SOCIETY OF ACTUARIES

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The Actuary

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## EDITORIAL

THE struggle for recognition of the actuarial profession continues and the latest acknowledgment of the existence of actuaries is to be found in the magazine *Forbes* for March 15, 1972. The author of the article recognizes the actuaries by apparently blaming them for some of the ills that pension funds are heir to.

The article is concerned with some of the actions taken by some major corporations in making changes in the assumptions underlying their pension plans and points out that the corporation gives no information about the whys and wherefores of the changes, implying, perhaps unwittingly, that this is the fault of the actuary. The actuary, mindful of the Guides to Professional Conduct and Opinion S-4 in particular, will presumably have given all this pertinent information in his report. The dissemination of this information would seem to be a matter for the corporation. We have been surprised at the small number of corporations who identify in their reports the actuary responsible for reporting on the pension fund. The actuary has an important financial role in the corporation and should, we think, be given at least the nod of recognition.

Apart from this matter of the corporations' actions on their pension funds, the writer of the *Forbes* article raises several other interesting questions such as the independence of the actuary, the possibility of Federal Government regulation, etc.

He even introduces an ancient definition of an actuary accompanied by a none too flattering and presumably composite portrait. Possibly more readers will remember these than will recall the contents of the article. This we fear gives but a poor and distorted public image and maybe the Society should have another Committee—to get the picture into proper focus. Obviously we must avoid giving the appearance of an arcane profession and so we envisage a soap opera on the major TV channels—"A Day in the Life of an Actuary" or perhaps, following the example of the medical profession, "Erasmus Nowital, F.S.A." There will be a thrilling episode wherein the protagonist, single-handed with only a table of logarithms, rescues a pension fund from bankruptcy, with a closing shot of the happy pensioners enjoying their retirement in sunny climes. The Society could have the commercial spot with an appropriate jingle such as

"You can enjoy the present and of the future be not wary
If only you will get yourself a well-trained actuary."

*A.C.W.*

## TO BE CONTINUED

*Editor's Note: This is another in the series of articles from the Committee on Continuing Education. The rule is one article to one subject to give the non-specialist in that subject up-to-date general information and to encourage further research in the subject if the reader is so minded. Comments will be welcomed by the Committee and by the Editor.*

### Health Maintenance Organizations

*by Ken Burrows*

The term "Health Maintenance Organization" came on the scene early in 1970, when it was used by a spokesman for the Department of Health, Education and Welfare to describe a new idea for the delivery and financing of health care. This was the product of a project, conducted by a private multi-disciplinary group with federal funds, to develop a rational system capable of meeting today's social and economic realities. The underlying theory ran something like this:

(1) Under the present system units of health care production are fragmented, with each contributing its share of the patient's care more or less independently of the others. This results in gaps, duplications, and inefficiencies. Some overall structure is required to coordinate the units and to assume overall responsibility for the quality, continuity, and cost, of the patient's care.

(2) Under the present system the incentives for the provider are backward. Providers are paid for treating sickness. The sicker the patient, the higher the reward. This must be turned around, so that the reward increases with the patient's "wellness." Paying the provider by capitation, instead of by fee for service, gives the provider an incentive to keep the patient well.

The product was a blend of old and new ideas, apparently strongly influenced by the methodology of successful prepaid group practice plans.

#### Definition of HMO

An HMO is any (1) fiscally responsible organization (2) delivering a [illegible] spectrum of health care services (3) to voluntarily enrolled group of persons (4) in return for fixed prepaid amounts.

The HMO contracts with the enrollee

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## HMO

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to deliver services, not simply to reimburse him for their cost. In this respect, of course, it sharply differs from the traditional health insurance plan. It may fulfill its obligation directly, through its own staff and facilities, or indirectly, through arrangements with others.

The concept provides for a wide variation in structure, ranging from the Kaiser Health Plan, with strong central control, ownership of medical and hospital facilities, and a salaried staff, to the San Joaquin Foundation Plan, with minimal central control and services provided through contractual arrangements with community hospitals and private physicians in independent practice.

