



SOCIETY OF ACTUARIES

Article from:

Health Section News

September 2001– Issue No. 41

HEALTH SECTION NEWS



"For Professional Recognition of the Health Actuary"

Issue Number 41, September 2001

Chairperson's Corner

by Leigh M. Wachenheim

Earlier this year, the Health Section Council posted a Request for Proposals (RFP) to the Society Web site. The RFP was a call for research projects that would result in information, data, or tools useful to practicing health actuaries. We received many fine proposals for worthwhile projects and wished we had the resources to accept them all.

(continued on page 3)

Financial Reporting for Healthcare Plans: An Outline of Best Practices

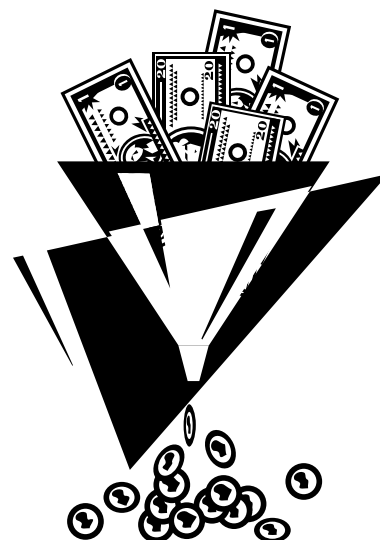
by James P. Galasso, reviewed by Anthony Wittman

Overview

This paper was written with the following objectives in mind:

1. To communicate some of the trials and tribulations we "more seasoned" actuaries have experienced in our seemingly never-ending struggle with financial reporting for healthcare organizations to those a little fresher behind the ears. The paper limits discussion to managed care and other short-term medical care policies and avoids the more complex issues related to: long term disability policies, long term care policies, or other health

(continued on page 4)



In This Issue

Page		Page	Page
Chairperson's Corner by Leigh Wachenheim.....1		Current Issues In Stop Loss Market by Daniel L. Wolak.....10	Letter to the Editor... by Mark Troutman.....14
Financial Reporting for Healthcare Plans: An Outline of Best Practices by James P. Galasso.....1		Plans Laid for Academy's Life and Health Qualifications Seminar.....11	International Health Seminar to be Held during the International Congress of Actuaries (ICA) in Cancun, Mexico – March 17-22, 200216
Accident and Health Working Group of the Life and Health Actuarial Task Force Meeting Summary, June 8, 20012		Data Quality in Real Life by Karl G. Volkmar12	
ERISA Preemption and Managed Care Organizations by Louis G. Lana.....9		Accident and Health Working Group of the Life and Health Actuarial Task Force Meeting Summary, March 23, 200113	
		Letter from the Editor... by Jeffrey D. Miller13	

Chairperson's Corner

continued from page 1

However, after some discussion, we decided we were equipped to handle two projects this year. I would like to use my corner in this newsletter to tell you a little bit about each of these projects.

Risk Adjusters

One of the projects we are sponsoring is an independent review of several claim-based risk adjusters. The research team includes Bob Cumming, FSA and Brian Cameron, FSA of Milliman USA and Dave Knutson of the Health Research Center of Park Nicollette Institute. A project oversight group, chaired by John Bertko, FSA, has been convened and is actively involved with the researchers.

The research team is currently reviewing three pharmacy-based models and three diagnostic-based models. The goal is to measure how well the different risk adjusters perform on a comparative basis. First, the researchers plan to measure how well the pharmacy-based models perform compared to the diagnostic-based models. This is important because many health plans are more comfortable with the quality of their pharmacy data than their other claim data. Second, the researchers plan to measure how well the different diagnostic models perform compared to each other.

A number of performance measures are being taken. First, the researchers are measuring how well the risk adjusters perform on both a prospective and concurrent basis. Second, the researchers plan to measure performance at both the individual member

and the non-random group level. (Non-random groups are generally composed of people having either a similar medical condition or similar claim levels.)

We are hopeful that this research will help us understand how useful risk adjusters are for predicting experience and how performance might vary based on the type of data or methodology used.

Aging Curves for Older Americans

The HSC also decided to sponsor a project to investigate aging curves for older Americans. The researcher, Jeff Petertil, ASA, says the study will focus on retirees over the age of 70, although, more generally, he also plans to look at aging curves for anyone over age 50. He also hopes to review differences in the aging curve by service category (e.g., chronic care versus acute care facilities). To the extent credible data is available, he may also examine further breakdowns such as differences by gender. Dale Yamamoto, FSA, chairs the project oversight group.

Jeff has two goals for the study. His first goal is to prepare a summary of the assumptions commonly used by practicing actuaries regarding cost differences by age in the retirement years. He will do this by reviewing the available literature and by surveying other actuaries. To the extent the information is available to him, he will also include some commentary regarding the degree to which these assumptions are based on actual data.

Jeff also believes that there would be a lot of value in testing some of these

assumptions using multiple and up-to-date databases containing actual experience. Therefore, his second goal is to collect and study real data, to the extent it is available.



Leigh Wachenheim

Past attempts to conduct such studies have been stalled due to difficulties in obtaining reliable data. Jeff hopes that his status as an independent consultant and his commitment to protecting the confidentiality of the data and to using it only for research will encourage others to share their data with him. So, if you have a database that you are willing to share or data summaries that may be useful, please contact Jeff.

We are hopeful that this study will provide actuaries with a broad overview of the assumptions that are being used today and will also be a step forward in testing those assumptions with real data.

Look for the results of these studies in the coming months. They will be made available to members of the Health Section in a readily available format.

Leigh M. Wachenheim, FSA, MAAA, is principal at Milliman & Robertson, Inc. in Minneapolis. She can be reached at leigh.wachenheim@milliman.com.