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Letter from the Editor

By Kurt Wrobel



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After years of debate and predictions, we are finally about to see the arrival of the most significant changes associated with the Patient Protection and Affordable Care Act (ACA). This will be an exciting time for our country, the entire health care industry, and the actuarial profession. As actuaries, we will shortly begin to see the actual data on everything from the relative competitiveness of our premium rates to the accuracy of our participation assumptions.

Of course, these immediate results will just be the beginning. As the claims experience matures from 2013 to 2014, we will begin to see the impact of the financial protection provisions in the ACA—the so-called “3 R’s,” reinsurance, risk corridors, and risk adjustment—on the overall financial results for health insurers. With a relatively low percentage margin, these provisions could have a significant impact on the results of insurers by either providing more payment or by moving premium dollars from one insurer to another. While the final results are uncertain, we can be confident that health actuaries will play a major role in providing guidance and technical support in shaping the ACA.

This expanded edition of *Health Watch* is dedicated to the upcoming implementation of the ACA.

In our cover article, Doug Norris, Mary van der Heijde, and Hans Leida highlight the technical and strategic considerations of the risk corridor provision in the ACA. As with many other aspects of the legislation, the technical details could play an important part in impacting the profitability of a health plan.

We continue this focus on the 3 R’s with two articles that address risk adjustment. Syed Mehmud summarizes his research sponsored by the Health Section into risk adjusters and nontraditional variables. In his article, Syed discusses nontraditional variables that could be predictive in estimating future health care costs, but are not included in risk adjustment models. Jason Siegel furthers this discussion by highlighting specific operational strategies that health plans could deploy to optimize

their risk adjustment performance.

Jeff Rohlinger ties together these technical discussions with specific thoughts on how to prepare for 2015. As Jeff discusses, while we will not have much data to form the basis for our pricing in 2016, we will have new regulation and other factors to consider as we move into the next pricing cycle.

While the commercial market has received considerable focus, the ACA will also have a major impact on the Medicaid market. As Rob Damler discusses, with the new expanded eligibility in the ACA, the Medicaid population will increase significantly and have a much different demographic and risk composition. Sabrina Gibson and Maria Dominiak continue the Medicaid discussion with a technical overview of the impact of the health insurance fee on Medicaid insurers.

David Tuomala provides additional detail on a study sponsored by the Society of Actuaries (SOA) on the cost of the newly insured. While the study received a considerable amount of media interest, David provides additional information on the key data and assumptions that helped underpin the findings in the report.

This edition concludes with a second round of the debate between David Cutler and Grace Marie Turner. In 2010, they had a spirited debate at the SOA health conference and in a follow-up *Health Watch* article, and we wanted to continue this discussion with another round of questions. As with the first discussion, they both provide compelling evidence for their sides and certainly offer up some very interesting perspectives on what they think will happen as we go into 2014. Unlike many political debates, however, we are much more likely to have definitive evidence on the results of ACA in a few years.

In our next *Health Watch*, we are planning to focus on advanced modeling and analytics. If you are doing cutting edge work in this area, we welcome you to submit articles for the next edition. ■