



SOCIETY OF ACTUARIES

Article from:

Health Watch

October 2012 – Issue 70

Soundbites from the American Academy of Actuaries' Health Practice Council

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What's New

In the midst of an already heated election season, on June 28 the Supreme Court of the United States (SCOTUS) handed down its highly anticipated and highly speculated decision on the Affordable Care Act (ACA). For the Obama administration and many congressional Democrats, the court's decision to keep the ACA largely intact was hailed as an unequivocal signal that the ACA should move forward. For many congressional Republicans, the decision only heightened their determination to repeal (and possibly replace) ACA after the November election. So, implementation continues but not without an ongoing air of uncertainty.

On July 11, actuaries from more than 1,800 registered sites and all practice areas tuned into the American Academy of Actuaries' Health Practice Council (HPC) webinar¹, featuring an analysis of the court's decision to uphold the individual mandate, a core but controversial provision in the ACA, and a look at next steps in the federal and state implementation process. The panelists noted that states are in the process of considering whether and how to create exchanges, and indicated that additional guidance on several key provisions is expected in the fall, including essential health benefits, actuarial value and the three risk-sharing mechanisms.

Even as implementation continues in light of the SCOTUS decision, according to HPC Vice President Tom Wildsmith, the profession also has a responsibility to step up its efforts to tackle the issue of rising health care costs. In a press release following the SCOTUS decision, Cori Uccello, the Academy's senior health fellow, said, "Unless we are successful in reducing the long-term cost of health care, the effectiveness of the ACA will be undermined and increasing strains will be placed on household, state and federal budgets." During the webinar, Wildsmith announced that the HPC has created a new work group dedicated to the issue of educating policymakers and the public on the challenges of rising health care costs and potential short- and long-term solutions to help bend the cost curve.

While dedicating additional resources to the cost issue, the HPC continues to work with the Department of Health and Human Services (HHS), the Centers for Medicare & Medicaid Services (CMS) and the National Association of Insurance Commissioners (NAIC) on issues related to ACA implementation, as well as to develop new voters' guides to ensure policymakers, candidates and the public have the basic information necessary to understand health-care-related policy

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discussions and debates leading up to the 2012 elections. Recent voters' guides include: *Making Health Care Reform Work: Why Broad Participation Is Necessary* and *What Voters Should Know About Medicare*.² Additionally, the following publications represent a sampling of some of our most recent (as of the time this article was written) communications to Capitol Hill, HHS, CMS and the NAIC, as well as other relevant issue areas/projects on which the HPC is working.

Actuarial Value

On June 11, the Actuarial Value Subgroup submitted comments³ to the IRS on Notice 2012-31, *Minimum Value of an Employer-Sponsored Health Plan*. The letter addresses how to account for non-core benefits and non-standard plan features, as well as other considerations related to the treatment of health savings account (HSA) contributions.

On May 16, the Actuarial Value Subgroup sent a letter⁴ to the Center for Consumer Information and Insurance Oversight (CCIIO) offering comments on its *Actuarial Value and Cost-Sharing Reduction* bulletin, specifically addressing the proposed actuarial value calculator. The letter supplements comments⁵ submitted on April 2 on the cost-sharing inputs for the calculator, incorporation of induced demand, number of geographic pricing tiers, and incorporation of multiple network tiers.

Actuarial Standards of Practice

In July, the Joint Committee on Retiree Health submitted a comment letter⁶ to the Actuarial Standards Board (ASB) on the exposure draft for ASOP 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Costs or Contributions*.

On May 31, the Joint Committee on Retiree Health submitted two comment letters to the ASB. The first letter⁷ was on the exposure draft of ASOP 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, requesting clarification on the implications for retiree group benefits. The second letter⁸ was on the exposure draft for ASOP 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, regarding the implication for retiree group benefits.

On May 15, the Health Practice Financial Reporting Committee submitted comments⁹ to the ASB on revisions to ASOPs 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life and Health Insurers*, and 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets*.

Long-Term Care

In June, the Academy hosted its second roundtable—National Conversation on Long-Term Care Financing. As with the first roundtable in March, about 20 stakeholders with different perspectives on long-term care financing and services met to discuss policy options to address long-term care (LTC) needs and risks for various segments of the population. During this meeting, attendees helped refine criteria that could be used to evaluate different financing systems; at the next quarterly meeting, the group is expected to look at various reform options in more detail based on the criteria established. The attendees included experts in LTC with backgrounds in public policy, actuarial work, research, government, sales and financial planning, and retirement.

