
SOCIETY OF ACTUARIES

Article from:

# Health Watch

January 2009 – No. 60

# SOA Health Section and CMS:

## A Continuing Dialogue

by John Cookson and Steven Siegel

One of the ongoing missions of the Health Section has been to reach out to other organizations and seek productive relationships. Given the range and diversity of health care issues today, it clearly benefits both the profession and individual Health Section members to showcase the expertise and talent that health actuaries bring in such relationships. Among the longer-term relationships the Health Section has forged in recent years has been with the Centers for Medicare and Medicaid Services (CMS). Indeed, the Health Section has had a mutually beneficial relationship with CMS for over five years now. In that time, a small group of volunteers from the Health Section has provided input and advice to CMS on trends actuaries are observing in the health insurance market. This information has been used by CMS to support their annual National Health Expenditures (NHE) and Forecast Update.

This year CMS raised questions about private health insurance related to some of their historical data sources. As a result, on August 29, the Health Section hosted a conference call between section members representing many of the large commercial insurance companies, actuarial consulting firms active in the health insurance market, and CMS representatives from the National Health Expenditures (NHE) Group. The objective was to assemble a representative group of SOA participants who would provide broad perspective on what has been happening on the Private Insurance side of national health expenditures. The list of SOA Health Section participants included: Jeff Allen, Joan Barrett, John Cookson, Michael Fedyna, Cindy Miller, Vince Sherwin, Steven Siegel, and Robert Tate. CMS participants included Stephen Heffler, Pat McDonnell, Micah Hartman, and Cathy Cowan.

The objective of this meeting was to discuss sources of data and general information to support the baseline historical Private Health Insurance portion of National Health Expenditures included by CMS in their annual update of NHE and 10 year forecasts. This represents a very intensive effort on the part of CMS each year, which gets into full gear in the late summer and fall of each year to develop the estimates of the various components of NHE from the previous calendar year, along with adjustments to previous historical estimates, and the updating of the 10 year NHE forecast published in Health Affairs in January or February of the succeeding year. This process also contributes to the knowledge and understanding of the direction of health care which must be considered each year by CMS when they do the long term forecasts for the Medicare Trustee's Report.

Some of the important components reported in the NHE study include Medicare and Medicaid expenditures, and Private Health Insurance (including self-funded or self-insured expenditures) and estimates of direct medical out-of-pocket expenditures by individuals; expenditures are also reported by type of provider (hospital, physician, etc.). CMS collects and analyses many sources of data to develop their estimates each year. They have first hand sources of Medicare and Medicaid expenditures, but other sources are more derivative in nature. Thus, it was considered valuable to try to get direct or indirect information from SOA members working in Private Health Insurance to confirm or supplement the other sources of information available.

This particular discussion about the baseline Private Health Expenditures arose at the request of CMS and as a direct result of the relationship described earlier that developed over the years from the ongoing annual discussions that have been held each fall (since 2003) between CMS and representatives of the Health Section. This series initially started as a direct result of informal discussions held in early 2003 between Steve Heffler, currently Director of the CMS Health Expenditures Group, which is responsible for the NHE projections, and myself who was Health Section Council Chair at the time. CMS has considered these annual meetings to be one of the highlights of the annual NHE update process, and have always been very grateful for the input and insights they receive. The Health Section Council participants have also found this a rewarding opportunity to learn about the process used by CMS in making these estimates, as well seeing what may be developing in the publicly financed side of health care, since many of the participants continue to volunteer year after year.

CONTINUED ON **PAGE 29**

John Cookson, FSA, MAAA, is a consulting actuary at Milliman Inc. in Wayne, Penn. He can be reached at *john.cookson@milliman.com.*

Steven Siegel, FSA, MAAA, is a research actuary with Society of Actuaries in Schaumburg, Ill. He can be reached at *ssiegel@soa.org.*

For 70/30 plan under the Flexible Capitation Payment Demonstration:

- CMS no longer takes risk on the federal reinsurance piece. It becomes shared risk.
- Plans share risk with CMS (with risk corridors) on the plan liability piece of the Defined Standard benefit PLUS the piece that is the federal reinsured piece for the Defined Standard plan. In total, the shared risk component reflects 75 percent of costs between the thresholds of $295 and $2,700 and 95 percent of all costs beyond $6,153.75.
- Plan takes the full risk for everything else.

See Exhibit F for a diagram of the risk components under the Flexible Capitation.

A comparison of Exhibit E and Exhibit F clarifies that the full risk component is reduced and the shared risk component is significantly increased when under the Flexible Capitation Payment Demonstration. Depending on the population and the data available to price, this change in the risk provisions actually may make the Payment Demonstrations more attractive to some plans.

### Administrative Costs

For budget neutrality, CMS charges a per-member per-year (PMPY) amount to participating plans. For 2009, the PMPY for all payment demonstration options is $10 PMPY or $0.83 PMPM. These amounts should be built into the direct non-benefit components of the bid. It's important to note that these costs offset the reduction in premiums shown in Exhibit D.

## When should you consider the Payment Demonstration?

Considerations for participating in the payment demonstration include:

1. Some material amount of enhanced coverage must be provided. The more enhanced coverage, the greater the federal reinsurance penalty, and the more member premium savings. This can be particularly attractive for chronic care plans, where full formulary coverage through the gap is essential to gain compliance with drug regimens and realize hospital savings.
2. The actuarial and accounting departments need to have a good understanding of the option. Payment demonstrations will change how bids are created, how revenue is booked, how much margin is needed and how Part D settlements are estimated.
3. Plans must analyze the change in risk sharing. Although the Flexible Capitation option allows plans to cede some risk to CMS in the gap, they pick up shared risk of the catastrophic coverage. Plans must be comfortable with their ability to price the catastrophic component of the benefit.
4. The PBM needs to be comfortable with the Payment Demonstration chosen, especially as it relates to changes in the PDE records and Part D settlement calculations. ■

SOA Health Section and CMS: A Continuing Dialogue | FROM PAGE 23

These annual discussions provide the opportunity for Health Section representatives to react to initial data summaries and issues and questions identified by CMS in the course of their annual NHE update process. For example, CMS is looking for input on such questions as: 1) differences between HMO and PPO trends, 2) changes in insurance enrollment rates of employees, 3) specific changes in pharmacy benefits, 4) growth in Consumer Driven Health Plan options, 5) impacts of the underwriting cycle, and 6) other issues affecting the changes in health costs for private insurance.

This process has worked well and the Health Section is pleased to support CMS in this important service. We want to thank the volunteer SOA members who have contributed their time to this relationship over the years, and we would like to see this effort continue and expand as part of our ongoing interchange with other groups involved in health care. Feel free to contact us if you would like to become involved in future activities. ■