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Health  
Actuaries—  
Opportunities,  
Challenges  
and Views

## READ WHAT YOUR COMPETITORS AND COLLEAGUES are saying about the future role of actuaries in the health care industry.

Faced with the prospect of catastrophic changes in the health industry, the failure of a 150-year-old insurer and a financial system reeling from below-the-belt punches, health actuaries across North America paint the future as a brewing storm cloud—with a silver lining.

In the last several months, I've interviewed over 300 actuaries—mostly in the health and long-term care (LTC) industry—from practicing analysts to retiring, 30-year career FSA veterans. The careful and copious notes I've collected show that actuaries can take the lead in the health care and financial market challenges ahead.

The often conflicting thoughts presented here are your colleagues'. You might not see things the same way as they do, but at least you'll have some idea about what your competitors are thinking.

My purpose is to share candid, off-the-record observations between colleagues and set the stage for leaders to lead the charge as the industry changes. Predictably, for some topics, there were diametrically opposed views. Indeed, for some, the glass was half empty and for others it was half full.

### NEW PROFESSIONAL SKILLS

There was general agreement that actuaries, once "pigeonholed" (as one veteran put it), are being asked to evaluate larger issues beyond the intricacies of product offerings. Broader client risks, including financial risk and general enterprise operational risks, are among the non-traditional assessments requested. Along with expanded risk assessments, the demand

for client-facing presentational skills, even among insurance company actuaries, is growing. (One chief actuary, whose father had to pass an English proficiency exam before he became an actuary, suggested that actuaries join Toastmasters to improve their communication skills.) Broader assessments and presentational skills will require actuaries to show "what actually works in a business model." One FSA said, "For your work to be useful, it must translate into business language."

A fellow of the SOA at another company suggested that actuaries acquire complementary skill sets such as consultative selling, project and vendor management, and software engineering skills focused on data analysis. By so doing, he said, actuaries can leverage their core financial/risk expertise into leadership roles in major interdisciplinary projects on behalf of their organization or clients.

To take on the near-term challenges, several senior actuaries suggested that leaders focus on change management itself. To do so, they suggested that actuaries utilize more diverse data sources than have been used in the past and while so doing capitalize on up-to-date general economic and social trends.

### ACTUARIES "FULL EMPLOYMENT ACT"

While the cloud of health care change is definitely forming, few professionals are willing to speculate about its shape. Some declared that the Obama plan will not fly. Others suggested that national health care is inevitable and a collapse of the present system is at hand. One repeated refrain was that, as investment returns used to offset

medical costs shrink, and as employers and employees reach the limit of their ability to pay, a government plan, if available, may become the default choice.

The silver lining: a government plan might mean a need for more actuaries in an already understaffed industry. One glib expert called a government plan "The Actuaries Full Employment Act." (Another suggested the opposite: that the government plan might just be a blank check and that actuaries won't be needed at all—just clerks to process the endless checks.)

### PRODUCT DESIGN AND THE HOLY GRAIL

Health care product design itself is in a rapid state of change, too. Wellness programs are featured in employer plans because they are popular and the positive ROI for employers appears to be swift. However, other programs that intrude into an employee's life (smoking cessation, weight management) may be dropped due to unpopularity, underutilization or negative ROI. An even greater design concern is that states will mandate previously excluded benefits such as treatment for autism, bariatric surgery and counseling, and by so doing, escalate costs beyond affordability.

One actuary cited a recent study that shows only 3 percent of people in an employer-sponsored plan use their plan correctly. With major costs skyrocketing and the ROI negative, employers may abandon traditional plans ("they don't work anyway") in favor of a flat benefit amount that employees can use to purchase individual, potentially high deductible plans, possibly combined with HSAs (especially for midsize employers),

or a default government plan. Healthy individuals who opt out of employer plans will further increase costs for those who remain.

Consumer choice is seen as the lynchpin of cost transparency and quality control in health care. As consumers contribute more or have more control of their health care dollar, previously disenfranchised employees will demand more for less, pinching hospital and doctor costs in individual plans. One forward-thinking product designer suggested that the consumer's desire for choice and control conflicts with a national health care plan where there may be little, if any, choice or control. (Herein may lie the reason why employers and consumers will continue to demand private plans.)

The Holy Grail of plan design, according to one active designer, is to construct a plan that elicits the desired consumer behavior, e.g., the use of preventative care in the plan that avoids the need for major interventions later. Whether plan designers can become behavior modification engineers or not remains to be seen. Meanwhile the demand for creative solutions is growing.

### LTC OPPORTUNITIES

LTC plan design, too, offers some unique opportunities. While sales are lagging, costs are escalating, and the cost of capital is increasing, aging baby boomers will need LTC—a massive marketing opportunity. One LTC specialist said that costs might be contained with increased in-home care coverage along with respite care coverage. A senior LTC actuary said rating agencies are putting the heat on insurers to watch how much coverage they issue due to increased risk factors and the less-than-expected rating experience of the company itself. At least one reinsurer isn't accepting new LTC business, just "running out" existing plans because it didn't have a handle on what the assumptions "should have been."

Two opportunities in LTC are obvious. The first opportunity is for a company to solve the price versus affordability challenge. The second opportunity is for a company to educate consumers about the need for LTC, thereby increasing sales and fueling profits.

sustainable reforms, or equally important, avoid disasters.

All of the senior leaders with whom I spoke convinced me that their company will have a voice in the upcoming health care reform.

## ... ACTUARIES CAN TAKE THE LEAD IN THE HEALTH CARE AND FINANCIAL MARKET CHALLENGES AHEAD.

### BOTTOM LINE OPPORTUNITIES

President John F. Kennedy once said, "When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity." "Crisis" may be too strong a word for these times, but three opportunities remain:

1. Actuaries can play an increasing role in enterprise-wide business models. With a solid background in business systems and the numbers to back their recommendations, actuaries are in a position to pilot businesses like never before. Likewise, the chance to leverage actuarial skills in interdisciplinary projects is opportune.
2. Plan designers can create out-of-the-box health care products that not only meet pricing targets, but encourage customer behavior changes that increase longevity while they reduce future disease intervention costs.
3. Actuaries, as a unified group, can take the lead in both health care reform and the financial markets—an unprecedented opportunity. Rather than allow politicians to forge bureaucratic systems, actuaries have the models that can provide truly

The health care cloud is forming and along with it one of the greatest potential financial and cultural changes ever seen. It is clear that actuaries must lead the charge. **A**

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