
SOCIETY OF ACTUARIES

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OPINION

# Why insurance reform will work

*by Daniel Wolak*

This year's health care debate, which seemed complicated in its details, came down to one fundamental question. What should the role of government be? Because many Americans fear creating a new government bureaucracy, the Clinton Plan and health care legislation failed in 1994. But as we look forward to 1995, the same problems that focused our attention on health care still exist. We look now to the new Congress to focus on the problems, rather than focusing on a partisan solution.

## Small employer and the individual insurance market

In general, Americans are satisfied with their private health care insurance. Those covered by plans sponsored by larger employers, with more than 100 employees, are the most satisfied.

The weakness in the insurance market is primarily in the small employer (fewer than 25 employees) and the individual insurance markets. The problems in those markets are:

- Pre-existing conditions are not covered.
- No coverage is available if a health problem exists.
- Coverage is not portable when an employee leaves a small employer.
- Size of rate increases for small group (limited today due to state rating laws)

The solution is to pass insurance reform. Both political parties, along with the insurance industry, are in favor of legislation that would fix these problems.

## Tax code favors insurance over wages

The current income tax policies encourage many people to purchase more comprehensive insurance benefits than they would choose otherwise. Most people obtain their health insurance coverage as an employer-sponsored fringe benefit. The tax-exempt status of fringe benefits alters workers' financial incentives. Since wages are taxed, but health insurance benefits are not, a dollar of health insurance benefits is worth more than a dollar of wages.

The growth in health care spending is directly related to the growth of the insurance system. In 1950, 5% of GNP was spent on health care; 3% (which is 60% of the 5%) from consumers, and 2% from insurance. In 1994, almost 15% of GNP is estimated to be spent on health care; still 3% from consumers (which is now 20% of the 15%) and 12% from insurance (i.e., a third party payer).

Another problem is that the tax code discourages Medical Savings Accounts (MSAs). MSAs are one way to make the health care consumer more concerned about the price of health care. Medical Savings Accounts should be allowed, and Congress should consider having patients bear a substantial portion of costs up to an income graduated cap. A change in the tax code would create incentives to make health care consumers more cost aware.

## Lack of information for purchasing health care

Buyers of automobiles can go on test drives, compare prices at different dealers, draw on friends' experiences, and consult publications that provide information on costs, margins, ratings of quality and reliability, and used-car values. The buyer of health care services, though, lacks similar types of information for making choices.

The private market is actively pursuing the development of understandable and accessible health care information. With good information available, consumers and providers will be able to make choices which will result in the type of competition that raises quality and drives down costs.

## The uninsured

The percentage of population covered by employer or individual purchased coverage has decreased from 72.3% in 1980 to 64.5% in 1993. The percentage of population uninsured increased from 10.8% to 14.7% over the same period of time. (The rest are covered by Medicare or Medicaid.) The growing percentage without insurance has driven the current health care initiatives.

The Clinton plan and the single payer concept generally has been aligned with providing universal coverage. Insurance reform or "incremental" reform usually has not provided for universal coverage. Universal coverage, however, can be provided under any reform package as long as it is financed. Universal coverage can be financed either through taxes, which would be required under "incremental" reform, or a community rating mechanism and global budgets that were used by the Clinton plan and single payer. Recent surveys indicate that a majority of Americans are not willing to pay extra taxes to guarantee universal coverage.

A politically feasible answer to this problem may be the method used by the state of Oregon to reform their Medicaid program. The process included town meetings and surveys of the population and the medical community. The end product expanded the number covered under the program but provided a scaled-down benefit package.

## The evolving health care marketplace

As actuaries, we are aware of the changes taking place in today's health care marketplace. The market is " changing rapidly to provide controls

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## Factuaries

*This is another in a series of profiles of members of the Society's Board of Governors.*

**Name:** Esther Milnes

**Current hometown:** Chatham, New Jersey

**Current employer and function:** Sr. Vice President and Chief Actuary at Prudential Insurance and Financial Services

**Marital Status:** Married to Ralph

**Children's names and ages:** Doug, 14

**Birthday:** November 22

**Birthplace:** Portland, Oregon

**My first job was:** Mending damaged children's books at the public library

**With experience, I've learned:** Don't let little projects hang around too long or they might become big ones

**I completed my ASA/FSA in:** 3 years after I graduated from college. I took Part 1 when I was a freshman in college, but I had to wait until my junior year for Part 2, because Probability and Statistics was only offered in alternate years. I also had to recruit other candidates to take exams so we could have our own exam center. Otherwise, I would have had to drive over 100 miles – tough feat when you don't have a car.

**The book I recommend most often:** *The Road Less Traveled* by M. Scott Peck

**Nobody would believe it if they saw me:** 1) Running 2) Getting to work early

**The TV show(s) I stay home to watch:** Mysteries

**When I'm feeling stressed out, I:** Play video games

**If I could do anything, I'd:** Add more hours to the day, with the stipulation that no one could create work during those hours

**If I could do it over, I'd:** Take exams under the current flexible system instead of the old way

**My proudest actuarial moment:** Attending my first SOA meeting as an ASA with my dad

## Why insurance reform will work (continued from page 8)

on cost and offer higher quality care. Congress should let the private market evolve in these areas. The following are just several examples of how the marketplace has been evolving:

- Negotiated fee arrangements with providers: More private plans are controlling costs through discounted fee arrangements with the providers.
- Center of excellence agreements: Special agreements are in place with medical centers and other providers that specialize in certain high-cost procedures, such as transplants. The result is that the patient is provided more cost efficient care with better medical outcomes.
- Provider risk arrangements: Capitation arrangements that place the providers of medical care at risk of loss, rather than the insurer, are becoming increasingly prevalent.

To help correct the problems in our health care system, Congress should focus in 1995 on passing legislation with insurance reform as the cornerstone. Congress also should create incentives to aid positive changes in the private marketplace, such as tax code changes that would allow medical savings accounts. But, if Congress decides to try again to overhaul the system with a Clinton-type plan, the insurance industry should be ready to keep "Harry and Louise" fully employed in the coming year.

**Daniel Wolak is the vice president and group actuary for American United Life, Indianapolis, Indiana.**

## IN MEMORIAM

**Harry R. Drakeford**
ASA 1965, FIA 1941

**Mark W. Hill**
FSA 1961, MAAA 1965

**Richard J. Learson**
ASA 1934, MAAA 1966, EA 1976

**John E. Oxley**
FSA 1964, MAAA 1965