



SOCIETY OF ACTUARIES

Article from:

The Actuary

November 1994 – Volume 28, No. 9

Harvard researchers join actuaries in risk adjusters study

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A difficult actuarial puzzle raised in the debate over health care reform — risk adjusters — will be studied by a research team that includes prestigious researchers from Harvard University and prominent health actuaries from Coopers & Lybrand. Fifteen professional research teams responded to the Society's Risk Adjuster Research Task Force's request for proposal to investigate risk adjusters, using the raw claims and exposure data the task force had gathered. Many of the proposals involved outstanding actuaries on multidisciplinary teams. After careful consideration, the task force recommended that the Society of Actuaries fund the research proposal submitted by the Harvard University and Coopers & Lybrand team with \$160,036.

Need for research

While the 103rd Congress was unable to enact any health care reform legislation, the issue is far from dead. It is very likely that the 104th Congress will consider a variety of proposals. Some states already have enacted some form of health care reform, and others are considering such legislation or will do so soon. The proposals that seek to impose some form of community rating on private, competing financial intermediaries include risk adjusters to transfer funds from those intermediaries whose enrollees have a lower-than-average expected claim cost to those whose enrollees have a higher-than-average expected claim cost. Proposals of this type will continue to be considered in the legislative deliberations.

Task force's response to need

The deliberations that have taken place have suffered from the lack of data on how well the proposed risk adjusters will perform in practice.

The Society of Actuaries established the Risk Adjuster Research Task Force to find a way to address this information gap. The task force is comprised of nine Fellows of the Society of Actuaries: Chairman Bill Lane, Ken Avner, Steve Brink, Ned Crocker, Joan Herman, Cindy Lewis, Harry Sutton, David Wille, and Ron Wolf.

The task force will direct the work of the research team, as it uses the data gathered by the task force to address the following research questions:

- What is the predictive accuracy of different risk adjustment methods?
- How sensitive are the estimated risk adjustment formulas to the type of insurance coverage for the enrollees included in the data set? Do the formulas differ among indemnity, HMO, and PPO plans? How do the formulas vary by level of cost-sharing?
- How important is the size of a risk pool or group in financial accuracy?
- How do different risk adjustment methods compare, based on criteria such as administrative practicality, ability to restrict manipulation, and incentives for efficiency?
- How can the existing risk adjustment methods be improved?
- What alternative methodologies exist? How are they likely to compare with those currently available?

Research team members

The research team includes these faculty members at the Harvard School of Public Health:

- Project director — Senior Research Economist Daniel L. Dunn, Ph.D., who previously served as technical project director of the Harvard study that developed the Resource-Based Relative Value Scale (RBRVS) approach to physician payment used in the Medicare Fee Schedule

- Senior investigator — Eric Latimer, Ph.D., who brings expertise in statistical analysis and econometrics to the research team
 - Clinical consultant — Peter Braun, MD, who has combined a career in health care research with active participation in clinical medicine
- The Coopers & Lybrand health actuaries are:
- Alice Rosenblatt, FSA, partner at the Boston office of Coopers & Lybrand and director of the project's actuarial component. She served as chair of the American Academy of Actuaries Work Group on Risk Adjustment.
 - John Bertko, FSA, also a member of the American Academy of Actuaries Work Group on Risk Adjustment.
 - Tom Stoiber, FSA, who specializes in individual and small group health insurance.

Four national experts have agreed to donate their time and knowledge to advise this research effort. They are academic actuaries Jim Hickman, FSA, Ph.D., from the University of Wisconsin; and Bill Hsiao, FSA, Ph.D., from Harvard University and health policy experts Joseph Newhouse, Ph.D., from Harvard University; and Harold Luft, Ph.D., from the University of California at San Francisco.

Significance of project

This project is a big step forward for the Society as a research entity. The effort is a collaboration of academic researchers and practicing actuaries. The questions to be addressed are significant to public policy deliberations that will still be taking place when the research is completed next spring. The successful completion of this project will demonstrate the capacity of our profession to discover scientific answers to important unresolved societal questions.