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Up Front With the SOA Staff Fellow

By Joe Wurzburger

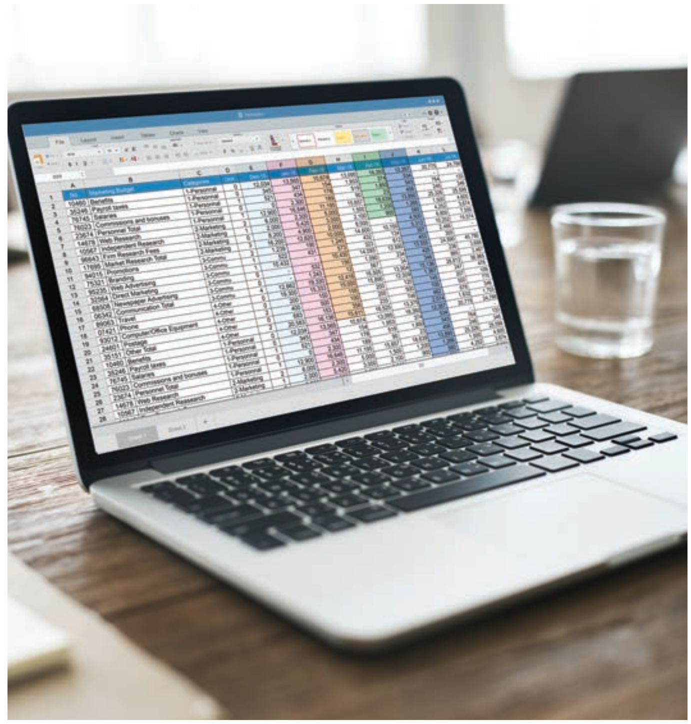
By the time you read this column, the winter holiday season will have come and gone. That means that I have most likely watched the movie *Fred Claus* another 12 times or so. I love silly holiday comedies, and *Fred Claus* is one that my wife and I rewatch each holiday season.

One of my favorite scenes in *Fred Claus* is when Vince Vaughn's titular character, inspired by the sight of successful Salvation Army fundraisers, tries to raise money for his own selfish purposes by posing as the representative of a charity. Let me be perfectly clear—I do not condone his actions. But I do love the name of the charity he falsely represents: People Help the People. Look past Fred's devious intentions and consider the concept—isn't people helping people what life is all about?

I thought back to the idea of people helping people this past August when I was at the SOA's Valuation Actuary Symposium. I was a table moderator for the Buzz Group: Health Reserves Hot Topics session (a fantastic session, by the way, that is offered each year). Some people at our table shared an example of cooperation in the state of Alabama that benefited all who were involved. I followed up with a few of the key people who were involved with that experience, and I would like to share what I learned.

If you are a pricing actuary for a company offering products on the Affordable Care Act (ACA) exchange, you know that uncertainty surrounding risk adjustment payables and receivables makes premium rate setting even more difficult than it would be otherwise. Not only is the uncertainty a challenge, but the timing for the announcement of these amounts is generally too late to incorporate into pricing for the upcoming year.

Some people in Alabama took it upon themselves to work together to mitigate this challenge. The original request involved one company's CFO asking an actuary from another company if they would be willing to exchange risk adjustment information. After some internal discussion, it was determined that sharing with just one company wouldn't be beneficial. They denied the request, but fortunately it didn't die there. Both companies thought that the idea would in fact work on a larger scale.



One piece was missing, though. They needed an impartial aggregator and someone who could encourage participation from all (or nearly all) carriers in the state. So they placed a call to Steve Ostlund, an actuary with the Alabama Department of Insurance.

Ashley Smithson, an actuary at Blue Cross and Blue Shield of Alabama, explains: "The data was eventually going to be publicly available anyway, so we weren't trying to gain access to any private information. We were just looking for a way to gain access to the relevant data we needed for pricing in time to use it for our rate filings. And for carriers to feel comfortable about the privacy of their nonpublic data, we needed an unbiased third party."

Steve started by reaching out to the handful of largest insurers in the state. Given the mechanics of the risk adjustment calculation, he needed these carriers to participate in order to have any hope of producing meaningful results. Fortunately, he got a swift response from them: they were all in.

With the biggest players in tow, Steve approached the rest of the insurers in the state and quickly obtained the necessary commitments. The project was a go, and it was time for Steve to implement the steps needed to complete the process.

"The worksheet was developed by staff at the companies," Steve explains. "I provided confidentiality of results. … I sent each company a copy of the input file. They input information from their RATEE report and returned it to me. I then copied each row for each company to allow the formulae to work on the

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aggregate of all companies. After I had results, I pasted values in and deleted each row associated with another company, so a company only saw the summary table and their own data."

Providing the data was administratively very easy for each participating company, since the RATEE file is an output file received after a submission to the EDGE server. This just added one more step to that process in terms of dropping that data into the spreadsheet template and sending it to Steve.

Ashley says that Steve turned the data around in less than five days, making it possible for companies to incorporate that information into their rate filings. And as it turns out, the risk adjustment transfer estimates were very accurate.

The vibe I got sitting around that Buzz Group table at Val Act was very positive from those who had been involved in the process, and Ashley concurs. "Risk adjustment transfers are very volatile, even for carriers that enroll a substantial portion of the risk pool. This process helped us significantly."

Ashley shared that this process will continue in Alabama going forward. In fact, it may even be expanded, as interim reporting is being contemplated that would provide partial updates during the year to allow for more proactive planning for each participating company.

This process worked in Alabama primarily due to widespread carrier participation and the presence of an impartial regulator aggregator. Perhaps it would not work as well in other states. But it seems like a worthwhile case study that demonstrates what can be accomplished when actuaries work together and find win-win solutions to challenging issues.

After all, that's the mission of People Help the People, and we wouldn't want to let Fred Claus down. ■

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