



SOCIETY OF ACTUARIES

Article from:

# The Actuary

January 1994 – Volume 28, No. 1

## OPINION

# The opportunity of a generation to change the health care game

by Robert Laszewski

## Editor's Note:

Every so often, external forces emerge that significantly affect our profession. In the United States, pension reform was one such event in the 1970s, just as health care is shaping up as a defining issue of the 1990s. Our November issue featured the views of several prominent health actuaries, and we look forward to your responses to that article. In this issue we offer "Opinion," a new column for commentary on issues of potential controversy as the need arises. We will seek views from within our profession and outside it. In this article, Robert Laszewski, a Washington health policy strategist, tells us, "Your science has never been more important to our country."

As former Surgeon General C. Everett Koop said, President Clinton has done more than any other living president to put health care reform at the top of the country's agenda. In doing so, he has created an increased need for actuarial input on national policy. Like good chess players, actuaries can think through what the effect of a single move will be further into the game.

While most would agree with the principles the president has outlined — security, simplicity, savings, choice, quality, and responsibility — fewer agree on how these principles should be accomplished.

## What pieces to sacrifice

The president and Hillary Clinton have done a very effective job selling the benefits of health care reform to the American people. They have not, however, emphasized what health care reform will cost, including:

- Cost to government for increasing access to and benefits of government plans such as Medicare and Medicaid
- Cost of subsidizing individuals and small businesses mandated under the plan to have coverage
- Cost to providers who will have their reimbursement levels reduced
- Cost to employers and individuals for the required generous benefits plans
- Cost to consumers who will likely see fewer choices and more limits on what they will get, compared to the wide-open system we now have

The greater the problem and the need for change, the greater the cost. However, to do nothing or to do far less than we could also would be costly, as our out-of-control health care system gobbles up more of our nation's gross domestic output.



At stake is the maintenance of what is for many people the best health care system in the world, rational access to it for all our citizens, and one-seventh of our economy.

## Actuaries considered expert players

Measuring all the proposed changes and using these measurements to make policy and marketplace trade-offs is no small feat. It is no surprise, then, that we

heard the president of the United States use the word "actuary" before a joint session of Congress.

As the debate heats up, we will hear one side try to convince the other that its prescription for health reform will work and that it will be able to maintain our quality system, provide access to all citizens, and increase benefits, all at less cost for both the private sector and for government.

At one hearing after another, members of Congress have tried to make sense of all the numbers and claims. More than once we have heard it said, "The actuaries support our projections."

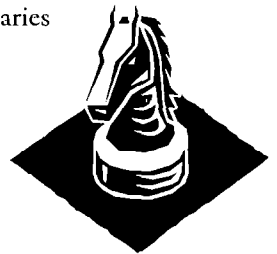
I have to confess, I am jealous of you actuaries. No one has ever justified so mammoth an undertaking as the dramatic reform of one-seventh of our economy and been able to soothe so many nerves with the simple statement, "The actuaries concur."

As those of us who have been part of the health insurance business for so many years sweat out our future role, actuaries have little to worry about. Your opinions show no sign of becoming obsolete. Presidents don't cite the rest of us from the podium.

As this debate goes into overdrive, actuaries need to be enthusiastic participants. Your science has never been more important to our country. We are on the verge of making the most significant public policy changes in our generation. These changes go to the heart of not only one-seventh of our economy, but also to the relationship all of us will have with our health care system and its impact on our families. At the personal level, this literally can be a life-and-death issue.

Then, you need to use your positions to hold those in the debate accountable. Although the greatest cost we may face as

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## Opinion (continued)



a nation is not doing anything about health care, there also are some pretty significant risks in how we do it.

### Possible effects of a wrong move

Too often, policy planners don't understand the mechanics of the system, particularly the insurance system. The best intentions and policy principles can have the potential to lead to more havoc than progress.

