

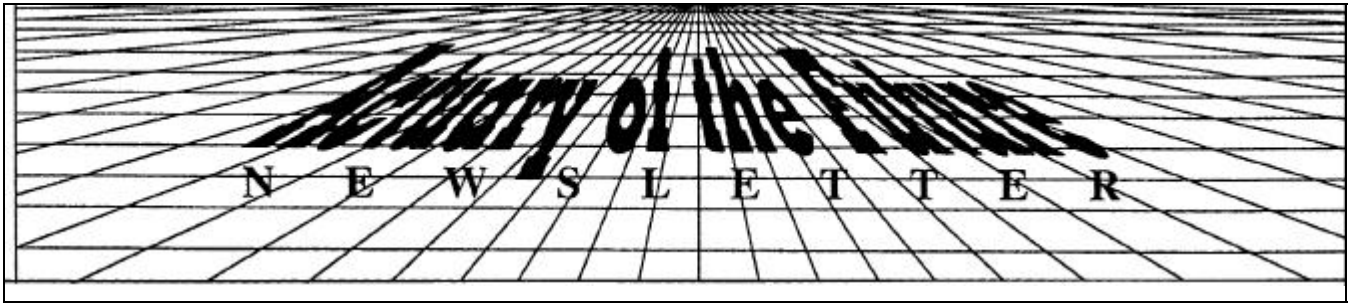


SOCIETY OF ACTUARIES

Article from:

Actuary of the Future Newsletter

June 1999 – Issue 8



Editor's Voice

by John Christensen

This issue marks both a beginning and an ending. It is my first time as editor of the newsletter, actually my first time as an editor of any newsletter. My strength academically was math, not English, but I promise my very best effort. My thanks to John Christiansen, the previous editor, who held my hand through this first time. This newsletter also marks the close of Dorn Swerdlin's three-year term as chairperson of the Actuary of the Future Section Council. I will certainly miss his "Chairperson's Corner" in the newsletter, which has always been very thought-provoking.

In this Issue

Turning to the articles, I found Dorn's comments on the "Big Tent" versus "Little Tent" approach presented to the Board of Governors to be enlightening. The "Little Tent" approach describes more where we are now, whereas the

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The Actuary & the Future of U.S. Health Insurance

by John MacBain

The future of the actuary and the future of the private health insurance system in the U. S. are, in my opinion, inexorably intertwined. In order to place this statement in perspective, it is necessary to describe the state of the system as it exists now, where it is likely to go in the absence of an informed and rational dialogue by our society, and the contribution to that dialogue that we as actuaries must make if the system is to exist and health resources are to be allocated most efficiently.

State of the Union (or Where the Private Health Care System Is Now)

At the turn of the millennium, the health-care system is characterized by:

- 1) misunderstanding of the costs of the

- system and the source of those costs
- 2) confusion over what the system provides and what we as citizens are entitled to
- 3) the pursuit of personal agendas by everyone involved in the system
- 4) distortion of the facts about the true costs of the system and the solutions possible
- 5) heated and inflammatory rhetoric

The old adage states that "perception is reality." That's certainly true regarding the cost of private healthcare. The public perceives that they are paying too much for private health insurance. It's probably true that they are paying too much, but that is due, at least in part, to the fact that they have a misunderstanding of the cost of what they want and demand from their healthcare. While it is true that there is some profit available in the private healthcare system, it does not amount to gouging the public. The media loves to concentrate on healthcare premiums but it is the costs with which we must deal.

Nothing in a free society is truly free. There is a price to be paid and that price usually reflects underlying costs. Life, liberty, and the pursuit of happiness are the only constitutional guarantees unless the laws of the land decree otherwise. Healthcare has a price and we need to understand that the price we must pay for what we demand in this area is high. We either need to change our perception of what we want in terms of healthcare or pay the price—either in taxes through

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The Actuary & The Future of U.S. Health Insurance

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government programs or as premiums to insurers and other providers. But the consumer, in my opinion, is not aware of these costs.

In Canada, where I grew up, we lived under a "national healthcare system" which was, and still is, touted as providing "free" health coverage to all. Healthcare is not free. In an effort to control the spiraling costs of the system, the program has been forced to cut back on reimbursements to providers and hospitals and to increase co-pays and deductibles in order to keep the taxes that support the system under reasonable control.

At this point in time, it appears to me that the private healthcare system is characterized by a number of very influential players, each pursuing their own agenda with lots of money to back them: a "we versus they" attitude, if you like. This includes insurers, providers, the legal profession, regulators and consumers. The

problem here is that nothing gets done. Each player cancels out the other—except one. The federal government has the ability to pass laws, and so whichever entity influences the most regulators gets the prize. That prize is control over the healthcare system. Influencing these regulators is where we as actuaries have a future role to play but we must get better at this.

The current system is also characterized by a distortion of the facts. Statistics don't lie, but numbers can be manipulated and misinterpreted, intentionally by those who have an agenda and non-intentionally by those who aren't facile with numbers. Health insurance is complicated and subject to misunderstanding, especially the costs associated with the various coverages that are out there. There is a veritable cornucopia of coverages available to the consumer, from HMOs, to PPOs, to PSOs, to fee-for-service. Lack

of customer understanding is definitely a serious problem. Probably more than anyone or anything else, the actuarial profession is uniquely qualified, in terms of system knowledge, to educate our society in these areas. But, do we have the communication skills and the will?

