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[Full article]

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by Suzanne Bates

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[Full article]

Efficient Risk Identification in a Reformed World

by J.P. Barela

When health care exchanges become operational in 2014, roughly 30 percent of the entire population will be eligible for risk adjusted payments. These payments will change the nature of the unit of exposure in health care from an individual with demographic data to a set of medical conditions. Plans that optimize their operations will be able to capture not only exposure data more accurately and make better business decisions but may also improve their regulatory medical loss ratio.

[Full article]

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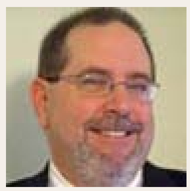

Issue Notes from the Editor

by Bill Ely

In the November issue of *The Independent Consultant,* we provide several articles that may be of interest to the Entrepreneurial Actuaries Section (EAS) membership:

- Outgoing Chairperson James Ramenda reflects on today's entrepreneurial environment and how the EAS has responded.
- Incoming Chairperson Kevin Pledge discusses future EAS initiatives.
- Suzanne Bates, in "Fast-Track Your Brand," provides tips for how actuaries may build their brand.
- In "To Build Your Business, Speak to Groups!" Ken Lizotte provides guidance on the benefits of speaking and offers some techniques for effective presentations.
- We are pleased to present two additional essays from the 2010 EAS-sponsored Papers Competition, "Playoffs?!?! -Fixing College Football," by Pete Rossi and "Efficient Risk Identification in a Reformed World," by J.P. Barela.

Enjoy the Issue!

Bill Ely, ASA, MAAA, is executive director, Actuarial Services for Kaiser Foundation Health Plan in Portland, Ore. He may be reached at william.r.ely@kp.org or 503.813.3362.

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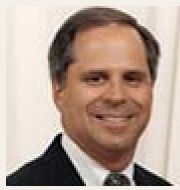

More Ideas Are Needed!

by James Ramenda

As my term as Entrepreneurial Actuaries Section (EAS) chairperson expires, I find the environment for entrepreneurial actuaries somewhat paradoxical. On the one hand, it would seem the demand for our skills would be firmly established since some of the major financial challenges facing citizens of the world's largest economy are actuarial in nature:

- Inadequate savings, depleted household wealth and the underfunding of state and municipal pension plans are calling into question the very concept of retirement in the United States.
- The cost of health care insurance continues to increase far more rapidly than gross domestic product (GDP).
- The average American wage earner is woefully uninsured in terms of both life and disability coverage.

Meeting these challenges is going to require new approaches, and, logically, actuaries should play a central role in developing and evaluating potential solutions.

On the other hand, while these problems clearly have demographic dimensions, the pressure on the financial system means that clients are very circumspect in their spending. Moreover, as I've mentioned in previous columns, much of the energy of the insurance industry is being absorbed by a seemingly endless parade of regulatory, governance and financial reporting considerations, rather than growth activities, e.g.,

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developing new products and expanding markets. The insurance industry landscape is dominated by big companies hiring big consulting and advisory firms to work on the "process" of the business, rather than on the business itself.

For entrepreneurial actuaries, the confluence of these challenges and constraints means they must employ new approaches and use new resources. The EAS has tried to help its members navigate this environment with initiatives like "Find an Actuary," improving our preferred vendor list, and moving forward a proposal for amending the Professional Code of Conduct to better recognize the circumstances under which entrepreneurial actuaries operate. Our resource center, webinars, networking events and formal meeting sessions have been geared to help actuaries grow their skills and, where possible, fulfill their CPD requirements in ways that are both time- and cost-efficient.

But in today's environment more ideas are needed! In addition to our energetic council, the EAS has a tradition of active "Friends of the Council." Being a Friend of the Council only takes an idea or the willingness to work on one. The networking/brainstorming is a way to stimulate your creative talents and help your profession at the same time. I look forward to starting my tenure as a Friend of the Council and working with the incoming chairperson, Kevin Pledge, and our new and returning council members.

James Ramenda, FSA, CERA, is senior vice president, Enterprise Risk for SS&C Technologies Inc. in Windsor, Conn. He may be reached at JRamenda@sscinc.com.

