAA
Russell D. Willard, FSA, MAAA**

Medicare Supplement Potential Issue Areas

- Medicare Supplement seasonality.
- Medicare Supplement premium refunds.
- New Medicare Supplement blocks of business.
- Closed blocks

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Medicare Supplement Potential Issue Areas (cont.)

- Variability in Clearing House Processing Times – Impact on IBNR
- Impact of Pending/Potential Regulatory Changes
 - Med supp plan design changes – 6/1/2010
 - Changes to Medicare reimbursement rates resulting from national health care proposals

Medicare Supplement Potential Issue Areas (cont.)

- ALR impact of plan changes
- Pricing strategy impacts – impact on PDRs
- Rate increase availability and timing

Medicare Supplement Plan Design Changes

- Effective June 1, 2010
 - Eliminates at-home recovery benefit
 - Eliminates preventive care benefit
 - Part B excess benefit increases from 80% to 100%
 - Adds hospice benefit to all plans
 - Eliminates plans E, H, I, and J

Medicare Supplement Plan Design Changes

- Effective June 1, 2010
 - New plan “M” which duplicates Plan D, but with 50% coinsurance on Pt A ddbl.
 - New plan “N” which duplicates Plan D, but with Pt B coinsurance at 100%, less a \$20 co-pay per physician visit, and a co-pay of \$50 per emergency room visit, unless the beneficiary was admitted to the hospital.

Medicare Supplement Plan Design Changes

- Possible impacts
 - The regulation appears to allow for a fresh start in pricing assumptions
 - The regulation appears to allow separate experience rating for pre-2010 business and post 2010 business
 - The regulation includes requirements (limitations) on pre-2010 to post-2010 exchange offers

Health Valuation Boot Camp

Medicare Valuation Issues



August 13, 2009

Russ Willard



Faculty

- *Donna Novak, ASA, MAAA, Principal
NovaRest, Inc.*
- *Darrell Spell, FSA, MAAA, Consulting Actuary,
Milliman Inc.*
- *Russell D. Willard, FSA, MAAA, Actuarial Director,
Humana Inc.*

Clean Up

- Health Insurance Reserves Minimum Reserve Requirements - VM-25
 - Draft: 5/20/09
 - The NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org.
- Draft Note:
 - It is assumed that this will apply to all entities writing accident and health insurance no matter how they are licensed, including life and health insurers, HMO's, HMDI's and property and casualty companies.

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Clean Up

- A. Purpose
- B. Definitions
- C. Claim Reserves
- D. Unearned Premium Reserves
- E. Contract Reserves
- F. "Waiver of Premium" Reserves
- G. Reinsurance
- H. Health Insurance Reserve Adequacy and Additional Reserves
- I. Minimum Standards
 - I.1 Morbidity
 - I.2 Mortality
 - I.3 Terminations

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Clean Up

H. Health Insurance Reserve Adequacy and Additional Reserve

1. Appropriate reserves:
 - a. Not less than minimum reserves
 - b. Must be determined for –
 - 1) Claim reserves,
 - 2) Unearned premium reserves, and
 - 3) Contract reserves, with recognition of waiver of premium benefits

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Clean Up

H. Health Insurance Reserve Adequacy and Additional Reserves

2. “With respect to any block of contracts, or with respect to a company’s health business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.
3. “Such a gross premium valuation will take into account ... on the valuation date:
 - a. The present value of: all expected benefits unpaid,
 - b. All expected expenses unpaid, and
 - c. All unearned or expected premiums,
 - d. Adjusted for future premium increases **reasonably expected** to be put into effect.

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Issues with Actuarial Liabilities for Medicare Products

- Medicare Supplement
- Medicare Risk plans
- Part D issues

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Issues with Actuarial Liabilities for Medicare Products

- Medicare Supplement

Take it away Darryl

Yea!

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Issues with Actuarial Liabilities for Medicare Products

A Public Policy Practice Note Medicare Part D Accounting Practice Note

April 2008

American Academy of Actuaries'
Medicare Part D Accounting Practice Note Subgroup
of the Health Practice Financial Reporting Committee

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4. What balance sheet items relating to Part D should, and should not, be included in the insurer's statutory actuarial opinion?

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9. What methodologies do insurers typically use to estimate the LICS liability/receivable?

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10. What methodologies do insurers typically use to estimate the reinsurance liability/receivable?

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11. What methodologies do insurers typically use to estimate the unpaid claim liability for Part D?

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12. How do pharmaceutical rebates factor into the estimation of balance sheet items relating to Part D?

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13. How does the information provided above differ for insurers participating in the Part D Reinsurance Demonstration program?

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16. How should revenue and claims be treated if they are not realized until after reconciliation of the risk-sharing, LICS, and reinsurance amounts with CMS?

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17. When should P2P and S2P settlement amounts be recognized? How should P2P and S2P data be incorporated into estimates for financial statements?

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18. How should defined-standard, actuarial-equivalent, basic-alternative, and enhanced-alternative claims be treated differently in the calculation of the risk-share settlement amount?