Several bills relating to HMO's are currently pending in Congress. These bills concern grants and loans, Medicare, and other federal programs. Bills to give authority to operate an HMO are before various state legislatures.

### Functional Components

Whatever its structure, the HMO must provide for four basic functions. They are:

(1) Management—organizing, financing, contracting with providers, contracting with enrollees, contracting with, or assuming functions of, carrier, managing.

(2) Carrier—designing contract with enrollee, determining premium and reserve requirements, providing out-of-area coverage, marketing, fiscal administration, reinsurance.

(3) Medical—providing medical services promised in contract with enrollee.

(4) Hospital—providing hospital services promised in contract with enrollee.

Management and carrier functions may be conducted by the same or separate entities. Additional functions may be involved if the plan provides additional services such as extended care, prescription drugs, etc.

### Insurance Company Roles

There are a number of roles in the [formation] and operation of an HMO [wi]thin the competence of an insurance company. They include:

(1) Owner—organizing and operating an HMO, directly or through a subsidiary.

(2) Consultant — advising management with respect to organization, benefit design, rates and reserves, administration, marketing.

(3) Carrier—performing usual insurance company services like marketing, collection of premiums, etc., providing out-of-area coverage, reinsuring.

(4) Finance—lending funds for start up and operating cost, acquisition of physical facilities.

These roles may be conducted separately or in combination. All, of course, are subject to legal considerations, including the prospective legislation mentioned above.

### Outlook

There are 25 community-wide plans now operating, 150 others serving special groups, primarily unions. New HMO's are forming in almost every major metropolitan area.

The federal government is currently engaged in a vigorous effort to promote the plan. The plan has good support in both political parties, so the pressure—and funds to make it effective—will probably increase.

Prejudice within the medical profession is rapidly breaking down. The big question is whether the public will accept this form of health care and in addition be prepared to pay the relatively high cost of this service. □

## BOOKS

We have been asked for names of colleges and universities that would welcome copies of the *Transactions* and other actuarial volumes which the owner wishes to donate. Further, there are a few gaps in the Society's library which might be filled from such donations.

Any member wishing to donate any actuarial books should send a list of the volumes available to Mr. Watson in the Chicago office.

*Do not send books to Chicago—only the list.*

The various actuarial schools listed in the June 1971 issue have been advised.

Any member interested in selling or purchasing actuarial books should also get in touch with Mr. Watson.

## MORE ON HMO

We wish to draw our readers attention to the following announcement from the Department of Health, Education, and Welfare.

The Health Maintenance Organization Service is preparing a National Roster of Professional Consulting Services for use by the Health Maintenance Organization Service and other interested organizations.

This roster will be used by the Health Maintenance Organization Service and other groups which need the services of professional consultants in disciplines related to the functions of a Health Maintenance Organization e.g. accounting, marketing, actuarial, business management, group practice development, hospital administration, health insurance, medical records, record keeping systems, etc.

Any member of the Society or of the Academy wishing to offer services which may be useful to an HMO may have his name listed in the roster by sending the following information: name, address and telephone number; major areas of expertise; at least three (3) references.

Please send all replies to the following address:

Mr. Gerald Evans, Health Maintenance Organization Service HSMHA, Division of Training and Technical Assistance, Room 13A—21, 5600 Fishers Lane, Rockville, Maryland 20852. □

## THE BOARD OF GOVERNORS' NEW YOUTHFUL LOOK

*by Robert H. Hoskins*

After the results of the balloting for the Board of Governors of the Society of Actuaries were announced at Toronto, I heard someone remark that "the average age of the Board of Governors must have dropped five years."

While chronological age is not easy to check, the year of Fellowship in the Society, which presumably bears some relationship to age, is readily available.

### Median Fellowship Year

The median year for attaining Fellowship was 1946 for last year's Board members and 1951 for this year's Board. The overheard comment about five years, therefore, was certainly appropriate. If one relates each Board to the

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