



SOCIETY OF ACTUARIES

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Academy Health Practice Council Activities

By Tom Wilder

Work groups of the American Academy of Actuaries' Health Practice Council were involved in a number of projects during the first half of 2000. The Academy members dealt with a variety of public policy initiatives at the state and federal levels. The Health Practice Council initiatives were in response to health insurance proposals from Congress, federal regulatory agencies and the National Association of Insurance Commissioners, as well as health care issues raised during this year's presidential campaign.

Medicare Reform

One of the major health issues before Congress this year involves Medicare. A wide range of legislative proposals has been introduced, from a complete overhaul of the Medicare program to initiatives providing a limited prescription drug benefit for beneficiaries. The Academy's Health Practice Council has undertaken a series of efforts to educate public policy makers on the impact of changes to Medicare.

The Medicare Reform Task Force, under the direction of Jay Ripps, authored a series of three monographs discussing proposals to reform the Medicare program. The first paper, *Evaluating the Fiscal Soundness of Medicare*, deals with how Medicare solvency is measured and discusses several proposals to strengthen the financial basis of the program. The second monograph, *Using Private-Sector Strategies*, examines ways in which competitive pricing techniques used in the private insurance market could be applied to Medicare. The third paper, *Providing Prescription Drug Coverage for Medicare Beneficiaries*, discusses the potential impact of a Medicare prescription drug benefit.

On February 10, the Health Practice Council sponsored a Capitol Hill Forum on Medicare issues, which featured several panels of Congressional, actuarial

and health policy experts. More than 50 attended the briefing. The keynote address was given by Senate Republican Whip Don Nickles (R – Oklahoma) who offered comments about the Medicare reform proposals sponsored by President Clinton. Other speakers included the Academy's Medicare Reform Task Force Chairman Jay Ripps, Dr. Stuart Butler (Heritage Foundation), Guy King (former HCFA chief actuary), Dr. Marilyn Moon (Medicare trustee) and Deborah Steelman (Steelman Health Strategies). A political perspective was provided by Representatives Benjamin Cardin (D – Maryland), Tom Coburn (R – Oklahoma) and Jim McDermott (D – Washington).

In addition, Academy member Carol McCall testified on two separate occasions before Congress concerning proposals to include prescription drug coverage as part of the Medicare program. On February 16, McCall addressed the Health Subcommittee of the House Commerce Committee about the need for an overall reform of Medicare before adding a prescription drug benefit. McCall also testified before the Senate Finance Committee on March 29 on how pharmacy benefit managers work in the private market and how they might operate in a Medicare environment.

Capitol Hill Visits

The Health Practice Council was involved in visits with Hill staffers. On January 12, Academy members met with staff from the Senate Finance Committee to discuss prescription drug coverage for Medicare beneficiaries. In addition, on January 19, members from the Health Practice Council and the Federal Health Committee conducted 23 meetings with Capitol Hill staffers and representatives from the U.S. General Accounting Office, Congressional Research Service and the Congressional Budget Office.

Medical Records Privacy

On February 17, Jim Murphy, the

Academy's health vice president, sent a letter to the Secretary of the Department of Health and Human Services providing comments on regulations proposed by the agency to protect the privacy of health records. The Academy's comments noted that in order for health and life actuaries to do their jobs, they need access to health records. The letter outlined suggested amendments to the regulations that would allow use of medical records without sacrificing patient confidentiality.

Genetic Testing

An Academy task force under the direction of Tom Wildsmith completed a policy paper, *Genetic Information and Medical Expense Insurance*. The paper outlines the impact of genetic testing on the health insurance market. The task force is currently working on another policy paper looking at implications of genetic testing for disability and long-term care insurance products.

NAIC Projects

A number of the Health Practice Council's projects concerned issues under study by the National Association of Insurance Commissioners (NAIC). The Academy was asked by the NAIC's Life and Health Actuarial Task Force to undertake an analysis of the Medicare supplement insurance market in an effort to determine if there are any factors that were driving up the cost of policies. The Academy formed the Medicare Supplement Insurance Task Force that collected claims data from 11 insurance companies (representing about one-third of the market). The Academy made its final report to the NAIC Task Force at their June meeting in Dallas. The report outlines studies of claims information as it relates to coverage by Medicare Supplement insurers for disability,

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NAIC request for assistance in developing guidelines for filing health insurance rates. The Health Insurance Rate Filing Task Force has joined with a group of insurance department actuaries and insurance industry representatives to draft proposed revisions to the NAIC model rate filing guidelines and rating regulations.

