



SOCIETY OF ACTUARIES

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What actuaries think of Clinton's health care proposal

by Mike Cowell
The Actuary Editor

"Can you say 'actuary'?" President Clinton can... and did mention actuaries in his September 22 address to Congress. That's the good news. The bad news — for Clinton, at least — is that some of the group who volunteered to look at the numbers for the Administration have been quoted in *Wall Street Journal* (Oct. 1 and Oct. 12) and *New York Times* (Oct. 8) articles, cautioning that the president's remarks about the group may have misled people about its role.

The group included actuaries Dick Ostuw, Howard Atkinson, John Bertko, Brent Greenwood, Dick Helms, and Ken Porter, and economist Jack Rodgers. Some have been less than happy with reporters' "no-win" questions in the mode of "When did you stop beating your wife?" and comments taken out of context.

In its letter to Ira Magaziner, senior White House aide in charge of health care reform, the group noted that its review focused on evaluating the cost of the federally guaranteed benefits package and did not cover the cost or savings estimates for the entire plan. The letter also mentioned that the group did not address the implications of altering Medicaid and Medicare or assess possible savings from managed competition.

The Actuary contacted other leading health actuaries to solicit their comments. Following are those who responded.

Roland (Guy) King, chief actuary, Health Care

Financing Administration: "The health care reform plan relies heavily on global budgets enforced by the federal government to hold down premiums and the associated government subsidies. For example, the actuarially determined premiums for the first year of reform, 1996, are reduced by nearly 25% by the global budget, and the associated federal subsidies are reduced by more than 40% by the impact of the global budget. To be that successful in containing health care costs, the federal government would have to be far more resolute than it has been in containing costs in the Medicare and Medicaid programs."

Tony Hammond, policy research actuary, Health

Insurance Association of America: "If Mr. Clinton thinks he can take the current employer-sponsored pool, add early retirees to add Medicaid to it, and provide more generous benefits than they currently get to almost everyone in the pool at an average premium that is less than the average premium for employer-sponsored plans in 1991, then he needs to talk to his actuaries again. As I understand it, at least part of the discrepancy is because the

estimates the Cost Issues Audit Team looked at did not include early retirees in the pool or other changes that were made after their review.

"Even before migration effects, my estimates and those of several company actuaries already are indicating that the Clinton cost estimates for the average premium in the regional health alliances are at least 15 to 35% too low. Dr. Martin Feldstein [former chairman of the Council of Economic Advisors and economics professor at Harvard] has estimated that in 1997 alone, Clinton's estimate of the annual budget deficit is \$120 billion too low. If it is that low in every year of the five-year projection period, the understatement would equal the total of all national health expenditures in 1989.

"Furthermore, it would greatly clarify matters if the Administration were to release the report of the Cost Issues Audit Team for other actuaries to review objectively."

Sam Gutterman, director and consulting actuary, Price Waterhouse, and SOA Vice-President supervising the SOA health practice areas committees:

"I believe there is general agreement with the principles underlying the Administration's health care reform proposal (security, simplicity, savings, choice, quality, and responsibility). Significant differences in opinion exist, however, on (1) how best to achieve these principles and their priority, and (2) the assessment of the impact of changes to the system on different sectors of the economy and changes in behavior that will result.

"In evaluating the desirability of various proposals, the actuary plays a significant role in evaluating the proposals' costs relative to their design, and whether changes in design can improve achievement of the principles. It is a challenge to determine the financial effect of resulting behavioral changes by participants in the system (consumers, providers, and insurance risk-takers). Although the impact of these changes will only be known well after implementation, reasonable estimates have to be made now. I hope that such cost estimates reflect, as reasonably as possible, all available information."

David Wille, vice president and chief actuary, Humana, Inc., and chair of the SOA Managed Care Task Force:

"We in the health care financing business ought to be supportive of the major goals President Clinton has established: universal coverage, cost control, and simplification. Let's be positive about this reform effort, rather than trying to find all the negatives.

