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New SOA material addresses hot health topics

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If you would like to expand your actuarial expertise in the Health Systems practice area, then you may be interested in new syllabus material added to the Group Benefit Track courses in the spring and fall of 1993. Many topics included in these courses go beyond basic principles into "hot" practice areas. These areas include flexible benefits, managed care, continuing care retirement communities, long term care insurance, post-retirement life and health benefits (including SFAS 106), and national health policy. Following are new course readings.

Course G-320 — Design and Distribution of Group Benefits

- Chapters 1, 2, 3, 7, and 9 in the new book, *Group Insurance*, edited by William F. Bluhm (ACTEX 1992)
- Readings in recent volumes of the *Record of the Society of Actuaries (RSA)* — "Health Care Trends Update," *RSA* 16 No.1; "Brave New World of Health Care," *RSA* 17 No. 3A; "How Will Society Deliver Adequate Health Care to All?" *RSA* 17 No. 4A
- Study Note 320-45-93 — Creditor's Group Insurance Guideline Canada 1992

Course G-420C — Group Financial Management and Regulation - Canada

- Chapters 28, 30, 31, and 34 in *Group Insurance*

Course G-421U — Group Financial Management and Regulation - U.S.

- Chapters 10, 28, 30, 31, and 34 in *Group Insurance*

Course G-422 — Group Insurance Pricing

- Chapters 13, 14, 17, 18, 21, 22, 25, and 26 in *Group Insurance*
- *Actuarial Issues in the Fee for Service/Prepaid Medical Group* (1992) Sutton and Sorbo

Course G-520 — Cost Containment/Managed Care for Health Benefits

- Chapters 12 and 19 in *Group Insurance*
- Readings in recent *RSA*s — "Effect of Resource-Based RVS in Medicare on Private Health Insurance" and "What Employers Can Do To Reduce Medical Cost," *RSA* 17 No. 3A
- Chapters 9 and 10 in *Actuarial Issues in the Fee for Service/Prepaid Medical Group* (Second Edition 1993) Sutton and Sorbo

Course G-522 — Continuing Care Retirement Communities and Long Term Care Insurance

- Actuarial Standard of Practice No. 18 — Long Term Care Insurance
- Readings in recent *RSA*s: "Financing of Long Term Care Costs: Government Proposals," *RSA* 18 No. 1B; "Long Term Care Insurable Events: Emerging Prominence of ADL Benefits," *RSA* 18 No. 1A
- 1991 Long Term Care Continuance Tables - E. P. Barnhart, *Proceedings of Conference of Consulting Actuaries* 1991
- Study Note 522-33-93 Interim Report (Revised) to NAIC Life and Health Actuarial Task Force from SOA Long Term Care Valuation Task Force
- Study Note 522-32-93 Group Long Term Care Topics

Course G-523 — Post Retirement Life and Health Benefits

- Study Note 523-24-93 Retiree Life and Health Plan Funding Vehicles
- Study Note 523-26-93 Actuarial Methods for Retiree Life and Health Plans
- "Postretirement Medical" *RSA* 18 No. 1B
- Study Note 523-31-93 Retiree Medical Liabilities: Problems and Solutions

Course G-525 — Flexible Benefit Plans - U.S.

- *Fundamentals of Flexible Compensation* (Second Edition 1992) Gifford and Seltz

Please call the SOA Study Notes Department, 708/706-3525, to order study notes. Please call Joanne Temperly, 708/706-3500, to order other material.

In memoriam

Wesley W. Fulford ASA 1960, FIA 1953

Humbert J. Graziadei ASA 1937

Community rating cont'd

The instability of community rating in a mixed premium competitive market

In many states, a mix of rating practices co-exist, with some carriers using pure community rating, while others use all or most of the rating variables. This may create an adverse selection spiral for carriers using pure community rating. The better risks can find coverage at rates lower than the pure community rate with carriers that use rates reflecting age and health status. The remaining community risk pool then deteriorates in health status and age, which drives up the pure community rate, forcing still more of the better risks to leave the community pool.

Even in the states that have prohibited or limited some of these rating practices, a significant transition issue exists, because the risk pools of each existing carrier have a different average claim cost.

Some carriers have been using medical underwriting to select the best risks and using aggressive rating to compete for these best risks. They can end up with the lowest price if forced to do pure community-rating, even if these carriers are the least efficient in medical management.

Methods of overcoming the instability

Methods using risk adjustment have been developed to avoid the adverse selection situation described. Reinsurance mechanisms have been instituted in various states over the past several years to spread the cost of high risk individuals. Health care cost is heavily influenced by the few high amount claimants. A recent study by a Blues' plan of insured individuals found that 4% of claimants generated 48% of claim costs.

Recently introduced legislation in New York includes a process by which the relative degree of risk in various blocks of business results in a system of monetary transfers among carriers. In New York, the risk adjustment transfer uses differences in the age/sex distribution in the various carriers' risk pools to determine if the particular carrier will make or receive payment from the pool. The carrier with younger insureds generally would make payment to the carriers with older insureds. In addition, a catastrophic reinsurance system pays predetermined amounts for particular treatments, such as organ transplants.

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