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20. Are there any differences in financial reporting approaches if the program is a PDP or a MA-PD plan?

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21. For which items should additional provision for adverse development be held? How should potential offset between various components be addressed (i.e. lower unpaid claim liability might result in an offsetting change in risk share liabilities?)

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Issues with Actuarial Liabilities for Medicare Products

Medicare Claim Reserve Statistics

- MAPD & PDP Membership
- Inpatient Days/1000
- Inpatient Admits/1000
- MAPD Risk Scores
- Seasonality
- Dual-Eligible Percentage of MAPD Membership
- Medicare Claims Cost Trends by Market – MA, MAPD
- Medicare Claims Cost Trends by Market - PDP

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Issues with Actuarial Liabilities for Medicare Products

Medicare Claim Reserve Preparation

Region	Plan ID	Member Months	Inpatient	Outpatient	Other IP Facility	Other OP Facility	Physician FFS	Other Med. Providers	Capitation	Other Non-Hospital	VAIS	Total
Calgary	S1406006	29,439	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$6.33)	\$0.00	\$5.53	(\$0.80)
	S1406013	241,451	(\$10.69)	\$0.00	(\$0.39)	\$0.00	(\$5.85)	\$0.00	(\$2.76)	\$0.00	\$2.76	(\$16.94)
	S1406014	11,268	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$6.33)	\$0.00	\$6.15	(\$0.18)
	S1406022	28,525	(\$9.99)	\$0.00	(\$0.39)	\$0.00	(\$5.72)	\$0.00	(\$2.76)	\$0.00	\$3.38	(\$15.48)
	Total	310,683	(\$9.23)	\$0.00	(\$0.34)	\$0.00	(\$5.07)	\$0.00	(\$3.23)	\$0.00	\$3.20	(\$14.67)
Elko	S4510012	102,241	\$3.08	\$0.00	\$0.00	\$0.00	\$1.90	\$0.00	(\$0.77)	\$0.00	\$0.00	\$4.20
France	S1036044	218,812	(\$7.89)	(\$0.25)	(\$0.76)	(\$1.07)	(\$5.52)	\$0.00	(\$7.05)	\$0.00	\$6.98	(\$15.56)
	S1036056	11,992	(\$0.56)	\$0.00	\$0.00	\$0.31	(\$1.01)	\$0.00	(\$2.76)	\$0.00	\$4.65	\$0.62
		Total	230,804	(\$7.51)	(\$0.24)	(\$0.72)	(\$1.00)	(\$5.28)	\$0.00	(\$6.83)	\$0.00	\$6.86
Bulgaria	S1036037	118,862	(\$6.96)	\$0.00	\$0.74	(\$0.16)	(\$2.43)	(\$0.76)	(\$7.33)	\$0.00	\$4.40	(\$12.50)
	S1036068	10,244	(\$0.45)	\$0.00	(\$0.51)	\$0.00	\$0.00	\$0.00	(\$5.74)	\$0.00	\$5.75	(\$0.95)
	S1036081	8,042	(\$3.28)	(\$0.25)	\$0.00	(\$0.54)	(\$3.77)	(\$1.58)	(\$3.83)	\$0.00	\$4.40	(\$13.85)
		Total	137,148	(\$6.55)	(\$0.01)	\$0.61	(\$0.17)	(\$2.32)	(\$0.75)	(\$7.01)	\$0.00	\$4.50

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Issues with Actuarial Liabilities for Medicare Products

Claim Reserve Statistics

	Medicare Adv			MEDR PPO			PFFS		
	Days/1000	Cost per Day	Rx pmpm	Days/1000	Cost per Day	Rx pmpm	Days/1000	Cost per Day	Rx pmpm
Jun-08	1,424	1,631	89.96	1,844	1,325	88.68	2,276	1,674	70.20
Jul-08	1,409	1,633	88.83	1,970	1,374	88.31	2,269	1,657	71.79
Aug-08	1,307	1,655	101.16	1,753	1,389	97.97	2,371	1,552	82.68
Sep-08	1,158	1,626	96.06	1,681	1,398	92.72	2,175	1,553	83.89
Oct-08	1,119	1,691	103.91	1,578	1,512	90.85	2,118	1,575	81.89
Nov-08	1,138	1,677	98.51	1,538	1,445	83.94	2,010	1,549	77.66
Dec-08	1,337	1,661	94.62	1,469	1,540	84.28	1,622	1,522	77.92
Jan-09	1,361	1,672	99.76	1,700	1,491	91.69	1,747	1,538	85.69
Feb-09	1,379	1,681	93.86	1,602	1,436	87.08	1,726	1,521	81.88
Mar-09	1,441	1,705	99.45	1,681	1,521	94.23	1,616	1,542	87.96
Apr-09	1,456	1,685	97.15	1,594	1,445	94.63	1,689	1,531	87.23
May-09	1,459	1,724	100.30	1,392	1,555	101.77	1,549	1,548	98.05

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