In early June, the Long-Term Care Practice Note Work Group extended the exposure period on the revision of the 2003 practice note, *Long-Term Care Insurance Compliance with the National Association of Insurance Commissioners Long-Term Care Insurance Model Regulation Relating to Rate Stability*,¹⁰ to July 8.

On April 27, the Federal Long-Term Care Task Force sent a letter¹¹ to the National Conference of Insurance Legislators in response to a request for information on strategies to reduce costs related to LTC coverage. The task force highlights a number of general approaches that would address both LTC costs and effectiveness.

Medicaid

On June 11, the Medicaid Work Group submitted comments¹² to CMS on a proposed rule regarding payments for Medicaid primary care services. Under the ACA, Medicaid fee-for-service and managed care programs must reimburse primary care providers for these services at rates equal

to Medicare. The work group suggested various approaches for identifying the increment to capitation payments attributable to the increased provider rates.

Medicare

In May, the Medicare Steering Committee updated its annual issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*,¹³ that offers an actuarial perspective on Medicare's financial condition and outlines public policy options to address the program's long-term financial challenges.

In March, the Academy's Medicare Steering Committee released a new issue brief, *Revising Medicare's Fee-For-Service Benefit Structure*.¹⁴ This issue brief expands on the committee's initial analysis of potential changes to Medicare's benefit design included in *An Actuarial Perspective on Proposals to Improve Medicare's Financial Condition*. The issue brief also includes a discussion of value-based insurance design.

In a March 21 letter to the U.S. House of Representatives leadership, the Academy's HPC commented¹⁵ on legislation that included a provision that would repeal the Independent Payment Advisory Board (IPAB), which was created under the ACA to provide recommendations to reduce growth in Medicare expenditures if spending exceeds a certain growth rate. While not taking a position on whether the IPAB should be repealed or expanded, the HPC's letter provided an overview of the IPAB's function as designed by the ACA and reaffirmed the need to address Medicare's long-term financing challenges.

MLR

On May 2, the Medical Loss Ratio Work Group sent a letter¹⁶ to CMS offering comments on the revised annual reporting form, specifically on the definition of premiums, contract reserves and the definition of pre-tax underwriting gain/(loss).

NAIC Activities

On July 6, the Group Long-Term Disability Work Group submitted a report¹⁷ online to the NAIC's Health Actuarial Task Force regarding a valuation

proposal for a new group long-term disability table. This was a follow-up to the update¹⁸ the group provided during the NAIC's spring meeting (March 2).

On April 30, the Academy submitted comments¹⁹ to the NAIC on its draft white paper on the Solvency Modernization Initiative and insurance regulation offering suggestions encompassing risk-based capital (RBC), Own Risk Solvency Assessment (ORSA) and NAIC model laws.

Rate Review

On July 23, the Academy's Rate Review Practice Note Work Group released an exposure draft²⁰ of a new practice note on the preparation and review of rate filings under the ACA. After public comments are considered and addressed, a final version of *Actuarial Practices Relating to Preparing, Reviewing, and Commenting on Rate Filings Prepared in Accordance with the Affordable Care Act* will be posted on the Academy's website.

Risk Adjustment

The Academy's HPC and the Society of Actuaries (SOA) jointly released a research brief²¹ in June that summarizes the key findings and policy implications of a study, conducted by Milliman and sponsored by the SOA, of the risk mitigation programs under the ACA—risk adjustment, reinsurance and risk corridors.

Stop-Loss Insurance

On June 29, the Stop-Loss Work Group submitted comments²² to the Employee Benefits Security Administration on small employers' use of stop-loss insurance and how this affects the market for fully insured small health coverage under the ACA.

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 (Laurel Kastrup, chairperson)—The committee has

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reviewed the list of Academy health-related practice notes that need updating and is currently updating the Large Group Medical Business Practice Note and will be updating the 1995 Long-Term Care Insurance practice note in 2012.

Medicare Steering Committee (Ed Husted, chairperson)—The committee is developing a series of public statements related to specific Medicare-related provisions included in recent deficit reduction proposals.

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. The work group has administered a survey to companies that write cancer insurance to get their opinions about the table. Survey results are due by the end of August.

Group Long-Term Disability Work Group (Darrell Knapp, Roger Martin, co-chairpersons)—This work group has been charged with developing a valuation table for group long-term disability insurance. The work group expects to complete the table by September 2012.

