



SOCIETY OF ACTUARIES

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# An Interview: Dr. Uwe Reinhardt

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We were fortunate enough to sit down with Dr. Uwe Reinhardt to ask more about what role he believes actuaries should take in the upcoming reforms. The James Madison Professor of Political Economy at Princeton University, Dr. Reinhardt is a leading mind in the area of health care economics and policy, and is a frequent contributor to the *New York Times*. He was also a keynote speaker at the Spring Health Meeting in Toronto.

We asked Reinhardt what he believes are the key areas in which actuaries should focus efforts or contribute expertise in the context of current reforms. His suggestion was that we concentrate on risk adjustment and in the bundling of provider reimbursements.

He discussed that in a health insurance system which is based on competing health plans, plans are pressured to both obey the dictates of social solidarity (items like universal coverage, community rating) as well as be sustainable and profitable. To balance these needs, he believes that risk adjustment is essential. About risk adjustment and measurement, Reinhardt said, “It’s the Achilles heel of any plan – we’ve always had these competitive markets everyone comes up with stand and fall on the quality of the actuarial measurements that are there.”

For risk adjustment, Reinhardt said, “The Dutch have probably proceeded further down [the use of risk adjustment] more than any other nation, and so the great risk-adjustment scholars are in Holland.” He mentioned that we have many experts here in the United States as well. In the United States, he believes that given the large talent pool, we are able to respond quickly to learn and fill the knowledge needed for areas such as this. He said, “Now there’s always been this fight – do you risk-adjust by individual going in, or... just simply let everyone enroll, and then in the end, you look at the risk pool, and make a risk adjustment based just on the pool.” He continued on to say, “So what needs to be worked out is: do you want to pay the health plans an actuarially-adjusted premium one-by-one as people go in, so I would have one number on a tag that has all of my risk in it, and you would know it and get a payment on that basis? Or, do you not do that, and wait and just look at the entire pool, and try

to say, ‘We’re going to make transfer payments until everyone actuarially has the same pool.’ That whole thing is driven by actuaries.”

The second area in which Reinhardt suggested actuaries should focus is on the appropriate bundling for reimbursement mechanisms. He said, “The other place that you will really need actuaries is this whole idea of bundling of healthcare.” He discussed how when establishing reimbursement mechanisms, such as DRG grouping, it is important to understand what level of variance of cost is tolerable within that bundled payment. He said, “How big of a variance can you tolerate and still call it a bundle? Or how many patients would you need, if you get paid by bundle payments, and not get caught with your pants down? You’d want to set the reimbursement such that most of the time things will wash out. Some would be more complicated, some easier, and the payments would wash out. But then could you say what is the probability that we end up with a two-million dollar deficit because the bundles of patients are always more complicated? I see a big field there.”

He said there are likely to be many changes to the priorities, roles and responsibilities of actuaries in the coming years, driven by the massive reforms affecting the market. “Within each company, within each health plan, the most important people are your actuaries,” said Reinhardt. “I think that the profession has a bright future, and that the skill is totally transferrable if you have to do something else. But there’s no question there will be a big need. Because any attempt at competition among insurers rises and falls on actuarial methods.”

Dr. Reinhardt’s blog on the New York Times can be found at: <http://economix.blogs.nytimes.com/author/uwe-e-reinhardt/>

He also shared with us the link to his personal Web page, which includes some other amusing and informative presentations:

<http://www.princeton.edu/~reinhard/pdfs/French-to-Blame-banking-crisis.pdf>

<http://www.princeton.edu/~reinhard/pdfs/FALL%20FROM%20GRACE%20HEALTH%20CARE.pdf>. ■