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# SOA Releases New Long-Term Health Care Cost Trends Resource Model

by Steven Siegel

What will the world look like 30 years from now in 2038? How about regular commuters to the moon celebrating the launch of the first lunar Starbucks with Venti Mocha Frappuccinos at the special grand opening price of \$52.95 (just a \$1.00 more than the regular price of \$51.95 on Earth)? Or, how about the ultimate in Bluetooth technology, where cell phones are actually implanted permanently in eardrums? Talk about hearing ringing in your ears! And what new, wondrous technology for critically ill patients will impact health care costs?

Although my first two predictions for 2038 are clearly tongue-in-cheek, the last question is part of a real exercise in projection that actuaries who produce FAS 106 and GASB 45 valuations go through regularly. To help these actuaries, the SOA's Pension and Health Sections recently released a new resource model for projecting health care trends through the year 2099. The model and accompanying documentation can be found on the SOA Web site at: <http://www.soa.org/research/health/research-hlthcare-trends.aspx>

The original idea for the project came from Kevin Binder, who also served as chair of the group overseeing development of the model. Binder, an actuary with Bolton Partners, had read a 2004 article in *Business Week* on possible increased scrutiny by the U.S. Securities and Exchange Commission (SEC) into assumptions made in connection with accounting for post-retirement benefits. The SEC was concerned that some assumptions might have been manipulated to meet companies' profits and balance sheet figures. Included among the assumptions that the SEC flagged was the level of health care cost inflation in relation to retirees' medical benefits.

The SEC's concern underscored the lack of actuarial research concerning long-term health care trends. Binder suggested that having a resource model that was both transparent in methodology and clearly documented its data sources and economic assumptions would be a valuable tool for selecting long-term health care trend assumptions. Furthermore, the model could

be used to help explain, document, and justify the assumptions to interested parties. With this objective in mind, the Pension Section's Research Team set out to hire a researcher to develop such a model that could easily be used by knowledgeable practitioners.

Subsequently, a request for proposals was issued and proposals from several leading experts were received. From those proposals, Professor Thomas Getzen of Temple University was selected to create the model. Prof. Getzen, a well-known health care economist, is also Executive Director of the International Health Economics Association (iHEA). His textbook *Health Economics and Financing* (Wiley; 3rd ed.) is on the SOA exams syllabus as part of the Health Systems Overview FSA module.

To oversee the research, a group of prominent actuarial practitioners from both the Pension and Health Sections was recruited (with Binder chairing): John Cookson, Marilyn Oliver, Adam Reese, Russell Weatherholtz, and Keith Williams. The group was excited to forge a partnership with a researcher from outside the profession and felt that the multidisciplinary perspective Getzen provided would result in enhanced interest of the work by a wide range of health care professionals.

The results of the research include an Excel model that projects per-person expenditures and growth rates through 2099 using a set of equations and assumptions developed by Getzen with assistance from the project oversight group. The model includes baseline assumptions as well as flexibility for user-inputted alternative assumptions. The data sources underlying the model assumptions are specified in the accompanying technical documentation providing transparency and support for the ultimate results.

To further illuminate the model, the project oversight group authored a document that describes practical issues that might be



Steven C. Siegel, ASA, MAAA, is a staff research actuary with the Society of Actuaries in Schaumburg, Ill. He can be reached at [ssiegel@soa.org](mailto:ssiegel@soa.org).

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**Health Practice Financial Reporting Committee** (Darrell Knapp, Chairperson)—The committee continues to work on updating several practice notes (Small Group Certification, Large Group Medical, and General Considerations). They are also finalizing their practice note on Medicare Part D accounting.

**Individual Medical Market Task Force** (Mike Abroe, Chairperson)—This task force continues to work on a monograph related to how the current individual market operates. Issues examined in the paper relate to affordability and barriers in the individual medical insurance market. The paper is expected to be published in the second quarter of 2008.

**Long-Term Care Principles-Based Work Group** (Bob Yee, Chairperson)—This work group is beginning the modeling phase of their work and will be providing an update to the NAIC in 2008.

**Uninsured Work Group** (Cathy Murphy-Barron, Chairperson)—The work group is expected to release a paper on issues related to the fundamental principles of insurance and the characteristics of health coverage by April 2008. The work group has also begun work

on an issue brief that will address the drivers of health care costs.

**Health Care Quality Work Group** (Michael Thompson, Chairperson)—This work group is developing an issue brief that will examine health care quality today and the impact of comparative effectiveness research on the advancement of health care technologies and quality treatments.

### NAIC Projects

The Committees on State Health Issues and Health Practice Financial Reporting continue to monitor issues, including LTC, health insurance issues, Medicare Part D, principles-based methodologies, Medigap modernization, etc.

### Upcoming Activities and Publications

Several documents are slated for publication in 2008, including papers on individual market issues, health care coverage, drivers of health care costs, and health care quality and comparative effectiveness.

If you want to participate in any of these activities or you want more information about the work of the Academy's Health Practice Council, contact Heather Jerbi at [Jerbi@actuary.org](mailto:Jerbi@actuary.org). 📧

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encountered by actuaries using the model. Issues discussed include the relationship of short-term trend rates inputted by users to long-term projected rates, characteristics of the prescribed substantive plan to be valued, and special cases that may require model adjustment. As well, examples of sample report language are provided.

To keep current with the latest health care data, the model will be updated annually. The timing of the updates will be dependent upon availability of the latest health care cost estimates from CMS and other sources.

In keeping with the original objective of the model's creation, it is important to note that it is

intended to serve as a resource tool, rather than in any way representing an official statement on the preference of the methodology in the model over any other ones that are in use.

The Pension Section and Health Section Councils would like to express their thanks to the project oversight group for its dedication and valuable assistance in completing this effort. They would also welcome any feedback you have on the models and thoughts for future related projects. Please e-mail me at [ssiegel@soa.org](mailto:ssiegel@soa.org)—your comments are greatly appreciated! 📧