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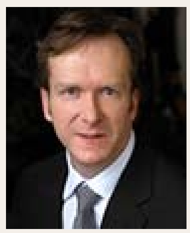

From the Chairperson
Section Initiatives

by Kevin Pledge

As the incoming chair of the Entrepreneurial Actuaries Section, I would like to use this letter to outline some of the initiatives I see as being especially important for this section in the coming year.

But first, I would like to thank the outgoing council members for the great work that they have done. Jim Ramenda, our current chairperson; Larry Stern, who was also chairperson in 2010; and Bill Ely, our newsletter editor, have all completed their three-year terms on the council and made significant contributions during this time. It is these contributions that we will be building on over the next year.

I also want to welcome our new council members Nick Ortner, Carlos Sanchez-Fuentes and Joseph Weiss. I will write more about the roles of the council in the next newsletter, but already your new council members have shown interest in taking on important roles and participating actively in council activities. I look forward to working with such an engaged council over the next year and beyond.

Back to the section initiatives: As I mentioned above, I see this year as building on the contributions made by previous section councils. Two benefits that this section provides are the knowledge base and the vendor list. These are excellent resources for our members and need to be kept up to date and perhaps modernized in their delivery. We have a great newsletter—this needs to be kept up and a new editor transitioned into the role. Finally, there are the meetings and webinars; in addition to

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the sessions we sponsor, our regular networking sessions organized in conjunction with local actuarial clubs will continue to provide opportunities for entrepreneurs.

This section is here to serve its members, so please let me know if there is anything that you feel we should be doing that we are not currently doing. I can be contacted at kpledge@insightdecision.com. Also, please contact me if you would like to volunteer to support this council in any way.

Kevin Pledge, FSA, FIA, is CEO and co-founder of Insight Decision Solutions, Inc. in Markham, Ontario, Canada. He may be reached at kpledge@insightdecision.com.

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Fast-Track Your Brand

by Suzanne Bates

What is a personal brand? And why do you need one? Your brand is, in essence, your reputation. Reputation is the most important asset you have in business—especially when you're dealing with someone's finances.

But your reputation isn't *who* you are; rather, it's what others *believe* about you. Your brand, or reputation, cannot be manufactured. A successful brand is built on what is real and authentic about you.

People know an authentic brand when they see one. It gives you enormous influence and also enhances your company's reputation. Building your personal brand as an actuary takes work, but those who are willing to put in the time and effort see big results. Here are some tips to help you fast-track your brand building and take you to the next level.

1. **Take massive action.**
   Determine who you want to reach, and what you want to accomplish when you do. Analyze your client base. Look at the people you have on your team who can help you build your brand. What outside resources will be required?

   If you're going to invest time and resources anyway, you might as well accelerate the process and get it done faster. The more committed you are to massive action, the faster you'll see results.

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Your plan will develop as you go.

2. **Leverage, leverage, leverage.**
   You write a story for a speech. That story goes into your blog. It becomes the basis for a magazine article. The article is pitched to a reporter, who interviews you for a major newspaper.

   One speech, video, article or event can be the catalyst for an entire campaign. Repurposing is not only allowed; it's incredibly savvy.

3. **Get comfortable *being* a brand and put yourself out there.**

   It is so important to think of *yourself* as a brand. You are a leader with a reputation you can leverage.

   But you can't build a brand sitting in your office. You have to get out there. There's no substitute for shaking hands, showing up and making a personal connection with your clients and colleagues.

4. **Do the things only *you* can do**.
   No one else can write a book that has my name on the cover. But I can rely on a lot of other people to help make it successful. The marketing director at my company can set up speaking engagements. The public relations (PR) firm can pitch interviews.

   Focus your time and energy on the activities that you do well, and let others do what they know how to do.

5. **Get pros to help.**
   As you build your brand, you will find that you need to get comfortable giving speeches and media interviews. Likewise, it's crucial to keep in mind that everything around you is an extension of your brand, representing who you are and what you stand for.

   To fast-track things like this, get some expert guidance. Find a coach who can help you deliver the perfect speech. Hire a wardrobe consultant for your clothes and a designer or decorator for your office. Tell them what image you want to project.

