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ABOUT SUPPLEMENTARY MEDICAL INSURANCE

by Robert J. Myers

(Editor's Note: At a recent meeting of the Baltimore Actuaries Club, Mr. Myers gave a talk on Medicare and the Supplementary Medical Insurance benefit. He has kindly furnished the following summary of his talk.)

In December 1968, it was again necessary to promulgate the SMI standard premium rate, this time for the period July 1969 through June 1970. Actuarial cost estimates were made under the assumptions that future increases in physician fees and other covered medical services would increase at a lesser rate than in the past and that utilization rates would likewise increase less rapidly. Specifically, it was assumed that from 1969 to 1970, physician fees would increase 4½% and that utilization would increase 1½%.

The actuarial cost estimates based on these assumptions, and also taking into account the lessened effect of the static $50 deductible under circumstances of increasing charges and utilization, showed that a premium rate of at least $4.40 per month was necessary, as compared to the present premium rate of $4.00 (for April 1968 through June 1969). In fact, taking into account the requirement that the premium rate should include a margin for contingencies, a rate of $4.50 was recommended as being preferable.

Cost Controls

Despite this actuarial advice, Wilbur J. Cohen, Secretary of Health, Education and Welfare under the Johnson Administration, promulgated that the premium rate should remain at $4.00. He justified this action on two grounds—that some of the beneficiaries could not afford the higher cost (an irrelevant point in determining "insurance" premium rates) and that physician fees had increased too rapidly in the recent past and should be maintained at their current level.

Secretary Cohen took several actions to hold down the costs. First, he requested all physicians and organizations involved in medical care to maintain the current price level. Second, he instructed the carriers to tighten up the administration of the program, both as to utilization and particularly as to recognizing increases in physician fees.

In certain quarters, the criticism was made that it was against both the spirit and the letter of the law for the federal government, in essence, to freeze physician fees by not recognizing, for benefit purposes, increases that would actually occur. Moreover, under such circumstances, any increases in physician fees would often fall directly on the beneficiaries. It was also noteworthy that the Johnson administration had taken no action in this direction during the 2½ years of operation of the SMI program and then placed the onus of controlling physician fees or raising the premium rate on the new administration.

Chief Actuary's Opinion

The Chief Actuary of the Social Security Administration maintained that a premium rate of $4.40 was still necessary even under the imposed restrictions. Further, he believed that, at most, a 10-cent reduction would be possible under the proposed restrictions on increases in physician fees. It was his opinion that, as in any attempts at price and wage controls, there would be many instances of avoidance or evasion, such as by charging for some services that would otherwise have been included in a package and by increasing utilization.

Amazingly, Secretary Cohen claimed that his action would be beneficial to the Nixon administration, since it would mean a lower cost to the General Fund of the Treasury in the form of matching contributions. The fallacy of this argument is the same as that of asserting that one is saving money by not paying bills, which later fall due with interest and service charges. Actually, the decision places the Nixon administration in a difficult position, because the promulgation that will be made in December 1969 will very likely have to be at a level of $4.80 or more, unless the law is changed in one respect or another before then. The blame for the entire 25% (or more) increase will fall on the new administration.

The argument that physician fees have increased disproportionately since 1965 in relation to wages and prices has little validity. Various statistical analyses can be made on this subject. At the most, they show that, from 1965 to 1967, physician fees had an increase of 2% or 3% greater than the increase in general wages. In 1968, however, the reverse occurred. Over a span of 10 to 15 years, these elements had generally increased at about the same rate. It is inappropriate to draw definite conclusions from a short time period, and there was really little evidence of any significantly greater increase in physician fees than in wages from the beginning of 1965 to the end of 1968.

Actuarial cost estimates for the continued $4.00 premium rate were prepared both on the basis of the experience that would arise if this rate were adequate and on the basis of what would occur if the assumptions in the actuarial cost estimates materialized.

Actuarial Estimates

According to the cost estimates on th latter basis, the balance in the SMI Trust Fund will be $424 million on June 30, 1969, when the new premium period begins. Thereafter, the balance will decline steadily, until it is only $320 million on June 30, 1970. Thus, the system will be able to operate without financial difficulty on a cash basis, so that there will be no problem about making benefit payments.

The law, however, requires that the SMI program be financed so that it is actuarially sound on an accrual basis. Most certainly, this will not be the situation under the premium rate of $4.00 promulgated for fiscal year 1970. At the end of that year, there will be an unfunded accrued liability for claims that have actually been incurred but are as yet unpaid. This means that, under the law, the premium rate to be promulgated in December 1969 must be increased not only to recognize the true benefit-cost level, but also to provide a margin to amortize the deficiency occurring in fiscal year 1970, so as to bring the balance in the trust fund to a reasonable an adequate level. □