Lastly, the current private healthcare system is a battleground of heated rhetoric. The HMO industry was once the darling of the system, the only way to keep the inflated costs of the traditional, full choice, fee-for-service system under control. Not any more. The HMO industry is taking a lot of heat these days. The providers, the politicians, the legal profession, the regulators, and consumers are all HMO bashing (and not without some, and I emphasize some, justification). But are we perhaps risking letting the pendulum swing back too far to the "good ol' days" of free provider choice, unlimited pharmaceutical and provider

ACTUARY OF THE FUTURE

Newsletter of Actuary of the Future Section of the Society of Actuaries

Issue Number 8

June 1999

Published by the Actuary of the Future Section Council
of the Society of Actuaries
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Schaumburg, IL 60173

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This newsletter is free to Section members. A subscription is \$10 for nonmembers. Current-year issues are available from the Publication Orders Department and are on the SOA Website (www.soa.org).

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reimbursements and 15%+ annual increases in healthcare costs? We need to think seriously about this and deal with where that approach may lead. I do not believe the consumer will tolerate where that retrenchment will lead.

Same Old, Same Old

So where will a continuation of this current "status quo" lead the private healthcare system? I believe that, in the absence of some serious "let's get down to business and leave our egos at the door" discussions, the future of the private healthcare system leads north (at least north from where I am) to Washington. There appears to be an agenda there to gradually, piece-by-piece, HIPAA by HIPAA, Medicare extension by Medicare extension, well...you get the idea, to insert the federal government as the provider of the nation's healthcare needs. That's OK, if that's what we want and understand the consequences of that happening. I've seen some of the consequences of that in my Canadian homeland—high taxes, long lines, delayed surgeries, reduced facilities, a loss of providers and less medical research. But most importantly, I believe such a system misallocates resources by absolving the individual of any of the responsibility of his or her healthcare. The result is increased utilization and costs and eventually a tax burden that even a socialist-oriented country like Canada cannot support.

The process above, where we continually look to someone else to pay the high costs of the level of healthcare coverage we have come to expect (or perhaps feel we are entitled to), perpetuates the myth that such costs can never be, at least in part, our responsibility. We are entitled to quality healthcare as a birthright, so the logic goes, and we are entitled to it at a cost we see as appropriate. That logic is flawed. The consumer is entitled to healthcare and the private sector is entitled to provide it at a price they feel is adequate to provide that care and make a (dare I say it?) profit. Unless the system is corrupt in some fashion, that's how it should work.

Of course, the populace can change the rules by forcing legislation to mandate that healthcare is a birthright (we did in

Canada years ago). But that does nothing to change the cost of the system. If the same level of care continues to be demanded, then that care will be provided and the cost will be paid. It will merely be a question of who pays and how. It would be nice if the public made those decisions on an informed basis rather than based on the emotional rhetoric that currently characterizes the debate.

The Proposed Solution (or Knowledge Is Power)

So what's the objective and what role can the actuary of the future (and of the present if he or she can think in the future tense) play? It's hard to say what the future of private system of healthcare will hold. But there is one thing of which I feel certain. The course will be decided by what we as a society decide and that decision will be decided by our perception of the facts. The facts will be presented by those who can get their message across and who are therefore perceived as experts in the area—whether or not they possess the knowledge necessary to make them so.

Clearly, the actuary, through exams and experience, possesses the knowledge level necessary to be a true expert on the cost/benefit tradeoffs at work in the private healthcare system. That, unfortunately, is not enough in today's multimedia, high-tech world to successfully contribute to the debate on the future of private healthcare.

The actuary who hopes to influence the future of the private healthcare system must be adept at maneuvering through the minefield of obstacles that lay ahead in this area. The actuary who is a successful participant in this dialogue will be:

- 1) Knowledgeable in the determining and assessing the costs of healthcare; our exam preparation is good training here
- 2) Adept at picking out the players who can make a difference from a public policy perspective
- 3) Articulate enough to express the facts either verbally or in writing in a way they can be understood by individuals of average intelligence (plaintiffs' lawyers are adept at picking up

- where we and others have failed in this one); i.e., assess our publics
- 4) Thick-skinned; there are a lot of entities out there with personal agendas who will eat your lunch
- 5) Able to appeal to the thesis (now somewhat non-existent from the media's perspective, but alive and well elsewhere) that everything in a free society has a cost. As I noted previously, life, liberty, and the pursuit of happiness are the only constitutional guarantees—not health insurance.

One item any actuary of the future who deals in this area needs to understand is the actuary may do everything right in articulating his or her viewpoint on the future of the private healthcare system and still not get the result he or she desires. It's the uninformed and inflammatory nature of the debate that should concern actuaries. The public's decision should be made based on a review of the facts on this subject and those facts should be offered up by those most knowledgeable. In this regard, currently one well-qualified player is conspicuous by his or her absence—the actuary.

The American Academy of Actuaries has done a great job of establishing the role of the actuary in the debate on public healthcare programs (Medicare, HIPAA, Medicaid, etc.) and actuaries are being increasingly recognized for their impartial and objective contributions to these debates. But ultimately it is the public that will shape the debate on the future of the private healthcare system. The ability of the actuary of the future to shape the public debate on this and other issues will depend on his or her skill at articulating complex issues in a way that can motivate the various publics to action in a rational and informed way. The skills needed in this area are the same ones that will ensure the actuary of the future plays a leading role in his or her corporation or in a more public arena.

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