Most planners do not have the experience to predict the impact that policy changes will have on market behavior. Planning is like a chess game — it's not good enough to plan one move, you have to think out the actions and reactions down the line. Policymakers are particularly weak in this regard. They can tell us what the policy reaction must be, but often they do not have the real-world experience to predict the chain reaction in the market.

A case in point is the impact the Clinton plan could have on the market capacity to make health insurance available. Much of the Clinton plan financing is predicated on large Medicare and Medicaid spending cuts over what would have been spent. Historically, such reductions have led to providers shifting cost to the private market to try to make up the shortfall in their incomes. This time, the cuts are far more dramatic, while the Clinton plan also proposes to cap health insurance rate increases at the general rate of inflation.

This effectively puts health insurers in a terrible vise. They would be squeezed by rising provider costs, with no means to raise prices enough to compensate for the cost shifting. Many planners propose that insurers deal with this problem by creating more budgeted systems of reimbursement for providers. This would theoretically enable insurers to hold their costs in line with the general level of inflation. The problem with this is it will take substantial time and capital to move the country away from fee-for-service insurance to budgeted-style health plans.

The capital requirements to start these next-generation health plans are staggering. Those who control the needed capital will be very reluctant to invest in new generation health care systems whose prices are controlled by government bureaucracies, as the Clinton plan proposes.

Solvency issues are tied to this calculus. The Clinton health alliances would make most health insurance fully insured instead of self-insured, as is now the case with much of the market. This would mean substantial increases in the reserves and capital required to support the same number of covered individuals. In addition, those who favor the Clinton plan are often the same people interested in tough solvency requirements. The fact is solvency rules are often much tougher for products that are rate-regulated, as the Clinton plan proposes. This makes sense, because a carrier getting into financial trouble will not be able to get rates up to appropriate levels in one or two years with rate increase caps set at the general level of inflation.

The Clinton plan would force carriers to move their blocks from self-insurance to fully insured products. With this would come greater capital and surplus requirements and the need to invest heavily in next-generation budgeted systems of care to manage provider costs at regulated levels. The industry would be hit with capital and surplus requirements that simply are non-starters.

In this capital and surplus calculus, the Clinton plan has moved its king into check.

As actuaries, you have the responsibility and the skills to think this "chess game" through for both your companies and the policymakers.

One-seventh of our economy and the quality of our health care system depend on it.

**Robert Laszewski, not a member of the Society of Actuaries, is president of Health Policy and Strategy Associates in Washington, D.C.**

## What do health actuaries think?

A survey returned by 142 at the Health Section breakfast at the New York annual meeting, October 19, 1993, revealed the following opinions:

- Will Congress pass some form of health care "reform" legislation by September 1994?  
73% Yes 27% No
- If a health care reform package is passed by September 1994, will the package include:
  - Access reforms including guaranteed issue and renewal and strict limitations on pre-existing conditions exclusions?  
98% Yes 2% No
  - Restrictions on rating variables, including elimination of health status and any form of experience rating for groups under 50 lives?  
93% Yes 7% No
  - Some limitation on the variance between the highest and lowest premium charged a group under 50 lives?  
78% Yes 22% No
  - Full community rating within a state or some smaller geographic area?  
52% Yes 48% No
  - A requirement that all insurers offer at least one uniform, standard benefits package?  
86% Yes 14% No
  - A requirement that all employers make available to their employees at least one benefit package meeting some minimum federal standard but with no obligation that the employer pay a portion of the premium?  
41% Yes 59% No
  - A requirement that all employers provide and pay at least 50% of the premium of a federal-specified standard benefits package (with subsidies for some firms and workers)?  
65% Yes 35% No
- Will legislation enacted in 1994 assure that all Americans have health insurance from some source by the year 2000?  
68% Yes 32% No
- Do you favor President Clinton's proposed approach over some form of a single payer system?  
81% Yes 19% No  
(Several respondents believed this question should have included more options.)

