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Risky Business in the Big Easy

Highlights from the 2005 SOA Spring Health and Pension Meeting

by Ross Winkelman and Chris Stehno

The 2005 Society of Actuaries Health and Pension Sections Spring Meeting was held in New Orleans at the Hilton New Orleans Riverside Hotel June 15-17. The Cajuns were well - equipped for our visit, and attendees were ready to "laissez les bons temps roulez," which means, "Let the Good Times Roll!" Great music was pouring out of every nook and cranny on Bourbon Street and not a bad meal was to be found (even the airport restaurant had delicious Oyster Po' Boys).

We do not think any of the attendees actually conquered Bourbon Street, but based on groups we saw running around, the meeting attendees gave its rowdy joints a fairly good run (we know they'll miss the authors at the Funky Pirate). Thursday night's riverboat cruise, primarily set up by Linda Damitz and Lois Chinnock of the SOA, was a big success. We started out at the dock near the hotel and cruised the Mississippi for three hours, with great food, drinks and a three-piece Dixieland band providing the entertainment. Despite the obvious attractions outside of the meeting, the sessions were well attended and the list of expert speakers was long and distinguished.

The format for this year's meeting included embedded seminars alongside the traditional 90-minute sessions. The seminars presented a single topic in greater depth over two or more sessions. The embedded seminars were set up so that attendees could go to a part of a seminar and still gain valuable knowledge, or they could go to the entire series and really cover a topic in-depth. This year's embedded seminars included "Financing Chronic Care," "Affordability: The Market Response," and "An Introduction to Care and Disease Management Interventions." We caught up with Amy Pahl, the 2005 Spring Program Committee Chairperson, and asked her about the new format. She said, "The new embedded seminar format was generally very well received. The sections worked together to develop the topics and content. I think this collaboration was the key to making them so successful."

Covering the meeting was a daunting prospect. In total, there were over 70 sessions and 140 presenters, including 51 guest speakers. Given that the two of us could only be in a couple of places at once, and we had a limited amount of space in this issue in which to cover the meeting, we may have not mentioned your favorite session or presenter but it was not due to lack of interest!

SOA President Stephen Kellison opened the meeting at the general session by speaking about the ongoing image campaign: Actuaries turn risk into opportunity and are the best-kept secret in business. New ASAs and FSAs were recognized and warmly welcomed to the Society. The candidates for 2006 president-elect spoke, explaining their visions for the SOA. The interested reader can find these speeches on the SOA Web site at *http://elections.soa.org/elections_2005/video.html.*

David Axene of Axene Health Partners spoke at the provider contracting session. He presented the results of a survey of health plans' provider contracting methods. The survey resulted in some interesting conclusions regarding best practices, including the following:

1) Plans using actuaries in their provider contracting efforts were getting better results than those not using them. Among other things, this allows health plans to tighten up the link between provider contracting targets and pricing assumptions. Further, actuaries should report within the provider contracting areas to encourage full participation and disclosure.
2) Health plans emphasizing a collaborative approach to contracting between the health plan and providers were seeing process improvements and better outcomes. This approach requires open sharing of data, which leads to (and requires) trust between the health plan and provider.
3) Incentives improved the performance of provider contracting staff.

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4) When changing methods a "just do it" strategy seems to get the best results (i.e., pain spread over a shorter period of time, less disruption).
5) Contracting strategy should be coordinated with medical management strategy for best results.

Cathy Murphy-Barron of Milliman also spoke at the provider contracting session. She talked about the physician reimbursement issues that are receiving the most interest at the moment. A large number of patients would like to get their simple questions answered via e-mail. Surveys suggest that doctors are open to this idea as long as they are compensated for their time. The idea is gaining interest with health plans that realize paying for e-mail consultations may prevent higher -ost office visit claims. These consultations are particularly useful for monitoring patients with chronic illness and also provide ready-made documentation for the patient file.

Cathy also discussed pay-for-performance arrangements where physicians receive a bonus for meeting quality of care criteria. This approach aligns financial incentives with improved outcomes. Some of the quality measures Cathy has seen in use include preventive care measures (such as pediatric immunizations and mammograms), appointment access, patient complaints, turnover rates, use of practice guidelines, HEDIS measures and member satisfaction surveys.

