



SOCIETY OF ACTUARIES

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NAIC request for assistance in developing guidelines for filing health insurance rates. The Health Insurance Rate Filing Task Force has joined with a group of insurance department actuaries and insurance industry representatives to draft proposed revisions to the NAIC model rate filing guidelines and rating regulations.

The Academy's Health Organizations Risk-Based Capital Task Force continues to work on several projects dealing with changes to the health risk-based capital formula. The Academy has undertaken an extensive study of information from insurers in an effort to develop new risk-based capital factors for stop-loss, disability and long-term care insurance products. The final recommendations should be made to the NAIC this fall.

A task force headed by Donna Novak developed an initial draft of a manual providing guidance on reserving for health insurance products. The manual, which is intended for insurance company and insurance regulatory agency actuaries, has been further refined by the NAIC's Life and Health Actuarial Task Force. The Academy is also monitoring NAIC work on proposed revisions to the Long Term Care Model Regulation, the development of liquidity ratios for health insurers and managed care companies and possible changes to the Actuarial Opinion and Memorandum Model Regulation.

Copies of public statements of the Academy can be obtained on the American Academy of Actuaries' Web site (www.actuary.org). If you would like further information on any of these projects or would like to volunteer for a Health Practice Council committee or task force, please contact Tom Wilder, director of public policy, at the Academy's office (202 785-7875 or wilder@actuary.org).

What the Examination System Doesn't Teach about Health Insurance

By Karl G. Volkmar

I consider myself a health actuary. Though I have had some experience in other areas of actuarial practice, health is "home" for me, and I intend to stay there for the foreseeable future. The majority of my career has been devoted to supplemental health products (e.g., Medicare supplement/select, LTC/HHC, cancer insurance, accident coverages), which certainly impacts my view of the examination system.

Given the above, I have little basis for knowing whether my opinions about health practice education also apply to other practice areas. The opinions I present may apply to all areas of actuarial practice. My impression is that they do not, at least not to the same extent.

Based on my credentials, one might argue that my opinions are based on an incomplete picture of the examination process. To clarify, I passed 420 credits under the pre-2000 system, and my post-math exams were focused primarily on the group benefits track. This should indicate at least adequate exposure to the examination materials as they relate to health actuarial practice.

While I have attempted to present my opinions in a positive manner, it may appear that I'm just another problem-finder. As you will see, I have attempted not only to identify issues, but also to propose possible solutions that will hopefully lead to further discussions.

Reality

Although the examination process helped prepare me for a general actuarial career, there were, in retrospect, a number of incorrect impressions that I gleaned from the examination process. In these areas, I had to be un-taught and re-taught by work experience, sometimes pitting (as I saw it) my experience versus what I thought I had learned from examination materials.

The following sections outline the issues referenced above and contain some related material where deemed appropri-

ate. As a caveat, please note that I did not re-review all of the study materials; I'm just summarizing the issues as I remember facing them in "real life."

Standards

I left the examination process believing that there were standard methodologies, and assumption-setting processes. In practice, no two actuaries seem to completely agree on methodology and assumptions as they relate to any area of practice. There seem to be as many methodologies and assumption-setting processes as there are health actuaries, and this applies even more to some health coverages than others.

Do you want a real-life example? Ask health actuaries from different companies and/or health practice backgrounds to provide their or their companies' definitions of "loss ratio" or "active life reserve" or to define their renewal rating process, including any related detail regarding assumptions or assumption-setting processes.

Internal Data

Many times, the precise company-specific data you need to do your job (as defined by the examination system materials) does not exist. This may be true because it has never been recorded, or because no one has ever requested or used it before (including the actuary that preceded you). This can make an actuary's job extremely difficult or even impossible from a purist viewpoint.

As if this is not difficult enough, attempts to establish the infrastructure needed to collect, record, and report needed data will be met by another fact of life that the examination system does not (and probably cannot) prepare you for: the majority of home office personnel do not want to collect, record, and report what they view to be additional data. In fact, they are generally incented to do otherwise.

Much External Data and Many Experts

Many times, examination materials left me with the impression that the selection and appropriate revision of data/input to be used for a given project would be a routine and not difficult task. This is certainly not true in practice.

The amount of external data available for review and consideration, especially in the age of the Internet, is staggering. In addition, anyone who has ever had an experience with either U.S. health care delivery or financing (which is everyone) becomes an "expert" on one or more areas of health care finance and delivery. Given the reams of available external data and the multitudes of "experts," it is very challenging to develop a methodology and key assumptions that specifically account for all available data and opinions.

How should an actuary sort through and prioritize all of the available information and advice?

Control

Through the examination materials, I did not develop the impression that many factors key to the success of the health business were out of my control. There are, in fact, a number of key factors that cannot be accurately predicted or directly controlled by a health actuary that can significantly impact the financial performance of a health product. Following is a sample list of these factors:

- Medical trend (e.g., increases in utilization, cost, intensity)
- Changes in internal company processes/procedures (e.g., changes in underwriting or claim processes)
- Changes in the marketplace (e.g., introduction of different products and/or competitors, shifting demographics)
- Changing field dynamics (e.g., within a company or versus competitors)
- Regulatory forces (e.g., new laws/regulations/interpretations, changes in insurance department personnel, political forces)

Through experience, I had to learn which factors I could influence and

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which factors I could merely predict. The latter I would learn to monitor and report on constantly, making revisions as necessary based on emerging experience.

It's a Tough Business

The examination system, as I remember it, did not teach me that the health business is a tough business. I realize the following statements may not apply to every situation or type of health coverage, but these statements summarize my view of the health business from a purely business perspective:

- If everything goes well, small-to-moderate margins can be made.
- If you experience even slight slippage in one or more key areas, the results can be disastrous.

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Proposed Examination System Solutions

The following are a few subjects that could be incorporated into examination materials that would help address the issues presented above.

Actuarial Peer Review and Accountability

This could include guidelines outlining when to obtain peer review and could provide sample input and decision processes. It could also provide guidelines for reviewing work. Implementing this could help to ensure reasonable and consistent use of methodologies and assumption development processes, balanced by a review of overall results. It could also help to ensure compliance with applicable professional guidelines.

Assumption Development

This subject could include information on the identification of needed data and the establishment of the internal infrastructure needed to collect, record, and report that data. It could also include information on sources of external data and advice and the process of assumption development given all available data. In my opinion, this could be taught most effectively through extensive case study review, which would suggest ways of developing assumptions given a variety of data scenarios.

The Business of Financing Health Care

This subject could include information on the identification of key business factors, how to monitor them, and how to respond to emerging experience. It would include information that would answer the question, "How do you make money in this business?"

In addition to the above, the SOA should continue to emphasize problem solving on all examinations, which has been the case for some time.

The primary goal of this article is to generate discussion on a subject that is important to all of us. Obviously, I have only scratched the surface; there is much room for research and further discussion.

I welcome comments regarding any of the above. Please feel free to forward written comments to me by fax (317- 580-8651) or e-mail (kvolkmar@tici.com).

I hope that the ultimate result of this article will be a positive impact on the education of health actuaries.

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