



SOCIETY OF ACTUARIES

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Soundbites

from the American Academy of Actuaries' Health Practice Council

by Heather Jerbi and Melissa Stevens

What's New

With the momentum behind health care reform, the Academy's Health Practice Council (HPC) has been actively involved in educating policymakers on the actuarial considerations related to many of the provisions being considered—insurance market reform, individual mandate, public plan option, etc. The council and its work groups/task forces have been engaging policymakers in a number of ways, including producing educational policy statements and issue briefs, hosting Capitol Hill briefings, visiting with congressional/agency staff, and participating in panels hosted by external policy organizations.

Policy statements

One ongoing project is in response to feedback received during the course of the annual Capitol Hill visits. The HPC and the Federal Health Committee are developing a series of short policy statements, providing an actuarial perspective on various potential components of health care reform proposals. The first five papers in the series were released in May/June. These statements are called *Critical Issues in Health Reform* and address the following issues: individual mandate, actuarial equivalence, market reform principles, public plan option and gender considerations in a voluntary individual health insurance market. There are several more statements being developed on issues such as merging the individual and small group markets, transition issues, minimum loss ratios, and coverage for high-risk individuals.

The HPC has developed a dedicated Web page through the Academy's Web site in order to highlight these new policy statements, as well as additional materials related to health care reform. The Web page can be found at: http://www.actuary.org/issues/health_reform.asp.

The Academy also provided comment letters to the Senate Finance Committee on two of its health care policy options papers. The Medicare Steering Committee offered comments on the policy options paper entitled *Transforming the Health Care Delivery System*. The Health Practice Council offered comments on the policy options paper entitled *Expanding Healthcare Coverage: Proposals to Provide Affordable Coverage to All Americans*.

In June, the Health Care Quality Work Group released a new issue brief on *Value-Based Insurance Design*. The brief was developed to define value-based insurance design (VBID), provide an overview of its prevalence, examine the barriers to implementation, and review policy considerations related to VBID adoption and implementation.

In March, the HPC released an updated version of a 1999 issue brief, *Risk Classification in the Voluntary Individual Health Insurance Market*. This brief provides an overview of the fundamentals of risk selection and risk classification to help policymakers and the public better understand the role that risk classification plays in the voluntary individual health insurance market. The brief can be found on the Academy's Web site at: http://www.actuary.org/pdf/health/risk_mar09.pdf.

Capitol Hill briefings/visits

In addition to these policy statements, the Academy has hosted two Hill briefings (one in the form of a webcast), with more planned in the future. On June 22, congressional staff had an opportunity to ask a number of actuaries any of their questions related to health care reform.

On May 20, the Academy sponsored a briefing for policymakers, via webcast, on risk adjustment in the context of health care reform. Ross Winkelman, Michelle Raleigh, and Mita Lodh presented during the webcast. They defined risk adjustment, discussed how it is currently used in public programs and private plans, and outlined considerations for policymakers when determining whether to implement risk adjustment as part of national health reform. The slides from the webcast are available on the Academy's Web site at: http://www.actuary.org/webcasts/health_may09.asp. The full, recorded webcast is also posted at that link.

On March 11, the Academy sponsored a Capitol Hill briefing on risk pooling and the potential effects of health care reform on the individual and small-group markets. David Shea, chairperson of the Federal

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Health Committee, and Cori Uccello, senior health fellow, presented at the briefing, which drew about 30 attendees from congressional offices and other external health policy organizations. A video of the briefing is available on the Academy's Web site, as well as copies of the slide presentation: <http://www.actuary.org/briefings/pool09.asp>.

On March 9-10, the Health Practice Council (HPC) and Federal Health Committee held their annual Capitol Hill visits. Seventeen members visited 31 Congressional offices and government agencies over the two-day period. During the course of the visits, Academy members responded to questions on a wide variety of issues: the effect on premiums of risk pools in the group and non-group markets, the implications of an individual mandate, reinsurance and risk-sharing mechanisms, the implications of including a public plan option as part of a health care reform proposal, delivery and payment system reform, national/regional/state exchanges, and benefit design and actuarial equivalence.

Medicare

In May, the Academy's Medicare Steering Committee released an updated version of its issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*, to reflect information from the 2009 Medicare Trustees' Report. The paper highlights the committee's view that Medicare faces serious long-term financing problems that should be addressed sooner rather than later. The brief can be found online at: http://www.actuary.org/pdf/medicare/trustees_09.pdf.

