



SOCIETY OF ACTUARIES

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Variability of Health Costs

by John P. Cookson

At the February 2003 joint meeting of the Health Benefits Systems Practice Committee and the Health Section Council, we identified and reached consensus on a number of key healthcare issues facing our members for 2003. One of the identified areas with a particular need for the application of actuarial skill is "Demonstration and Measurement of Medical Treatment Variability." I interpret this issue broadly and it incorporates the variations of cost, outcomes and quality of care.

The geographic variability of Medicare costs was explored recently in two articles on "The Implications of Regional Variations in Medicare Spending" published in the February 18, 2003 issue of the *Annals of Internal Medicine*. Based on their analysis, the authors estimated that Medicare costs could be reduced as much as 30 percent without a loss of quality by standardizing the delivery of care

across areas. This study focused on the medical treatment patterns between geographic areas. My own research has also shown significant cost differences between providers within a geographic area.

I believe that this important area needs further research, and that these differences by geographic area and between providers within a geographic area need to be brought out in public. Only by publicizing these differences, so that they can be discussed openly, will we be able to make significant progress on understanding and controlling health care costs.

I would like to see more effort from the actuarial profession in making progress on this issue. I believe it is important for us to take an active role on this and similar issues, so that the advantages of our unique background and training can be added to the voices heard on these matters. 📧



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Letter from the Editor

Vancouver Was Great!

by Jeffrey D. Miller

Greetings! Welcome to the August edition of HSN. I know many of you were in Vancouver, and we had a great meeting. The combination of a great city and a great program attracted many health actuaries. We all need to stay up to date on trends and methods in this continuously turbulent environment of health insurance and healthcare.

Articles in this edition cover the topics of disease management programs, terrorism, Medicare trending in FAS 106 calculations, Medicare Plus Choice, and variability. Each offers some thoughts worth pondering in important areas of actuarial practice. Perhaps you can read them during the down times of the meeting.

My practice continues to focus on the future of major medical insurance for individuals and small groups. Economic leverage over healthcare providers is becoming more of a necessity if medical insurance premiums are to be affordable at all. Such leverage requires geographic concentration, and only the largest group carriers are even close to achieving that concentration. Many of

these group carriers have been burned in individual and small-group business in the past, and they are hesitant to be too aggressive in this area. Many of the traditional players in these markets are still around, but their premiums are no longer affordable. The result is a growing number of uninsured.

One solution that may make sense is a two-pronged coverage. Catastrophic coverage is purchased from group carriers who can control the costs of the most serious conditions. Scheduled benefit plans are purchased from traditional carriers that are skilled in managing the risk of first-dollar coverage for business subject to greater potential adverse selection. Who knows? It may end up looking like Medicare and Medicare Supplement coverages. The result is probably a "Gap" in the middle that nobody likes, but may become a fact of life. It will be interesting to see how healthcare providers manage collecting the fees in the "Gap".

I wish you all the best of luck in pursuing the challenges and opportunities that remain for 2003. May your career as a professional health actuary bring you continuous joy and prosperity. 📧



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