The Academy's Health Organizations Risk-Based Capital Task Force continues to work on several projects dealing with changes to the health risk-based capital formula. The Academy has undertaken an extensive study of information from insurers in an effort to develop new risk-based capital factors for stop-loss, disability and long-term care insurance products. The final recommendations should be made to the NAIC this fall.

A task force headed by Donna Novak developed an initial draft of a manual providing guidance on reserving for health insurance products. The manual, which is intended for insurance company and insurance regulatory agency actuaries, has been further refined by the NAIC's Life and Health Actuarial Task Force. The Academy is also monitoring NAIC work on proposed revisions to the Long Term Care Model Regulation, the development of liquidity ratios for health insurers and managed care companies and possible changes to the Actuarial Opinion and Memorandum Model Regulation.

Copies of public statements of the Academy can be obtained on the American Academy of Actuaries' Web site (www.actuary.org). If you would like further information on any of these projects or would like to volunteer for a Health Practice Council committee or task force, please contact Tom Wilder, director of public policy, at the Academy's office (202 785-7875 or wilder@actuary.org).

What the Examination System Doesn't Teach about Health Insurance

By Karl G. Volkmar

I consider myself a health actuary. Though I have had some experience in other areas of actuarial practice, health is "home" for me, and I intend to stay there for the foreseeable future. The majority of my career has been devoted to supplemental health products (e.g., Medicare supplement/select, LTC/HHC, cancer insurance, accident coverages), which certainly impacts my view of the examination system.

Given the above, I have little basis for knowing whether my opinions about health practice education also apply to other practice areas. The opinions I present may apply to all areas of actuarial practice. My impression is that they do not, at least not to the same extent.

Based on my credentials, one might argue that my opinions are based on an incomplete picture of the examination process. To clarify, I passed 420 credits under the pre-2000 system, and my post-math exams were focused primarily on the group benefits track. This should indicate at least adequate exposure to the examination materials as they relate to health actuarial practice.

While I have attempted to present my opinions in a positive manner, it may appear that I'm just another problem-finder. As you will see, I have attempted not only to identify issues, but also to propose possible solutions that will hopefully lead to further discussions.

Reality

Although the examination process helped prepare me for a general actuarial career, there were, in retrospect, a number of incorrect impressions that I gleaned from the examination process. In these areas, I had to be un-taught and re-taught by work experience, sometimes pitting (as I saw it) my experience versus what I thought I had learned from examination materials.

The following sections outline the issues referenced above and contain some related material where deemed appropri-

ate. As a caveat, please note that I did not re-review all of the study materials; I'm just summarizing the issues as I remember facing them in "real life."

Standards

I left the examination process believing that there were standard methodologies, and assumption-setting processes. In practice, no two actuaries seem to completely agree on methodology and assumptions as they relate to any area of practice. There seem to be as many methodologies and assumption-setting processes as there are health actuaries, and this applies even more to some health coverages than others.

Do you want a real-life example? Ask health actuaries from different companies and/or health practice backgrounds to provide their or their companies' definitions of "loss ratio" or "active life reserve" or to define their renewal rating process, including any related detail regarding assumptions or assumption-setting processes.

Internal Data

Many times, the precise company-specific data you need to do your job (as defined by the examination system materials) does not exist. This may be true because it has never been recorded, or because no one has ever requested or used it before (including the actuary that preceded you). This can make an actuary's job extremely difficult or even impossible from a purist viewpoint.

As if this is not difficult enough, attempts to establish the infrastructure needed to collect, record, and report needed data will be met by another fact of life that the examination system does not (and probably cannot) prepare you for: the majority of home office personnel do not want to collect, record, and report what they view to be additional data. In fact, they are generally incented to do otherwise.