Health Practice International Task Force (April Choi, chairperson)—The task force has created two subgroups, one focusing on long-term care systems in foreign countries and one on types of wellness initiatives in foreign countries. The long-term care subgroup has published an article on international long-term care challenges in the March/April 2012 issue of *Contingencies*. The wellness subgroup is publishing an article on international wellness programs in the Nov./Dec. issue of *Contingencies*.

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

Long-Term Care Principles-Based Work Group (Al Schmitz, chairperson)—This work group is looking at the implications of a principle-based approach on long-term care insurance. The work

group is developing and testing a prototype model used to examine the impact of stochastic analysis on LTC for PBA purposes.

Long-Term Care Valuation Work Group (Bob Yee, chairperson)—This is a joint work group with the Society of Actuaries and is tasked with developing and recommending valuation morbidity tables for long-term care insurance. The work group is working with the Medical Information Bureau (MIB) to finalize the data and will construct the tables in the last part of 2012 and compile a draft report by mid-2013.

Medicaid Work Group (Mike Nordstrom, chairperson)—The ASB has approved the work group's request to have the 2005 Medicaid Managed Care practice note developed into an ASOP and has formed a task force to complete this task.

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. The subgroup is awaiting further guidance from the NAIC.

Medicare Supplement Work Group (Ken Clark, chairperson)—This work group has submitted recommended changes to the Medicare Supplement Refund Formula to the NAIC's Medicare Supplement Refund Formula Subgroup. The NAIC has compiled a database of selected states for this project, and the work group is deciding on how to move forward.

Health 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 Solvency Modernization Initiative (SMI). The report was submitted on Jan. 31. The work group has been asked by the NAIC's Health RBC Working Group to look at various missing health risks related to the RBC formula, in particular the potential impact of industry concentration risk.

Stop-Loss Work Group (Eric Smithback, chairperson)—This work group is continuing to update a 1994 report to the NAIC on stop-loss factors.

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If you want to participate in any of these activities, or if you want more information about the work

END NOTES

- ¹ <http://www.actuary.org/content/webinar-health-care-reform-after-supreme-court%E2%80%9494-actuarial-perspective-0>
- ² http://www.actuary.org/files/Campaign_2012_Risk_Pool_FINAL_062812.pdf
- ³ http://www.actuary.org/files/AAA_comment_letter_on_Notice_2012-31_061112.pdf
- ⁴ <http://www.actuary.org/files/publications/AV%20comment%20letter%2005%2016%202012%20final.pdf>
- ⁵ <http://www.actuary.org/files/publications/AV%20calculator%20q%20and%20a%204%2002%202012.pdf>
- ⁶ http://www.actuary.org/files/JCRH_ASOP_6_letter_071412_final.pdf
- ⁷ <http://www.actuary.org/files/publications/AV%20calculator%20q%20and%20a%204%2002%202012.pdf>
- ⁸ http://www.actuary.org/files/JCRH_ASOP27_ED_letter_053112_final.pdf
- ⁹ http://www.actuarialstandardsboard.org/comments/asop22and28revision_comments/Comment_2.pdf
- ¹⁰ http://www.actuary.org/files/publications/Long_Term_Care_Rate_Stability_Practice_Note_2012.pdf
- ¹¹ <http://www.actuary.org/files/publications/LTC%20letter%20to%20NCOIL%20042712%20final.pdf>
- ¹² http://www.actuary.org/files/American_Academy_of_Actuaries_Comment_Letter_CMS_2370_P_Medicaid.pdf
- ¹³ http://www.actuary.org/files/Medicare_Trustees_IB_FINAL_05_21_12.pdf
- ¹⁴ <http://www.actuary.org/files/publications/Medicare%20FFS%20Design%20Issue%20Brief%20030712%20final.pdf>
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- ¹⁶ <http://www.actuary.org/files/publications/AAA%20MLR%20Reporting%20Form%20Comments%20final%20050212.pdf>
- ¹⁷ <http://actuary.org/files/Final%20Academy%20GLTDWG%20Proposal%20Outline.pdf>
- ¹⁸ http://www.actuary.org/files/publications/GLTDWG_Update_to_HATF_at_2012_Spring_Meeting_0.pdf
- ¹⁹ <http://www.actuary.org/files/publications/NAIC%20SMI%20White%20Paper%20response.pdf>
- ²⁰ http://www.actuary.org/files/RRPN_072312_exposure_draft_0.pdf
- ²¹ http://www.actuary.org/files/AAA-SOA_research_brief_on_3Rs_060412.pdf
- ²² http://www.actuary.org/files/Academy_Stop_Loss_Comments_06_29_2012.pdf