6. **Help other people get what they want.**
   Don't underestimate the power derived from helping others. People will remember your generosity, and they will tell other people about you. They won't forget the favor you did for them. Helping other people is a fast-track brand-building activity, and

you can also feel good about giving back.

7. **Ask: What do I want to do that I haven't done yet?** That word *yet* is important. It implies you want to stretch and grow. Where do you want to be known? What are you doing well? What aren't you doing yet that you'd like to do well?

Investing in success is important for any size business. It takes time, money and planning to build a brand—but you can accomplish a lot with a little, if you're smart and have a good team. You'll be excited about the outcomes, and you'll see direct results from what you achieved. Commit to raising your visibility and seize opportunities as they come along.

Suzanne Bates is author of the new book, *Discover Your CEO Brand: Secrets to Embracing and Maximizing Your Unique Brand as a Leader*, just out from McGraw-Hill. Founding CEO of Bates Communications, a firm that transforms leaders into powerful communicators who get results, Bates is also author of thepowerspeakerblog.com and two other books from McGraw-Hill: *Speak Like* a CEO and *Motivate Like a CEO*. Visit her website: bates-communications.com.

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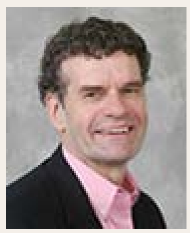

To Build Your Business, Speak to Groups!

by Ken Lizotte

Smart consultants well understand the value of relationship building in developing and keeping new business. What better vehicle for relationship building than an event at which lots of high-level business prospects will show up in one place to listen to you?

An added bonus is the promotion you gain by having your name, your firm's name, your bio and your credentials published in the conference brochure, then mailed out to thousands upon thousands of successful professionals.

For all such reasons, speaking must be pursued. Do you value meeting people one-on-one? Speaking multiplies the benefits of such encounters by maximizing relationship efforts. Choose the right topic and the right audience, and you'll frequently be pleasantly surprised at how fruitful speaking can be.

For consulting actuaries, speaking provides value in other ways as well, contributing to you personally, as well as professionally:

1. Preparing a presentation helps you organize and deepen your thoughts.
2. Speaking forces you to think quickly on your feet, economizing and refining how you articulate your ideas and value proposition.
3. Fielding audience questions helps you perceive your own

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concepts in a new light. You may be asked something you hadn't thought about before, leading to new research on your part, or hear an attendee describe a personal experience that bolsters your case.

4. Speaking provokes speaker-audience sharing, spawning new thoughts to be absorbed by speaker and audience alike.

But I'm Afraid to Speak!

It's an age-old maxim that when surveys are taken of the general populace, people report they fear public speaking more than death! If that's you, let's get over this right now. But my ordering you to be brave may not be sufficient to get you there. So review these suggestions for getting you off your nervous duff and up to the front of the room:

- Take a course or join Toastmasters. Find a way to practice speaking in a safe setting. There are public speaking courses galore at college and community adult education centers. There's also Toastmasters International, an informal speaking practice club found in most regions, usually meeting in a library or local hotel. Individuals of all stripes get together to coach each other on their speaking skills. You should also check out the National Speakers Association, which probably sponsors a chapter near where you live. This professional association will get you past your amateur status, so you can fully integrate it into your "thoughtleading" repertoire.
- Speak, speak, speak. Find as many places to speak as you can, not only to audiences of prospects but general business and civic audiences and even your colleagues at the Society of Actuaries (SOA) and other places. You'll experience ups and downs, even times you wish you had never gotten up on that stage. But by keeping at it, you'll turn out a better speaker for it, experience being the proverbial best teacher.
- Recognize opportunities. Notice also how many mini-opportunities abound for speaking, many of which could be easily passed by. Sometimes seemingly mundane situations can be beneficial not only to practicing speaking but to promoting your "thoughtleading" brand as well.

So when a program host invites audience attendees to stand up and give their "30-second elevator speech," you'll want to jump right up and be the first to go. You'll not only be grabbing an unexpected chance to practice, but what you say in those 30 seconds may put you as much in the spotlight as the keynote speaker.