With the release of the updated issue brief on Medicare's financial condition, the Academy also issued a Call to Action, urging policymakers to undertake comprehensive Medicare reform. The statement outlined four goals that any comprehensive reform of the program must seek to achieve: the HI trust fund must meet the short-range test of financial adequacy, the trust fund must also meet the long-range test of actuarial balance, the program's growing demand on the federal budget must be brought under control by a reduction in the growth in general revenue contributions, and overall Medicare spending must be brought under control by a reduction in the growth of spending. The full Call to Action can be found online at: http://www.actuary.org/pdf/medicare/med_reform_may09.pdf.

NAIC activities

On June 13, the National Association of Insurance Commissioners (NAIC) Blanks Working Group adopted revised instructions for the health annual statement actuarial opinion. The revised instructions are effective for the December 31, 2009, annual statement filing. The instructions now require a qualified health actuary to be appointed by the board of directors, the inclusion of a checked box section, the recommended use of specified language, and a supporting actuarial memorandum.

In March, the Medicare Part D RBC Work Group submitted recommendations for updated RBC factors for Medicare Part D to the NAIC Health RBC Working Group. The recommendations were amended by the Health RBC Working Group. The Working Group's recommendation that the report be adopted with changes was approved by the Capital Adequacy Task Force at the June National Meeting.

In February, the Medicare Supplement Work Group submitted its response to questions from the NAIC Accident and Health Working Group related to updating the Medicare Supplement Refund Formula. The work group opined on topics such as combining one or more types of plans, combining plans across states, smoothing tolerance levels and other issues surrounding a refund formula update.

In April, the NAIC asked the Academy to examine the current health care receivable factors. Currently,

all health care receivables use the same factor. In response, the Academy formed the Health Care Receivable Factors Work Group which will analyze the current factor for each line and make a recommendation to the NAIC. The NAIC is looking to make any necessary changes effective in time for the 2010 year-end financial statement.

Other documents

In light of ongoing efforts to reform the U.S. health care system, members of the Health Practice International Task Force are developing a series of articles on a variety of international health care systems. The first in the series appears in May/June edition of *Contingencies*. In that article, John Berkto interviews Yair Babad, an Israeli actuary. The interview gives the reader an overview of how the current Israeli health care system developed and how the system is performing. Future articles will feature the health care systems in Germany and the Netherlands. John Berkto's interview can be found in the electronic version of *Contingencies* at: <http://www.contingencies.org/>.

The Consumer Driven Health Plans Work Group has developed a monograph that summarizes a number of studies that have provided information on emerging data on CDHPs, specifically as it relates to the health care cost and utilization. The monograph is available on the Academy's web site at: http://www.actuary.org/pdf/health/cdhp_may09.pdf.

Ongoing Activities

The Academy's Health Practice Council has many ongoing activities. Below is a snapshot of some current projects.

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).

Long-Term Care Principle-Based Work Group (Bob Yee, Chairperson) – This work group is in the modeling phase of their work and will be providing quarterly updates to the NAIC Accident and Health Work Group in 2009.

Request for Volunteers – The Committee on State Health Issues has formed a new task force. The Solvency Task Force will be analyzing solvency issues at the state level, including NAIC risk-based capital formulas, emerging NAIC principal based requirements, and individual state rules. The task force will also follow emerging international requirements and federal regulation of insurance companies, in relation to their effect on solvency requirements. Individuals interested in volunteering can contact Melissa Stevens, State Health Policy Analyst, at stevens@actuary.org.

Stop-Loss Work Group (Eric Smithback, Chairperson) – This work group is continuing to update a 1994 report to the NAIC on Stop-Loss factors. The work group has partnered with the Society of Actuaries (SOA) to update stop-loss factors. The SOA will be collecting and analyzing data from volunteer companies, and the Stop-Loss Work Group will use the aggregated data to propose an update to the current stop-loss factors. Insurance companies and reinsurers interested in supplying data for the study should contact Barbara Scott at the SOA, at bscott@soa.org, and provide her with your name and contact information.

Disease Management Work Group (Ian Duncan, Chairperson) – This work group has begun development of a public statement on evaluating wellness programs.

Medicare Supplement Work Group (Michael Carstens, Chairperson) – This work group has submitted recommended changes to the Medicare Supplement Refund Formula to the NAIC's Medicare Supplement Refund Formula Subgroup, of the Accident and Health Working Group, and continues to work with the NAIC to develop a refund formula.

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 or Melissa Stevens at stevens@actuary.org. ■