SOCIETY OF ACTUARIES

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now in non-compliance with qualification regulations.

Where Do HMO's Go From Here?

It is generally agreed that HMO growth will continue, but whether the 15% annual growth rate of the last five years can continue in the 1980's will be determined by several factors.

Most important is their success in delivering high quality care at a reasonable cost. They must demonstrate effectiveness in the care rendered to their own subscribers and in their impact on health care in general. Some regard the claimed HMO economies as nothing more than a shifting of costs from them to other health care users.

HMO managers are faced with price/quality/profit decisions very similar to those of any competitive business. Margins are thin; the market is price-sensi-..e. Sound management practices—plan-..ng, organizing, controlling—are essential. Through the painful lessons of bankruptcies, the need for strong management in an increasingly competitive marketplace has been shown; hence, growth will be constrained by the limited availability of managers with the required credentials.

The federal government role, as Mr. Kittredge has said, is likely to slow HMO growth despite exactly the opposite objective. Misapplications of capital will result in formation of HMO's that are not economically justified. An example is the power of federally qualified HMO's, not efficient enough to compete on their own, to require employers to permit employee solicitation, thus removing incentive for potentially effective organizations to be formed. Growth is likely to slow unless the federal government removes competitive limitations within the HMO industry.

A fourth factor is the developing sur-..s of physicians in many areas. This ..s likely to accelerate expansion of prepaid health care as physicians compete for new patients.

Another factor that will spur HMO growth is the increasing sophistication among large employers in health care matters, stemming in part from dramatic increases in employee health costs. More of these employers are likely to offer their employees the HMO alternative.

The form most likely to develop rapidly is the IPA. It requires less capital and has less impact on physicians. But its success will depend on whether physicians can alter historical patterns of patient care.

New HMO's will spring from existing multi-specialty group practices, this resulting from concern by their trade associations about competition from IPA's. This type's chance for success is good because review procedures already exist and the group practice organizations already have experienced management. These will usually not choose to qualify under the federal law.

Observers of the HMO industry are closely watching developments in the Minneapolis-St. Paul Metropolitan area. There are seven HMO's here; total enrollment has increased by over 30% per year since 1975, and now exceeds 350,000, nearly 20% of this area's population. Studies, not yet conclusive, to measure the impact of this development on total health care costs have been undertaken. HMO proponents point out that we have had a smaller increase in hospital expenditures and utilization than has the country as a whole, but others contend that this is a shift in costs and that our expenditure data are not valid.

In summary, the prospects are for slowed growth in HMO's unless the federal government alters its role, either through regulatory changes or through a national health scheme that contains realistic free market incentives. In any event, competition between HMO's and the existing system seems sure to benefit all health care users, in terms of both price and quality.

Ed. Note: The attention of interested readers is directed also to the remarks about HMO's by John Haynes Miller in his article, The Continuing Escalation In Cost Of Medical Care, *in his* Disability Newsletter, *No.* 23, *March* 1980. □

Summary of Non-Routine Business By Board and Executive Committee, Four Months To June 30

by Myles M. Gray, Secretary

At meetings of the Executive Committee on March 3-4 and May 28, and the Board of Governors on April 13, the following non-routine business was transacted:

(1) *Education and Examinations.* The Executive Committee approved (a) increases in examination fees, effective May 1981, to $30 for Parts 1-3, $35 for Part 4, and $70 for Parts 5-10, and (b) publishing the newly written pension textbook.

(2) *Research.* The position of Director of Research on the Chicago staff was created. The President is to proceed to fill that post.

(3) *Future of the Society.* Reports on possible creation of Sections within the Society were received. The Executive Committee studied long-range planning objectives, issues and procedures.

(4) *Anti-Trust Guide.* (See notice elsewhere in this issue.)

(5) *Meetings.* The Board approved a special topic 1982 spring meeting on Inflation. Publication of the proceedings of the 1980 Mortality Symposium was approved. □

Study of New Mortality Basis For Individual Annuities

The Society now has a Committee to Recommend a New Mortality Basis for Individual Annuity Valuation. This Committee is to evaluate the need for new mortality tables and projection factors, and if it finds such a need, to develop such tables or factors.

Committee members are: Robert J. Johansen (Chairman), Gayle E. Emmert, Thomas R. Huber, Harry I. Klaristenfeld, John B. Kleiman, John H. Welch, Michael Winterfield and Richard K. Wong.

Interested readers are welcome to make their thoughts and views known to any member of the Committee.