For example, my elevator speech (which I call an "impact statement" thanks to Relationship Capital expert Jim Masciarelli who designed it) typically scores me great attention from an audience because it hits them squarely where they live. My impact statement follows Masciarelli's careful construction as described in his book *PowerSkills*:

"Hello, my name is Ken Lizotte. I'm with emerson consulting group," I begin, then after a momentary pause (for effect) ... "*where we make business experts famous*!

"We do this by helping them get their ideas published, thereby positioning them as leading thinkers in their field. If you'd like to gain more recognition in your target market as an expert with an edge, see me tonight or send me an email."

Then I sit down as many in the room murmur and plan to approach me later and grab my business card. Gets 'em every time!

Your task then is to plug in your best attention-grabbing initial description followed by elaboration on how you do what you do. You'll wake up those in the room to your business value and to their need to get in touch with you without delay!

What Will I Speak About?

The best speaking topics are those aligned with your business objectives and the reputation you want to cultivate as an expert.

Although most major conferences will require you to fill out a formal proposal document listing your topic's "learning points" and "takeaways" and perhaps an outline of your presentation and other details, less particular situations (such as an association chapter meeting, a Rotary Club, or a civic organization) will more likely request only your topic title and a "short description."

Thus, your "speaking topics list" should merely reflect the same core services that you offer your clientele, but with a less sales-y and more educational slant. Examples: "Five Traits of Great Actuaries," "How Accurate Numbers Can Keep Your Business Strong" and "Mistakes to Avoid When Taking a Business Risk."

A Word About PowerPoint

At a speaking gig in New Jersey, I did my usual thing, which typically involves just talking and interacting with my audience without the aid of charts, slides or overheads. After I finished, one attendee thanked me profusely "for not using PowerPoint."

When PowerPoint first came on the scene, it seemed that everybody had to include a PowerPoint component to their presentations. And of course as the bells and whistles developed, the PowerPoint parts got glitzier and glitzier. After a while, the whole thing got way out of control.

In fact, Tom Kennedy, founder and president of The Kennedy Group, a speech coaching consultancy in the Boston area, actually refers to the PowerPoint phenomenon as "Death by PowerPoint." he recommends giving up slides altogether, or if you don't feel ready for that, he says, try putting your presentation together first, without choosing slides, then carefully take note whether adding slides will help or hurt you. "If it's not truly a visual aid," he says, "It's your competition!"

So stay away from PowerPoint slides if you can and practice speaking "without a net." You'll learn to communicate more directly with your audience, more clearly, more spontaneously and more comfortably. You'll stop fearing public speaking and start looking forward to any chance to share your expert ideas and show off your value to those who need to employ you.

Ken Lizotte, CMC, is author of *The Expert's Edge: Become the Go-To Authority that People Turn to Every Time*" (McGraw Hill) and chief imaginative officer (CIO) of emerson consulting group inc. in Concord, Mass., which transforms professional service firms and consultants into "thoughtleaders," separating them from the competitive pack. A Certified Management Consultant, he is a co-founder of the National Writers Union, a seminar leader at Harvard University, member of the CEO Club of Boston and IMC USA, and a graduate of Alan Weiss's Million Dollar Consulting College. Visit his website: www.thoughtleading.com.

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Playoffs?!?!
Fixing College Football

by Pete Rossi

This essay was submitted for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition.

Executive Summary

Mega Issue: College football is broken and actuaries are going to fix it. The current system, the Bowl Championship Series (BCS), is entrenched in subjectivity, politicking and greed. The proposed solution allows the National Championship to be crowned on the field in an objective manner while increasing profits to the universities. Actuaries will use their communication, decision-making and organizational skills in developing this unbiased solution. The 'idea' itself adds the value to the firm and profession.

Introduction

Ah, Jim Mora. Coach Mora was speaking to the chances of some young quarterback named Peyton Manning leading the Indianapolis Colts to the playoffs. Years later we look back at the ol' coach's rant as NFL lore. But that's what makes sports so great–the champion is crowned on the field/court/mat. There are no questions and little debate. Well, all major sports except Division 1-A college football. Mega Issue: College Football Playoff System, the Holy Grail of organized sport debate.

