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Coping with the Flood of '93

by Warren R. Adams

The author served recently as chair of the C-1 Subcommittee of the Industry Advisory Committee to the NAIC's Working Group on Life Risk Based Capital. Those who worked with Warren Adams recall the many times that they referred to levels of adequacy of insurance risk capital in terms of the "100-year flood." Little did they know how soon Adams would have to cope not with a figurative 100-year flood, but with the real McCoy, and a 500-year variety to boot. Here's his story.

When the swollen Des Moines and Raccoon Rivers escaped their banks in downtown Des Moines Saturday, July 10, and early Sunday, July 11, they knocked out several power substations and flooded the city's water plant, cutting off the water supply for 250,000 people in the metro area.

The media reported that Iowa was experiencing a 100-year flood, but geological authorities say that Iowa hasn't had a flood of this magnitude since Columbus reached North America in 1492. Regardless of the historical debate, this was a disaster no one could plan for.

While the rest of Des Moines was scrambling to get drinking water for their homes, members of The Principal Financial Group's Recovery Control Team met to decide how to put the company back in business. The company relied heavily on a business resumption plan designed in

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Health Care Reform

What's it likely to be?

by Gary Hendricks

A hundred days after a hundred days, the Clinton administration has yet to unveil its proposal for comprehensive health care reform. Although we've all been drenched with leaks (mostly from the White House), even those close to the President cannot state with confidence what the package will look like. At this mid-August writing, our best source offers the following outline for what is likely to emerge from the White House.

The President's proposal will require that all employed and recently unemployed individuals be privately insured and that they choose their own health plans from among qualified Accountable Health Plans (AHPs) approved by their local Health Alliance (HA). Employers, although required to pick up 80% of the tab, cannot narrow or participate in a worker's choice.

Federal law would require states to set up HAs as state or quasi-state agencies. HAs would negotiate with private sector AHPs. States would have one or two years to establish HAs, would have the flexibility to set up *de facto* single-payer or all-payer systems, would determine how HAs are to be staffed and administered, and would control the number of HAs in the state. AHPs could offer only a uniform benefit package but with a range of co-pay and deductible options. There would be some pharmaceutical benefits with a significant deductible (say $300) and co-pays (maybe 30%) and an annual out-of-pocket maximum of about $1,200. (These benefits also would be added to Medicare.) There would be some mental health benefits. Supplemental packages would be available for uncovered services but could not cover deductibles and co-pays. Permissible designs for AHPs would include

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In this issue:

Committee developing Dynamic Solvency Handbook

by Mike Hughes

In September 1992, the American Academy of Actuaries adopted a position statement on insurer solvency. The statement recommends that insurance company management "should be required to obtain each year a written report on surplus adequacy by an appropriately qualified actuary." In response, the Society of Actuaries appointed the Dynamic Solvency Task Force (DSTF) to prepare an action plan for completing research and developing educational materials to support actuaries performing solvency analysis.

The DSTF issued a report in January 1993 that recommended SOA task forces should be appointed to oversee research, prepare a handbook for actuaries issuing solvency reports, and develop dynamic solvency testing seminars. (See the April 1993 issue of *The Actuary.*)

Dynamic Solvency Handbook

The Dynamic Solvency Handbook is intended to serve as an educational tool describing the basic tools, techniques, and knowledge that are useful in performing solvency analysis. An appendix to the DSTF report contains a recommended table of contents for the handbook, which includes:

- Dynamic Solvency Testing
- Report Preparation Game Plan
- Analysis of Assets
- Analysis of Company Behavior
- Analysis of Policyholder Behavior
- Dynamic Solvency Testing for Other than Individual Life and Annuity Lines
- Appendix A - Model Report on Dynamic Solvency Testing
- Appendix B - Bibliography/PASG

The SOA's Financial and Investment Management Practice Education Committee, chaired by Pete Hepokoski, will oversee the development of the Dynamic Solvency Handbook. The target completion date for the handbook is December 31, 1994. It is intended that the handbook be a "living document" and updated regularly.

Annual meeting

Two sessions at the SOA's 1993 annual meeting in New York will relate to the Dynamic Solvency Handbook:

- Open forum (Session 83), 8:30 a.m., Wednesday, October 20
- Follow-up workshop (Session 136), 2 p.m., Wednesday, October 20

The panelists at the open forum will review Canadian activities and experiences related to solvency testing, discuss the handbook, and distribute draft copy and outlines for parts of the handbook. There also will be time for audience comments and questions.

The expansion of the actuary's role to include surplus adequacy is a very important issue for the actuarial profession. The open forum and workshop sessions will provide a valuable opportunity for learning about recent developments and provide a forum for interested parties to have a voice in the process. We encourage your attendance and participation.

Mike Hughes is a senior consulting actuary with Ernst & Young in Chicago.

Volunteers needed

Several volunteers have been recruited to serve as section editors, writers, or technical advisors on the Dynamic Solvency Handbook project, but many more are needed. If interested, please call Pete Hepokoski at 612/372-5427. This promises to be a challenging and rewarding experience with important ramifications for the future of our profession and the industry.

Health care reform cont'd

fee-for-service, PPO, and HMO arrangements.

Employers would be mandated to pay for their full-time, part-time, and seasonal workers and for dependents through premiums that would reflect community rates or community rating by class. The employer share for full-time workers would be 80% of the lowest cost package. Government subsidies would help cover premium costs for lower wage workers. Larger employers (either those with more than 1,000 or more than 5,000 employees) could still self-insure but would be subject to new federal requirements and included in any employer-based tax needed to subsidize lower income workers and their dependents. And, yes, there will be tax caps. Those who choose to spend more for their health insurance will pay more taxes.

Except for a hefty increase in cigarette taxes, decisions have not been made on how to raise revenue to finance required government subsidies to poorer workers and some small employers. The Medicaid populations initially would not be included in the HA, although at some point both Medicaid and Medicare participants might be required to use HAs to gain access to care. There would be some coordination with worker's compensation but not full integration.

If anyone still believes what the Clinton White House says, the President will unveil his comprehensive package the third week of September. (With so many decisions left to be made, some of us are doubtful.) And, if a plan is unveiled, will it look a little like the one outlined here? Probably so, but it could be DOA on Capitol Hill. Both the Republicans and Democrats are in disarray on the health issue. Consensus will be difficult, if not impossible, and the proposed Clinton package could be a fiscal disaster acceptable to no one.

Gary Hendricks is director of government information and chief economist for the American Academy of Actuaries.