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Health care proposal (continued)

"In the spirit of making the reform effort more successful, we should suggest a heavy role for competition, which includes competition among medical providers, competition among managed care plans, and competitive forces to stimulate the purchasing alliances to give the customers what they want. That's why the purchasing alliances ought to be non-exclusive. Employers should be allowed to purchase coverage either through the alliance or directly from a managed care plan or insurance company.

"The opinion is often expressed that an exclusive alliance is necessary to bring affordable coverage to those who are in poor health. I disagree strongly with this. Clearly, the federal and state governments could require guarantee issue at reasonable rates for every employer who wishes to purchase coverage. That would become the norm in the health care industry. You don't need exclusive alliances to get there.

"In fact, the Florida legislature has done exactly that — a very strict guarantee issue rule for small groups, along with non-exclusive alliances. We should encourage a federal framework that allows Florida to continue this program.

"In summary, an exclusive alliance is subject to the same temptation as any government agency — to serve their own interests rather than serving the public. Competition is the best way to counter this attitude."

Bart Munson, a principal at Coopers & Lybrand and chair of American Academy of Actuaries and Society of Actuaries committees on long-term care:

"In spite of the risks so well illustrated in recent weeks, on balance, I'm delighted President Clinton and his health care reform leaders are well aware of, and reliant upon, our profession.

"We've worked hard for many years to let policy-makers know we can make a significant contribution, even an essential one, to the solutions of the nation's most vexing problems. Certainly, health care reform is one, perhaps the largest, conceivable one.

"When we succeed in getting into the game, we've got to accept some bruises. If Clinton (Bill) 'uses' us in an attempt to make his case, as he did on September 22, we should be proud. Wince, yes, and work quickly and as hard as needed to correct the implications that we bless the numbers, for we haven't and probably won't. But we should be glad to be visibly in the fray. ...

"We can't always control where we're cited, how we're quoted, or to whose end we're used. Neither can we control whether we're a player in the game. We can work diligently and carefully to get there, however. We have and we are. That's great!

"Now let's use our opportunity to truly help our nation work on this huge challenge. Clinton needs us, and he obviously knows it."

Alice Rosenblatt, senior vice president and chief actuary at Blue Cross/Blue Shield of Massachusetts and chair of the American Academy of Actuaries Risk Adjusters Work Group:

"Health care reform is urgently needed, and we need to do everything we can to assist in designing the new system. We have not yet seen the legislative language, but the 239-page document contains some items of concern — for example: global budgets and caps on the rate of premium increases, cost and savings estimates, and fairly rich benefits.

"I was delighted to see that a risk adjustment mechanism has been included in the proposal. This is an area where actuaries need to do a lot more work and provide a lot of input.

"I think it's very positive that the debate is moving forward. We need to do our part to assist with the details that give us concern. I'm confident the Academy's work groups will provide valuable assistance to those involved in the debate."

Howard Bolnick, president of Celtic Life Insurance Company and vice-president and chair of the Health Practice Council for the Academy of Actuaries:

"The American Health Security Act of 1993 (President Clinton's plan) is now before Congress and the American people. Much of it covers areas in which actuaries have either unique expertise or a special perspective. The importance of the proposal necessitates our speaking out. I've seen uniform appreciation by the people involved for actuaries looking at the numbers and other key issues, such as health plan solvency and health risk adjusters.

"There's a lot of questions about the health care plan and the Academy and Society will play a positive role as the plan goes forward. Several work groups and task forces are being formed, and we need a lot of help from volunteers."

(Note: see box on page 11 for volunteer opportunities.)

The January issue of *The Actuary* will include an article covering this issue in more depth as details continue to unfold. For those who objected to Clinton's lack of details in his September speech, one of his advisors, Paul Begala, reminds us with his quote in a *USA Today* story, September 21: "President Kennedy said, 'We'll put a man on the moon by the turn of the decade.' He didn't say, 'We'll have a three-stage Saturn rocket and we'll have tracking stations in New Zealand and New Guinea.' He [Clinton]'s not actuary-in-chief. He's commander-in-chief."

But then again, there are no people — and no politicians — between the earth and the moon. Kennedy had it easy!