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Prologue

By Jim Toole and Carmen Easterwood

In the years leading up to health reform and the passage of the Patient Protection and Affordable Care Act (ACA) in the United States, it was clear to health actuaries that major changes were urgently needed. The U.S. system of health care finance and delivery was characterized by unequal access to care and high costs, without delivering the corresponding outcomes that might justify such expenditures. In this environment—where no side of the cost-access-quality “iron triangle” was being satisfactorily addressed—in 2009 the Health Section of the Society of Actuaries sponsored an essay contest for actuaries to consider key health policy issues and propose solutions. Health actuaries deal on a day-to-day basis with the intricacies of health care delivery and have a deep understanding of how the nuances of financing affect cost, access, and quality of care.

The 29 essays produced for this contest covered a range of health care issues in which actuaries have interest and expertise and about which they care deeply. Two broad strategic issues were a common thread through all of the essays:

High uninsured rates: In 2007, the Census Bureau estimated that 45 million Americans (approximately 15 percent) were uninsured. This is a major barrier to health care access, and the uninsured are known to forgo necessary health care. This is harmful on both an individual and societal level, as it results in higher rates of morbidity and mortality for the uninsured and in some cases those around them (e.g., someone who cannot afford care for a contagious disease passes it to others). Furthermore, access to care varies greatly across so-

cio-economic groups, and the uninsured are concentrated among low-income and minority households.

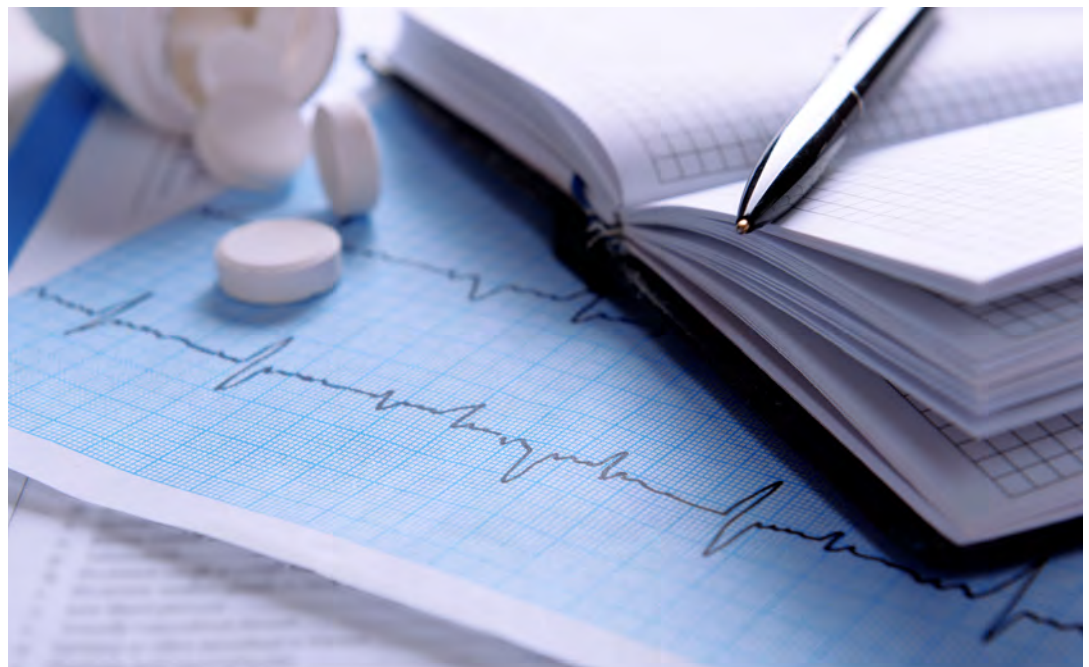
Rising costs: Controlling costs is a more intractable issue than extending access. The United States consistently spends more on health care than any other developed country but does not provide proportionately high-quality care. OECD estimates show that in 2009—the year before the ACA was passed—U.S. health care spending topped 16 percent of gross domestic product (GDP). Objectives include reducing spending on unnecessary or ineffective care (estimated to be as high as 30 percent of overall spend) and will involve some form of cost sharing with individuals so that consumers do not become desensitized to its cost.

Actuaries also considered more specific insurance issues that were creating challenges in the

delivery and finance of health care. These included matters such as:

Expensive coverage for small businesses: The employer-based health insurance system was an unintended consequence of post-WWII tax policy, and it was a costly one for smaller employers. Small group health coverage has historically been more expensive due to smaller risk pools, higher per-person administrative costs for the policy, and the business’s lower negotiating power with the insurer.

Non-transportability of coverage: Since the majority of Americans obtain health coverage through their employer, leaving or losing a job also means losing health coverage. Being unemployed or self-employed could mean coverage is unavailable or prohibitively expensive, discouraging entrepreneurship.



Fragmented risk pool: Americans can obtain health coverage through their employers, the individual insurance market, Medicare, Medicaid, or not at all. Those without coverage can be separated into those who cannot afford coverage and those who choose to forgo it. Thus the market is very fragmented, increasing costs and the ability for risk pooling mechanisms to function properly.

In their essays, health actuaries proposed solutions to these and other issues affecting delivery and financing of health care. Their proposals integrated basic insurance principles with the goal of improving cost, access and quality. Some proposed broad-based reforms to health financing, such as:

- Making insurance mandatory
- Making everyone eligible for insurance (i.e., no denials or termination of coverage)
- Linking individuals' health care payments to their ability to pay, such as by subsidizing premiums; and out-of-pocket costs on a sliding scale
- Placing limits on out-of-pocket spending for necessary care
- Increasing risk classification.

Other actuaries addressed the relationship between health care financing and tax policy. Premiums for employer-based insurance are paid with pretax dollars, while premiums on individual policies are not. This is

a disincentive for individuals to obtain coverage and an incentive for employers to provide richer benefits, encouraging unnecessary care. Ideally, the tax code would also integrate with any cost-reduction systems put in place for low-income households.

Some actuaries proposed specific reform schemes, such as creating a public-private system similar to Medicare Advantage for the entire population. Others outlined improvements to the provider reimbursement system, changes in pricing to promote preventive care, and risk adjustment schemes that would shift money toward sicker and more vulnerable individuals.

Some of the issues covered in these essays would go on to be addressed in the ACA of 2010. Remarkably, the following principles anticipated by actuaries were ultimately incorporated into the ACA:

- Individual mandate
- Guaranteed issue (non-deniability of coverage)
- Sliding scale of premium subsidies
- Out-of-pocket spending limits
- Risk adjustment mechanism.

Other issues raised by actuaries were indirectly addressed by the ACA. For example, the ability of health insurers to classify consumers by health risk was severely restricted by the ACA, but the need for risk classification was simultaneously made

much less acute by the individual mandate. This requirement removes some of the adverse selection issues that arise when individuals can choose whether to participate in a risk pool.

In commemoration of the five-year anniversary of the passage of the ACA, the Society of Actuaries has put together a new series of articles on the bill and its implementation. The following essays will review several technical aspects of the ACA, examining how the intent of the regulations compares to reality, and what we can expect to see in the next five years. We expect that actuaries will continue to play a key role in the implementation of the ACA as it evolves and adapts in the future, and to continue thinking and writing about the systemic changes that may still be needed. ■

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Jim Toole, FSA, CERA, MAAA, is a managing director at FTI Consulting and vice president of the Society of Actuaries (SOA) board of directors. He can be reached at jim.toole@fticonsulting.com.



Carmen Easterwood is a Consultant at FTI Consulting. She can be reached at carmen.easterwood@fticonsulting.com.