Depending on who you ask, major college football does not have a 'playoff system.' Instead, something called the Bowl Championship Series (BCS) is used. The BCS uses a complicated numerical formula to

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match up the two top teams–essentially a two team 'playoff.' These two schools will play in the BCS National Championship game. The inequity in this current system is that all 120+ teams don't have a chance to compete for the championship. In fact, only about half the teams actually have a legitimate opportunity annually. The current system is subject to excessive subjectivity, politicking and greed.

The entrepreneurial approach can be used to rectify the current suboptimal situation in college football by eliminating the above issues. The ultimate solution will be one where the championship is decided in a fair and equitable manner, but done so on the field–a true playoff system.

The actuarial profession trains us well in the areas of decision making and organization. Arriving at an unbiased, optimal solution is a staple of the actuarial profession. Applying these to the BCS will generate an equitable system. In this case the 'idea' is where firm value is created (low cost, high benefit). When dealing with non-tangible things like 'ideas,' communication and organization are critical. A well-crafted solution from an actuarial firm is low-cost and effective.

Stakeholders with Their Associated Viewpoints

1. Fans/Alumni—To this group, college football and the universities are like motherhood and apple pie. Their school holds a special place in their hearts. They will cheer when the team is down five touchdowns. They will pack the Winnebagos and take the 500-mile trip to campus. They are the 12th man. They are Penn State. And all they want is for their team/school to have a fair chance at a National Championship.

2. Players—The players want to play for a National Championship. It's that simple. Perhaps some want to pad their stats in hopes that a large payday will eventually come their way. But in the here and now, they all want to be the outright champion among their peers.

3. University Administrators—Let's be realistic here: The schools are only in this game for the money, not for the players or the results. College football is a multi-billion-dollar-a-year industry. Traditions and big name schools bring in the money. For example, a marginal Michigan/Ohio State game is more desirable than an undefeated Boise State/Texas Christian matchup.

Criteria

- **Objective**—Pollsters and mathematical formulas aren't needed. The winner will be crowned on the field just as every individual game is decided.

- **Flexible**—The college football landscape is constantly changing, so any implemented system must be ready and willing to change along with it.
- **Maintain Tradition**—College football is defined by Michigan/Ohio State, Oregon/Oregon State, Notre Dame, Bowls.
- **Increase Profits**—The only way to achieve buy-in from the University Administrators would be if the new system is more lucrative than the current system.
- **Not Exploit the Student**-Athletes—The athletes are amateurs, and as such, do not receive compensation for performance. Any proposal cannot result in playing an exorbitant number of games.
- **Decrease Downtime at Season's End**—Typically, teams playing in BCS Bowls wait upwards of 30 to 40 days from their last game. This makes the quality of football exhibited on the field poor for many fans.
- **No Adverse Effects to the NFL**—The National Football League is the cash cow in the United States of America. When the Bowls, which are historically played on Jan. 1, fall on a regular season NFL Sunday, they are bumped to the following day.

Solution

The easiest way to construct an optimal solution is to start with the desired result and work backwards—analogous to valuing a financial option. But it's easier to explain working from the beginning.

Let's break all 120+ teams into eight 16-team conferences with two divisions per conference. This will allow conferences steeped in tradition to persist. A school will be required to play all seven teams in its division and two others in its conference, along with two to three games out of its conference. This means that a team plays 11 to 12 regular season games, not different than the status quo. Conferences decide all tiebreakers for division winners. It's preferable to have conferences decide this rather than some external organization subjectively determine the top two teams overall.

The two division winners in each conference will play one another in a conference championship game. This will be followed by an eight-team playoff of all the conference champions. The schedule of these games will be held within the current timeline without adding to the length of the season. (Perhaps schedule the quarterfinals in December, with the semifinals and finals in January.) It also creates consolation games for those not playing for the National Championship as well as keeping the current Bowl structure intact. Sites for the playoff can be rotated among the traditional 'BCS Bowls' as a way to further spread the wealth.

