Health Section News

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ASOP No. 6 Exposure Draft Provisions Relating to Community-Rated HMO Contracts

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expects to purchase to finance its obligation may be used to measure the obligation if it produces a reasonable estimate of the future cost of benefits covered by the plan. In some situations, such as in a community-rated insurance plan that provides the type of benefits covered by the employer's plan and in which the premium cost to the employer is based on the experience of all participating employers, the claims experience of a single employer generally will have little impact on its premiums. Accordingly, in those situations a projection of future premiums based on the current premium structure and expected changes in the general level of healthcare costs may provide a reasonable estimate of the employer's obligation. However, if premiums are adjusted for the actual claims experience or the age and sex of the plan's participants (an experience-rated plan), the foregoing projection of the employer's obligation may not produce a reasonable estimate of the future cost of the underlying benefits of the plan.

Question #11 Answer Assumes Rate Based on Retiree Experience Only

With respect to the second point, I was informed several years ago by one of the FASB technical support staff that the answer to question 11 assumes that the underlying rates for the community-rated plan in question, to be consistent with FAS 106, paragraph 10, were based on retiree-only experience. Unfortunately, such assumption was not stipulated in the answer.

Conclusion

In my opinion, FAS 106, paragraph 10 would preclude any rate that applies to both an organization's active and retired participants from being used without age adjustment. Whether the employer's experience directly affects the rate and/or whether the rate is regulated is not even a consideration. Simply having the rate apply to the employer's active employee population would imply a rate based at least in part on active employee experience.

If the employer had a closed block of retirees to which the community rate is being exclusively applied, I would agree that the use of such rate on an unadjusted basis would be appropriate for FAS 106 purposes.

Always holding out the possibility that I might be overlooking something, I would encourage others who disagree with this position to come forth with their reasoning.

J. Richard Hogue, FSA, MAAA, FCA, EA is an actuarial consultant in Granada Hills, CA. He may be reached at hoguejr@attglobal.net.

Letter from the Editor...

by Jeffrey D. Miller

Greetings! By this time you've read more than you want to read about our new world after September 11, 2001. Many assumptions about our business have certainly changed. Personal accident coverage, for one, is not nearly as attractive to insurers as it once was. However, we know that health insurance is a line of business requiring aggressive and diligent management on a daily basis. Thus, as health actuaries, we simply keep doing our job.

Jeff Miller

Many thanks go to Tony Whitman, Bernie Rabinowitz, and many others who recruited authors for this edition of *Health Section News*. I'm continually amazed at the quantity and quality of material that people of our section produce when they are asked to do so.

This edition includes some very practical thoughts on pricing aggregate stop-loss coverage from Bob Mallison and some more esoteric thoughts from Harry Poteat (a guest writer) on use of clinical insight modeling in claim reserving. Richard Hogue has contributed some useful insight on retiree healthcare costs incurred by community-rated HMOs. Cabe Chadick provides us with a summary of the NAIC Web Cast on health reserves. Rowen Bell also contributes with a useful summary of NAIC activities from the perspective of a practicing health actuary. I even threw in a piece on my recent experiences in Latin America.

We hope this edition finds you and your loved ones at peace for the holiday season. We all hope for a peaceful and prosperous 2002.

Best regards,

Jeff Miller