



SOCIETY OF ACTUARIES

Article from:

Health Watch

May 2011 – Issue 66

Soundbites

from the American Academy of Actuaries' Health Practice Council Activities

By Heather Jerbi and Tim Mahony

What's New

As challenges to the individual mandate in the Affordable Care Act (ACA) move through the courts, and efforts to repeal or modify the health reform law intensify on the Hill, implementation of the provisions in ACA continues to be a priority for the Academy's Health Practice Council (HPC). The council continues to task a number of work groups with providing input and responding to requests for information from the Department of Health and Human Services (HHS), the National Association of Insurance Commissioners (NAIC) and other interested parties, as well as commenting on proposed and final regulations issued on the various provisions of ACA.

The HPC has been focused on those provisions that go into effect in 2010 and 2011, including medical loss ratio reporting and rebates, new rate review requirements, and the many near-term benefit and eligibility changes; however, the council is now beginning to turn its attention to those provisions that take effect in 2012 and beyond. These provisions include the various risk-sharing mechanisms, the individual mandate, the 2014 market reforms and the implementation of exchanges.

Several groups are already working on new projects including providing comments to HHS on the proposed rate review regulations, the temporary risk adjustment mechanism, actuarial value and health insurance cooperatives. While health reform implementation is a significant priority, HPC work groups continue to work on other relevant issues as well. Work groups are working with the NAIC on various projects, including the development of a long-term care valuation table, an update of the cancer cost tables and a review of the MedSupp refund formula.

Some of the more recent communications to HHS and the NAIC on several of the HPC's priority issues are highlighted below.

Medical Loss Ratio Reporting and Rebates

The Academy's Medical Loss Ratio Regulation (MLR) Work Group has been active since the enactment of ACA, providing input to both HHS and NAIC. In December 2010, HHS released interim final regulations (IFRs) to implement the MLR requirements under ACA. In response, the work group submitted comments¹ addressing technical aspects of the IFRs to improve clarity and internal consistency, including the definition of "multi-state blended rate," measurement date for earned premiums, definition of paid claims included in incurred claims, data used in multiyear calculations and the calculation of deductible factor for policies with dependents.

Premium Review

Sec. 2794 of the Public Health Service Act (PHSA), which was created by the enactment of ACA, requires the HHS secretary to work with states to establish an annual review of unreasonable rate increases, to monitor premium increases, and to award grants to states to carry out their rate review processes. At the end of October, the work group provided HHS with an evaluation² of several potential methods for measuring "unreasonable" rate increases. Under proposed regulations³ released by HHS at the end of December, 2011 rate increases that are 10 percent or higher will have to be publicly disclosed and reviewed to determine whether the increase in unreasonable.

The work group also sent a letter⁴ to the NAIC's Health Insurance Managed Care (B) Committee regarding the draft rate filing disclosure form that is intended to facilitate the reporting of "unreasonable" rate increases to HHS. The amended rate filing disclosure form was adopted by the B Committee on Nov. 9.

NAIC and Other Academy Activities

On Feb. 8, the Academy's Medicare RBC Subgroup sent a letter⁵ to the NAIC's Health RBC Working

¹ http://www.actuary.org/pdf/health/AAA_MLR_IFR_comment_013111_final.pdf.

² <http://www.actuary.org/issues/pdf/AAA%20on%20premium%20increases%20102910%20final.pdf>.

³ <http://edocket.access.gpo.gov/2010/pdf/2010-32143.pdf>.

⁴ <http://www.actuary.org/issues/pdf/AAA%20cmts%20on%20rate%20disc%20form%20110510%20final.pdf>.

⁵ <http://www.actuary.org/pdf/health/American%20Academy%20of%20Actuaries%20Medicare%20Part%20D%20RBC%20SubGroup%20NAIC%20Survey.pdf>.

Group asking it to sponsor and administer a survey of carriers that write Medicare Part D business. The survey is designed to gather additional data that may support any needed changes to the formula.

On Jan. 31, the Academy's life, health and property/casualty RBC committees released a joint report⁶ in response to the NAIC's request for assistance with the Solvency Modernization Initiative (SMI) project on the NAIC's risk-based capital (RBC) formulas. This report discusses the intended/expected safety levels for RBC and identifies risks that are missing from the RBC formulas.

On Jan. 21, the HPC submitted comments⁷ to the Centers for Medicare & Medicaid Services (CMS) in response to its request for comments on the Medicare Advantage risk adjustment data validation payment error calculation methodology. The letter outlines concerns that the audit process as proposed would apply the risk-adjustment model in a way that is inconsistent with the way it was developed.

