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LETTER TO THE EDITOR

As states try to balance their budgets, we are seeing a shocking propensity to include arbitrary rate cuts to Medicaid Managed Care Organizations capitation rates that have no basis in actuarial soundness. I have concerns that the actuaries who certify rates for the states will feel pressured to choose assumptions in rate development that have no real basis and that are extremely aggressive in order to satisfy their clients and hit the budget targets. This is the very reason that CMS developed the Medicaid Managed Care Rate Setting Checklist and the reason the American Academy of Actuaries produced the Health Practice Council Practice Note on Actuarial Certification of Rates for Medicaid Managed Care Programs. These two documents make it clear that state budgets should not be considered when capitation rates are developed, and that instead, capitation rates must be based on actuarially sound assumptions and rate setting principles. The practice note says:

"Actuarially sound" rates or ranges of rates depend on the benefits provided and the population covered. These rates are normally independent of budget issues unless benefits or populations change.

It goes on to say:

In times of economic downturn, state budgets may exert pressure on rates that must be certified as "actuarially sound." ... Budgetary constraints may influence the selection of certain assumptions toward the low end of the range. However, the actuary would usually be prudent to select assumptions that are individually reasonable and appropriate when deriving the final premium rates.

This guidance makes it clear that it is the certifying actuary's responsibility to ensure that budget issues do not override sound actuarial rate development. Remember our motto as actuaries is:

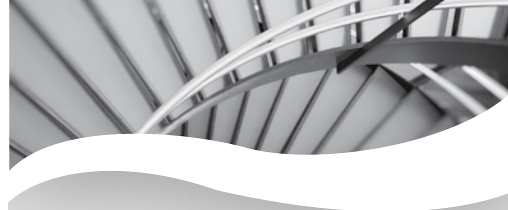
"The work of science is to substitute facts for appearances and demonstrations for impressions."

Using assumptions that are not based in fact and feasibility diminishes our work and casts a poor light on our professionalism. The reason actuaries are required to certify rates is to prevent states from under or overpaying managed care organizations for the benefits they provide. If actuaries allow their professionalism to be compromised when developing rates, the intention of the CMS checklist and actuarial certification requirement is a useless safeguard, and this practice could lead to unwanted repercussions such as actuarial discipline, more oversight of actuarial work by CMS, or discontinuing the practice of requiring independent actuaries to perform this certification replacing them, instead, with CMS professionals. All of these options have been suggested at meetings between governmental organizations and professional trade group members, and need to be taken seriously.

As actuaries, we do not want our reputation tarnished and the general public to believe that we are biased in our work. Our professionalism is what sets us apart from other professions and what has built faith in our work products. We can not let this budget crisis interfere with our high standards of producing quality work. ■

— Sabrina Gibson

Editor's Note: The The Health Section Council chairperson addresses this question in her feature, *Chairperson's Corner.*



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