



SOCIETY OF ACTUARIES

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AMA criticizes actuarial averages

by Robert H. Dobson

The July 15 issue of the *American Medical News* reports on a discharge policy adopted by the American Medical Association (AMA) at its annual meeting. In an article, "Delegates want discharge decisions left to doctors," a section titled "Problem with actuarial averages" states:

Joanne G. Schwartzberg, M.D., AMA director of geriatric health, ...said insurers and managed care organizations too often set discharge criteria based on "actuarial averages, simplistic formulas and ideal situations," which don't address the needs of a majority of patients.

This appears to be, at least in part, an attack on guidelines used by insurers across North America. These guidelines often are not based on actuarial averages, but rather on observed best practices of managed care organizations. An example is a set of guidelines developed by my employer, Milliman & Robertson, the "M&R Healthcare Management Guidelines™." They were developed by physicians, not actuaries, yet they seem to fit within the focus of the AMA's criticism.

Guidelines such as these are, however, based on the uncomplicated patient and require an adequate managed care infrastructure, so that services such as home health care are available.

It would be interesting to hear how actuaries working with other discharge criteria view the criticism.

Expansion of the profession

by Sam Gutterman

1995-96 President, Society of Actuaries

During the past year, I have written several editorials for *The Actuary*. My intention was to challenge your thinking and provide some incentive to act. In this column, my last as SOA president, I'm continuing on that path with some thoughts about the need to broaden and add depth to our profession. If we don't act soon, we could face a critical *devaluing of our status and worth*.

I believe it is crucial to the actuarial profession and individual actuaries that we expand the scope of our profession, in both its breadth and depth. It can be broadened by adding new practice areas or enhancing existing ones. Its depth can be increased by providing valuable additional services or contributions to current employers or clients.

Why do I think we have a problem? Here are some indicators:

- Too often, an insurance company will hire a non-actuary for a position when the company could be better served with an actuary in the job.
- An insurer will ask a non-actuary to conduct a project that an actuary could do just as well — and probably better.
- Many pension actuaries serve as highly regarded valuation or regulatory experts but don't get the opportunity to serve as benefits consultants — though they're qualified to do so.

In the past, our profession has ceded significant practice areas to others. To name a few: derivatives, demography, operations research, Bayesian statistics, and biostatistics. We can no longer afford to continue to develop the intellectual core of an area, then leave it to others to practice. The Institute of Actuaries in the United Kingdom will offer a certificate in derivatives next year. Should the Society of Actuaries do something similar?

I am not saying no progress has been made. For example, the health and finance areas have expanded by adding new services and new clients. In finance, our skills in asset/liability management may serve as an entrée to other areas.

The Society of Actuaries has initiated several efforts in the past few years to expand our profession:

- **Education redesign.** As actuarial education puts more emphasis on unstructured problem solving, it will offer future actuaries a better base from which to move into new practice areas.
- **Sections.** The Actuary of the Future Section has developed a number of programs, communications, and seminars to increase the actuary's knowledge of new practice areas. Other Sections and the Management and Personal Development Committee also have strived to broaden the horizon and skill set of the actuary.
- **Emerging practice areas:** The Finance practice area has been charged with the responsibility of coordinating task forces for emerging practice areas. Although actuarial work has been brought into the mainstream of finance and investments, I believe we have only scratched the surface of our potential contributions. We now have a Banks and Financial Institutions Task Force, a Capital Projects Task Force, and a new task force on Actuarial Counselling (personal finance), all formed to identify potential new areas for actuarial practice and to develop plans to open these fields to actuaries. The Canadian Institute of Actuaries also has formed a task force to address non-traditional areas. I challenge you to volunteer new ideas for task forces, particularly

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New law at a glance

Here's an overview of the provisions under the Health Insurance Portability and Accountability Act of 1996:

- Health plans cannot deny coverage nor impose preexisting condition exclusions for more than 12 months for any condition diagnosed or treated in the previous six months. Also, insurers cannot impose any new preexisting condition exclusions on anyone who maintains continuous coverage (i.e., no more than a 63-day gap).
- Health insurers offering health insurance in the individual market must provide individual policies for those who leave jobs voluntarily or involuntarily and for their dependents. This applies only to those who maintain continuous coverage for the preceding 18 months and who are no longer eligible for COBRA coverage.
- The law prohibits insurers from refusing to sell plans to small employers (2 to 50 employees).
- The deductibility of premiums for the self-employed increases, over time, from 30% to 80%.
- Tax incentives are offered for the purchase of long-term care insurance.

Insurers operating in states where the federal law applies (that is, the state has not obtained a waiver) can meet the group-to-individual portability requirements in one of three ways, observes Tom Stoiber, senior consultant for Coopers & Lybrand and member of the American Academy of Actuaries work group advising Sens. Kassebaum's and Kennedy's staffs. Stoiber notes that the federal standard calls for individual health insurers to guarantee issue of all the products they sell, but the law does allow insurers to choose between two other options as well:

Option 1: Offer the two most popular plans. Here, the implication is that risk would be spread across all purchasers of those two plans. However, Stoiber points out, "This could lead to a rise in the premiums of those two plans, making them less popular. Actuaries would have to continually monitor plans for their ranking."

Option 2: Offer a low-cost plan and a high-cost plan. The premiums can't have more than a 15% difference between them, and the cost of benefits must meet an actuarial equivalent test on criteria that are not clearly specified.

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if you are in a new field yourself. You might like some company.

- **Invited papers.** Through the new *North American Actuarial Journal*, we are encouraging papers on the application of traditional actuarial techniques to new practice areas and of non-traditional techniques to current areas of practice. In addition, we encourage actuaries to submit papers to non-actuarial journals to spread the word that actuaries can contribute ideas and approaches to a wide range of disciplines.
- **New skills.** The new text, *Actuarial Aspects of Financial Theory*, being developed by the SOA Foundation, will be distributed to members next year. It will offer actuaries a new set of marketable skills.

New potential practice areas for actuaries are easy to identify but may

be difficult to enter. I saw an example in an August 10, 1996, *Economist* article on European bank lending. It discusses a new approach to analyzing credit risk and says the method parallels "the calculation of insurance risks by actuaries." Are we up to the challenge of entering a field using "our" approach now dominated by others?

We must strive to expand our professional reach in this changing world if we are to continue to flourish. If we do not change, technology and other professionals will encroach on our current areas of practice. In fact, if we don't add value to our employers and clients, we may not remain employed. If we are not seen as solvers of new or different business problems, our profession will stagnate.

Expansion is not the responsibility of the SOA alone. Recruiters can try to place actuaries in new areas.

Academics can help students seek employment in non-traditional areas, using the skill set of the actuary to provide a valuable perspective for many types of employment while still keeping their actuarial identity.

However, the ultimate responsibility lies with the individual actuary to each day expand your own areas of practice. Continuing education will become even more important in the future. The annual meeting in Orlando this month offers many sessions to add knowledge and stimulate your imagination on how to expand your personal future and that of the profession. At the Tuesday, October 29, Presidential Luncheon, I'll share more thoughts on "The Redesign of the Actuary." I hope to see you there.