This proposed playoff system will see the top two teams play a total of 16 games. Currently, the top teams play 14 games, with a 15th being discussed under the 'Plus One' approach, where an additional game would be played at season's end. Those teams who lose their conference championship game, or fail to win the division, will not play any additional games under the proposed system.

As proposed, college football playoffs would be far more lucrative than the current system. The revenue impact extends beyond the sponsorship of the proposed playoff structure. Currently, teams schedule 'cupcake' (easy) non-conference games since every game essentially counts. Well, under the proposed system, only those games in your conference will count. That frees up a school to play the big name for the big payday. One can argue that the BCS harmed the viability of the traditional non-conference game, which is rarely seen now.

Actuarial Firm Approach

Why now? Well, the iron is hot. This past summer, college football almost saw Armageddon—a large-scale conference restructuring. Alas, it didn't happen, but the game is at a tipping point. The hurdle has always been the big, traditional conferences. If everyone moves together a lucrative and objective playoff is inevitable.

This is where the skills of the entrepreneurial actuaries are needed. No firm alone can pick up the phone and schedule a meeting with the college football movers and shakers. But what we can do is meet with those schools that typically are on the outside looking in. We can present the above solution and help them fill out the eight 16-team conferences. We will identify the potential Pareto Improvements. When the dust settles, the framework for an effective, objective college football playoff will be in place.

Implementation of the proposal will not be an easy one. Realistically, widespread sweeping changes never are. But the cost to the firm is low—multiple meetings/briefings, travel expenses and opportunity costs. The benefit is substantial—'the organization that fixed college football.' For an entrepreneur, there is no substitute for a well-designed plan/solution.

All sports enthusiasts love the playoffs. It's deeper than sports—it's basic evolutionary theory. Use any cliché you want: 'survival of the fittest,' 'win or go home,' 'do or die,' 'play like a champion today,' 'playoffs?!?!' Coach Jim Mora's rant has no direct relation to college football, yet has everything to do with the fairness and objectivity needed in college football.

Pete Rossi, FSA, CERA, FCA, MAAA, is an actuary with the U.S.

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Efficient Risk Identification in a Reformed World

by J.P. Barela

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Executive Summary

When health care exchanges become operational in 2014, roughly 30 percent of the entire population will be eligible for risk adjusted payments. These payments will change the nature of the unit of exposure in health care from an individual with demographic data to a set of medical conditions. Plans that optimize their operations will be able to capture not only exposure data more accurately and make better business decisions but may also improve their regulatory medical loss ratio.

Mega Issue

The standard method of exposure in health insurance is the member month. For rating reasons, this concept is often expanded to age, gender, family status and, for some markets, a selection factor. The Patient Protection and Affordable Care Act (PPACA) transforms this definition for several markets. Instead of age and gender, PPACA expands the definition of exposure by introducing risk adjustment into the small group and individual markets. The exchanges combined with existing risk adjustment in the Medicare advantage market may make up to 31.2 percent of the entire U.S. population eligible for risk based payment. This estimate does not include additional risk based programs in the large employer or Medicaid markets, so it is possible that well over 30 percent of the population will have health status as the primary

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method of exposure in 2014. The payment for these markets will depend on the actual health status of the individuals covered. Based on existing systems, this adjustment may result in premium differentials of 4-1 for a member with several chronic conditions compared to a member with no condition markers, making tracking health status critically important.

Tracking these exposures is complicated by that fact that health plans are not able to directly define the health status of members. In the case of Medicare and likely in the case of the new exchanges, only qualified health care providers (M.D.s and advanced practice nurses) are able to diagnose the health conditions that will result in increased payment. Health plans will therefore need to develop programs to ensure accurate coding of health status.

Solution Overview

Actuaries are used to and often push the idea of risk adjustment as a more accurate measure of risk. Actually tying payment to risk adjustment will result in several operational challenges. How does the risk adjustment impact cash flow? Should reserving and trend analysis incorporate risk adjustment? Plans that develop solutions to these questions will prosper but for plans that truly embrace risk adjustment an additional benefit is likely, an increase in the medical loss ratio (MLR).

