Article from:

The Actuary

April 1994 – Volume 28, No. 4

Actuaries advise Hill staffers on health insurer solvency

by Bill Bluhm

One of the American Academy of Actuaries' roles is to be the actuarial profession's liaison with governmental bodies. It provides technical advice to policymakers on the implications of their policy decisions. The Academy's Government Information Department maintains close links with key decision makers on Capitol Hill and in federal agencies, which gives actuaries the opportunity to respond to requests for assistance.

On January 11, four actuaries met with Democratic and Republican subcommittee staff members from the House Energy and Commerce Committee. I represented the Academy's work group on health insurer solvency, one of 17 Academy groups recently established to analyze components of health care reform issues. Other Academy members at the day-long meeting were Alan Ford, head of the Academy's Health Practice Council work group on transition rules, Geoff Sandler, member of the work group on solvency, and Mike Thompson, president of Managed Care at Prudential.

The subcommittee staffers requested this meeting and asked the Academy to discuss two aspects of President Clinton's Health Security Act: guaranty funds for health insurers and issues arising from the transition to a reformed health care system. These topics are under the purview of the Energy and Commerce Committee, and its subcommittees will draft the legislative language pertaining to those issues.

Guaranty funds

As introduced by President Clinton, the Health Security Act requires that each participating state establish a guaranty fund to protect "providers and others" in case of a health plan insolvency. Our discussion of guaranty funds took an interesting turn. Some of us started the day believing guaranty funds were an important and necessary element for the protection of consumers under reform, but we ended the day by defining certain entirely feasible circumstances under which they might not be necessary at all.

Our group of actuaries told the subcommittee representatives that guaranty funds might not be necessary for consumer protection because of three aspects of reform:

1) Guaranteed issue and continuation of insurance coverage
2) An assumption that providers will not be permitted to charge consumers for money owed them by a bankrupt plan
3) The assumption that state insurance commissioners will be given authority to transfer covered participants from insolvent health plans to solvent plans, which then would be responsible for all claims

Thus, the main purpose of a guaranty fund would be to insulate medical providers and other creditors from the business risk of not being reimbursed for services rendered before the insolvency. Our group stressed that establishing guaranty funds to protect providers is a public policy issue, not an actuarial question.

Transition rules

The staffers asked about several perceived weak spots in the administration's language on transition rules, especially concerning risk pools and their regulation. Alan Ford's work group is preparing a monograph that will examine risk pools, and he will brief the staffers when the monograph is completed. The actuaries defended the broad need for transition rules, citing, for instance, the need for regulations that would allow companies short-term flexibility in setting premiums during transition.

The discussion turned to the question of which entities should be the focus of solvency regulation that protects the public. Our group suggested that solvency standards be applied to all entities that had pledged to meet the risks of insuring health coverage, usually health plans.

As the discussion continued, the Capitol Hill group also asked our advice on payment priorities in case of bankruptcy. We offered the opinion that in bankruptcy, priority be given to providers still providing services to insured individuals.

The staffers who met with our group were very knowledgeable about the issues. They seemed honestly interested in what we had to say and appeared to value our input. I was impressed with their ability to weigh the truthfulness and technical correctness of the information they receive and to balance it against the political considerations that necessarily permeate their work.

The time and expense the four actuaries spent in the meeting was an important investment in building the profession's reputation and relationship with Capitol Hill. This is a uniquely opportune time for health actuaries to make an impact on the future of health care in America. I was pleased to contribute to the legislative process, and to further our profession's growing reputation as a source of impartial analysis among our nation's policymakers.

Bill Bluhm is a principal and consulting actuary at Milliman & Robertson in Minneapolis. He is the chairperson of the SOA's Committee on Health Benefit Systems Practice Education and a member of the SOA Health Section Council. He also is a member of the Academy of Actuaries Board of Directors and chairperson of the AAA's Health Practice Council work group on health insurer solvency.