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FUTURE EDUCATION METHODS STUDY

by J.J. Murphy

The Society's Education Policy Committee has formed a Steering Committee to study Future Education Methods (FEM) for actuaries. The primary focus of the study will be on applications within the E & E system. However, the results of their analysis will be considered for application to the continuing education needs of the Society as well.

Currently, actuaries are educated through self-study. Mastery of the educational material is demonstrated by passing the Society's examinations. Both the world in which the actuary operates, and the material which the actuary must learn to operate in that world, have seen major changes. Technology has advanced dramatically making possible some very innovative educational techniques. Traditional methods of education have been expanded both at university and professional levels. The objective of the FEM Committee is to review and recommend technological and/or traditional education methods for application to the actuary's education.

The Steering Committee has established two task forces. The Technological Task Force will focus on the application of new technology. They will consider both short term (techniques to be implemented within three to five years) and long term (evolving developments to watch for future application). As an example of technological concepts, statistical teaching packages which are used on business school computer terminals are said to increase student understanding of potential uses of statistics. Other areas of possible investigation include audio and video tools, cable TV and satellite, video conferencing, personal com-

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THE FULL FUNDING LIMITATION: A PARABLE

by Rick A. Roeder

This is a tale about one subdivision in the most exclusive section of La Jolla, California. During the early seventies, everyone there had a massive collection of automobiles, mostly Mercedes and Porsches.

In 1974 (coincidentally on the same day that Congress passed ERISA), there was a subdivision party. There they shared their collective guilt about the unpatriotism of buying so few American automobiles.

They proceeded to make a pact whereby everyone agreed not to purchase foreign autos at a cumulative rate greater than one per year since the year they moved into the subdivision. For instance, Ray McCrock had lived there for ten years but owned twelve foreign cars. He was prohibited from purchasing a foreign car for the next two years.

This worked well for a while. But in 1982 they gathered at another impromptu party to discuss TEFRA, enacted by Congress earlier that day.

TEFRA made them disconsolate. Especially depressed were those who hailed from Michigan; the massive auto slump had created 20+% unemployment in many parts of their native State.

One Michigan native proposed a drastic measure. He urged that none of them purchase foreign autos at a cumulative rate exceeding one for every two years they had lived there. A debate ensued, the likes of which hadn't been since Lincoln vs. Douglas!

The leader against the measure was none other than McCrock. He had now lived there for eighteen years and had bought his maximum of eighteen foreign cars. Under the proposal he could not purchase another till the year 2000!

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NEXT ON THE U.S. AGENDA... MEDICARE

A year ago there appeared an editorial in this publication captioned as above. Medicare did not turn out to be high on the agenda for 1984, but not because its problems disappeared.

We offer below an article written for *The Actuary* by William Hsiao. *Medicare Benefits: A Reassessment* is a summary of a position paper, commissioned last year, in which Mr. Hsiao and Nancy Kelly propose some fundamental reforms in the Medicare benefit structure. Once the election is over, these and other suggestions for solving the problems of Medicare will regain their timeliness.

C.L.T.

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Medicare Benefits: A Reassessment
William C. L. Hsiao

Close behind the crisis over the financing of the Social Security system has arisen a similar concern for the fiscal solvency of the Medicare program. The past several years have witnessed a serious erosion of the Medicare trust funds, brought about by a sustained and rapid rise in medical costs. According to the Congressional Budget Office, the Hospital Insurance trust funds will be depleted by the end of 1989; the annual deficit will grow from $10.8 billion in 1989 to $60.9 billion by 1995.

The projected deficit will prompt the Congress and the American people to focus attention on the Medicare program. To restore the financial health of Medicare, three general approaches are likely to be considered: stricter controls on payments to providers (the supply-side approach), more cost-sharing by beneficiaries (the demand-side ap-

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METHODS STUDY

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puters, and pre-packaged programmed learning diskettes.

The Traditional Task Force will focus on non-technical methods, probably already used by other professions or universities. Examples of potential areas of study include a college catalogue subject selection, examination waiver based on college credit, correspondence courses, research papers, expanded use of educational seminars, and the use of problems as a teaching tool.