On Jan. 14, the Medicaid Work Group sent a letter⁸ to CMS responding to a request for assistance in reviewing the Medicaid rate-setting checklist. This letter was the result of an ongoing dialogue between members of the Academy's Medicaid Work Group and CMS.

In January, the Academy's Health Practice Financial Reporting Committee published a new practice note⁹ to help actuaries both understand and comply with new requirements for the NAIC Health Annual Statement that became effective on Dec. 31, 2010. The revised actuarial statement of opinion instructions were adopted in the NAIC's 2010 health actuarial opinion requirements. All practicing health actuaries need to be aware of the revised instructions in advance of the filing.

Ongoing Activities

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

Health Practice Financial Reporting Committee (Darrell Knapp, chairperson)—The committee created a work group to address the list of Academy health-related practice notes that need updating.

Medicare Steering Committee (Ed Husted, chairperson)—The committee is developing a public statement related to the recent deficit reduction proposals and those provisions that affect Medicare.

Academy/SOA Cancer Claims Cost Tables Work Group (Brad Spenny, chairperson)—The work group has been charged with evaluating and updating the 1985 cancer claims cost tables. Last November, the work group submitted a survey to companies that write cancer insurance to get their opinions about the table. Not enough companies have submitted responses, so the work group is working with the SOA to come up with an alternative plan.

Disease Management Work Group (Ian Duncan, chairperson)—This work group is in the final stages of developing a public statement on evaluating wellness programs.

Health Care Quality Work Group (Michael Thompson, chairperson)—The work group is developing an issue brief on accountable care organizations (ACOs).

Health Practice International Task Force (April Choi, chairperson)—A subgroup of the task force published articles in the September issue of *Contingencies* on the health care systems in Japan and Singapore. The task force is finalized an article on risk adjustment that would be included in a future issue of *Contingencies*.

CONTINUED ON PAGE 10

⁶ http://www.actuary.org/pdf/life/American_Academy_of_Actuaries_SMI_RBC-Report.pdf.

⁷ http://www.actuary.org/pdf/health/RADV_comment_letter_012111_final.pdf.

⁸ http://www.actuary.org/pdf/health/American_Academy_of_Actuaries_Letter_on_Rate_Setting_Checklist_to_CMS.pdf.

⁹ http://www.actuary.org/pdf/health/2010_Health_Actuarial_Opinion_Practice_Note.pdf.

Health Receivables Factors Work Group (Kevin Russell, chairperson)—This work group is currently reviewing current health care receivables factors for the NAIC's Health RBC Working Group and providing guidance.

Long-Term Care Principles-Based Work Group (Bob Yee, chairperson)—This work group has formed a joint Academy/SOA task force to develop and recommend valuation morbidity tables for long-term care insurance at the request of the NAIC's Accident and Health Working Group. The group is working with a company to help solicit the data for and determine the structure of the morbidity tables. The project is expected to be completed by the third quarter of this year.

Long-Term Care Valuation Work Group (Bob Yee, chair)—This group is developing valuation morbidity tables for LTCI. A company is currently analyzing the data and will report to the work group when it is ready.

Long-Term Care LTCI Practice Note Update (Warren Jones, chairperson)—This work group has been formed to update the Academy's 2003 LTCI practice note. The group expects to complete the practice note update by the end of the year.

Medicaid Work Group (Mike Nordstrom, chairperson)—This work group provided comments to CMS regarding the Medicaid rate setting checklist and how to improve it. The group also submit an application with the Actuarial Standards Board (ASB) to have the 2005 Medicaid Managed Care practice note developed into an actuarial standard of practice (ASOP).

Medicare Part D RBC Subgroup (Brian Collender, chairperson)—This subgroup is recommending changes to Medicare Part D RBC formula and has asked the NAIC's Health RBC Working Group to assist with administering a survey of companies that write Medicare Part D business.

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 Health Actuarial Task Force. The NAIC is compiling a database of selected states for this project and will update the work group when it is finished.

Solvency Work Group (Donna Novak, chairperson)—The work group continues to evaluate the current health RBC covariance calculation for potential changes to the calculation or methodology and the impact of health reform on the health RBC formula. The work group will be predominantly focused this year on the NAIC's SMI. The first report was submitted on Jan. 31, with the second report due June 30.

Stop-Loss Work Group (Eric Smithback, chairperson)—This work group is continuing to update a 1994 report to the NAIC on stop-loss factors, and is currently in discussions to have someone from the University of Connecticut transform the data results into a loss ratio variance model.

If you want to participate in any of these activities or if you want more information about the work of the Academy's Health Practice Council, contact Heather Jerbi at Jerbi@actuary.org or Tim Mahony at mahony@actuary.org. ■