In addition to creating the exchanges, PPACA also dictated that health plans publish their MLR in 2010. In 2011, plans will be the required to refund consumers' premiums if the loss ratio is above 80 percent to 85 percent depending upon the market. A plan that develops enhanced claims systems tied to care coordination is likely to include much of the cost for these upgrades in the medical cost portion of the loss ratio. If designed effectively this data should be easily converted to risk adjustment data for use by the actuarial department minimizing the IT cost outside of medical costs.

The center piece of these efforts is a system that analyzes claim data for condition status markers. Several systems exist currently to track the risk adjustment system for Medicare using a member's claims to identify which health status. The current systems are unlikely to qualify as the care coordination because they focus on past claims instead of managing future care. Developing a near real-time system will enable the information to be used for care coordination, particularly developing a care plan for members with newly diagnosed chronic diseases and ensuring that evidence based protocols are being followed.

Timely condition identification allows for the aggregate risk information to be used throughout the organization including actuarial tasks such as reserving, utilization and trend analysis. Many risk adjustment systems including Medicare use interim payments based on incomplete risk adjustment and then true up the risk adjustment after sufficient claims run out. Plans that identify conditions quickly will therefore see improved cash flow.

Focusing on care coordination can also have further benefits for defining the exposure of the health plan. By developing a care plan with the member, the correct risk classification can be confirmed, and, if necessary, additional testing and medical care can be done to confirm the correct diagnosis and potentially increase overall plan reimbursement.

Reviewing existing members for previous conditions can also yield additional current conditions. Many existing risk adjustment systems require an office visit or surgical procedure to diagnose a member. This means that even if the member is taking medications or having routine blood work the member may not be classified appropriately. A near real-time system can isolate members who are taking low cost measures to manage a chronic condition but who are not being categorized as having the condition because of the lack of a qualifying diagnostic visit. Care coordinators can then reach out to these members to ensure that the member sees a provider to confirm that the condition is still treated effectively while also providing the clinical input to confirm the condition in the risk adjustment system.

Measuring Results

Developing an improved and integrated health claims system will increase operational efficiency but by how much? The MLR is one key metric that should be improved due to the adoption of the system. Another key metric will be the return on investment (ROI) of an intervention strategy.

Health plans should be currently in the processes of developing a figure for their 2010 MLR. This figure can be used as a baseline for understanding the change in the MLR due to centralizing the risk adjustment methodology. Plans should target three areas for shifting expenses to medical portion of the MLR current risk adjustment costs, IT support for care coordination, and IT support for the actuarial department.

The second area for a direct metric for the risk identification system is the ROI of the intervention strategy based on a near real-time risk adjustment system. Care management strategies can be complex and measuring their overall effectiveness is difficult, but in the context of risk identification both the costs and benefits are concrete and relatively straightforward.

The risk identification benefit that can be assigned to a care management system can be seen as increase in revenue due to a change in the risk score of an individual member from the intervention date. This method will not capture the initial reason for developing a care management plan but will capture any changes such as additional comorbidities and increases in the severity of initial condition. The benefit for interventions targeting existing conditions will be the revenue for classifying the member with the targeted condition.

The most obvious cost associated with an intervention plan is the direct communication cost of contacting members. The next direct cost is the medical intervention necessary to diagnosis the conditions. To minimize confusion in calculating the ROI, a predetermined list of diagnostic services should be developed. Finally, the plan may consider allocating some of the IT and personnel costs of the care management program to risk identification. This last point also highlights the need to make sure that costs are only included in either the risk identification or care management program for ROI evaluations.

Care should also be taken in developing an ROI target for risk identification. The mix of intervention types will play a major role in the ROI calculation. The return on initial care plan development will depend on the coding accuracy of the health plan's providers. Since the coding accuracy should improve over time, the risk identification return should decrease of time. The return for existing condition interventions is likely to be more stable as monetary return can be calculated before the intervention and response rates can be estimated. In addition to the case mix, the ROI may decrease as risk identification moves from a new program to an internal automatic process, decreasing the need for interventions.

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