The primary investigation will be handled by the task forces. They have been in their formative stages, identifying areas of investigation. These will be reduced to a workable number from which specific recommendations can be developed for the Steering Committee and the Education Policy Committee to consider. The Steering Committee's role is one of overall guidance and coordination.

The FEM Steering Committee is chaired by Jim Murphy. Other members include Curtis Huntington, Judy Faucett, Linden Cole, Godfrey Perrott (Chairman - Technological Task Force), and Cecil Bykerk (Chairman - Traditional Task Force).

We are interested in input from the Society's members and students. We are also interested in volunteers to serve on the task forces. Please feel free to contact any member of the Steering Committee at their Yearbook address. ☐

MEDICARE

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proach), or an increase in revenues (through higher taxes, increased premiums, or more allocation of general revenue). The eventual solution will likely involve a combination of all of these.

In November, 1983, the House Ways and Means Committee in collaboration with the Congressional Budget Office and the Congressional Research Service commissioned seven papers on various policy alternatives to the solution of Medicare's financing problems. A paper by Hsiao and Kelly was one of these, examining Medicare's benefit structure and considering some fundamental reforms.

In *"Restructuring Medicare Benefits"* we first consider the cost-sharing provisions. We present arguments both for and against. The pro-arguments are familiar to actuaries: cost-sharing makes the consumer cost conscious, and thereby discourages overuse of services and encourages shopping for the least expensive provider.

We review more than twenty empirical studies evaluating the quantitative effects of cost-sharing on utilization. This evidence strongly shows that co-insurance does have an effect.

We then evaluate the current benefit structure. We find at least two major flaws.

First, the primary purpose of insurance, the protection against financial ruin, is not achieved. Beneficiaries face unlimited liabilities in the event of catastrophic illness. This flaw in the Medicare benefit structure is in large measure responsible for the demand for Medicare supplement or Medigap insurance.

Second, the cost-sharing provisions were built upon the faulty premise that beneficiaries would have adequate information about the relative cost of services. The reality is that patients lack adequate information upon which to make an informed decision. We show that there is a two-to-three-fold difference in hospital costs for treating the same illness in New Jersey; and that there can be a three-fold difference in physicians' fees for a given service within the same community.

We propose that Medicare benefits be restructured to better meet several objectives: 1. to provide financial protection against catastrophic illness, 2. to encourage the efficient use of medical services, 3. to base cost-sharing on the principle of ability to pay, 4. to achieve savings in program outlays, and 5. to minimize the need for supplementation of Medicare by private insurance.

We propose to raise both coinsurance and the deductibles. We propose to make the coinsurance variable, varying according to the provider's cost category. Coinsurance percentages are 0, 10, or 20% for the low, medium, and high hospital cost categories, respectively. For physician charges that exceed the deductible, the coinsurance is 10, 25, or 40 percent, depending upon the fee category of the physician. We argue that variable coinsurance will lead to competition among providers.

We propose an income-related catastrophic insurance. For those with family income under $10,000, the ceiling on out-of-pocket costs is to be $1,000 annually. $2,000 is the limit for those in the $10,000 to $20,000 range; for all others $4,000. We find that such insurance will protect beneficiaries from financial ruin, yet keep program costs within an affordable range.

Overall, our proposal is estimated to reduce Medicare outlays by $3 billion in 1987. ☐

FULL FUNDING

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Chaos threatened, till one of McCrock's business associates warned him of the megabucks he would need to hire two people he desperately wanted to bring into his personal empire. Realizing how expensive it might be to outbid their current employers, McCrock hastily calculated that if he hired both those superstars he couldn't afford to purchase more than Ford Pintos over the next eighteen years anyhow.

McCrock relented and the measure passed.

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During the ensuing two years, pension consultants across America had the unenviable task of telling plan sponsors that their well-funded defined benefit pension plans were going to have deductible contributions reduced, in some cases to zero, because of the TEFRA decrease in maximum funded pension under Section 415. Most of those consultants, faced by their clients' reactions, would have preferred to have root canal work performed on themselves. They were baffled when they considered the ease with which those La Jolla residents had grasped the concept of the cumulative nature of the Full Funding Limitation.

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Moral for pension consultants: Make clients of those La Jolla residents ...just in case Congress again reduces Section 415 limits. ☐