We asked Cathy if there are any pitfalls associated with pay for performance. She replied, "Whichever quality measure is chosen, the doctor must be able to quantify it and impact the outcome. If not, then the payer may inadvertently penalize doctors rather than provide a reward based on outcomes that they can influence."

One of the co-reporters for this article, Chris Stehno of Milliman, presented on lifestyle-based analytics at the session on lifestyles and health costs. In this session, Dr. Thomas Kravis of Reden & Anders reported on the complications and costs tied to obesity. Dr. Kravis went on to say that one of the biggest difficulties for actuaries in estimating these costs is that the disease is not coded and therefore difficult to measure/predict.

This led nicely into Chris Stehno's presentation on a new technique for the estimation and prediction of lifestyle-based health risks like obesity. Lifestyle-based analytics uses consumer data sets such as demographic, financial, psychographic (buying trends) and lifestyle to build predictive models which can be used for individual medical trends, costs analysis and underwriting. This led to a lot of discussion surrounding what exactly "big brother" knows about us (and that we should use cash instead of plastic).

The session on electronic medical records was both exciting and troubling. It was somewhat disappointing to learn how far off electronic records really are. The timeline for 80 percent adoption was predicted to be about 10-plus years out according to Dr. Eugene Kroch of the Wharton School. This projection was based on the adoption curves for other technologies, including home computers, email, and VCRs. A long list of reasons for adopting electronic medical records was presented, along with the barriers (unfortunately a long list as well). All in all, it appears that the future in this area is very promising, although we are going to have to wait a while for it to arrive.

There was great discussion in the small group roundtable session, lead by William Lane of Heartland Actuarial Consulting and Bernard Rabinowitz of USHEALTH Group. Attendees discussed the challenges of operating in the small group market and what hot button issues they were facing. The impending doom promised by association health plan legislation was discussed only briefly. People clearly did not want to ruin the good vibe of the Big Easy. Some noted that employers are increasingly purchasing supplemental plans that cover costs underneath a deductible where a high deductible plan is the primary coverage. The combination of the high deductible plan and the supplemental coverage creates a very rich overall benefit package. Pricing for the high deductible plan does not recognize this rich overall benefit design, although some carriers have been able to file separate benefit factors depending upon whether or not supplemental coverage was present.

The session on making disability insurance affordable was as much a session on the definition of "affordable" as it was a session on disability insurance. Going into the session, one might have assumed that affordability was directly related to premium cost. However, after listening to and following up with Bill Obert at Unum Provident and Raza Zaidi at Aetna, we discovered that affordability means different things to different groups.

In the voluntary blue-collar work-site marketplace, the expected definition of affordability is used where affordability is directly related to premium cost. In this market, participants must choose between disability coverage and other basic needs. Scott Haglund of Principal Financial Group cautioned that although cheap products can be developed, making sure to meet the needs of the insured should be carefully considered. In the executive/professional markets, affordability becomes less an issue of premium and more of a question "can I afford to not have this insurance?" And finally, in the eyes of the employer, affordability is not determined by looking at the disability product alone, but instead by looking at the product in relation to the total employer healthcare costs.

During the session for health product opportunities for smaller insurance companies, the topic of scheduled medical plans generated spirited discussion, especially concerning public policy implications for these products. The target market for scheduled medical coverage is primarily a lower-paid, hourly and temporary employee. In a follow-up with Tad Verney at Disability Insurance Specialists, he noted concerns that employees would be buying coverage that would be inadequate for their medical needs, and that policyholders might not truly understand the nature of the coverage being provided. This could lead to a high level of consumer dissatisfaction with these products.

The Stop Loss Risk-Based Capital Working Group Needs You!

The National Association of Insurance Commissioners has requested that the American Academy of Actuaries (AAA) review the various risk-based capital formulas for medical excess of loss business. They also recommend one formula that will be used for all carriers (HMOs, Blues plans, A&H insurers, P&C insurers) writing this business. As a result, the AAA has created a Stop Loss Risk-Based Capital Working Group.

The goal of the working group is to develop a stop loss risk-based capital formula that is:

- Reasonable, relative to other products
- Theoretically sound
- Relatively simple
- The same for life/health carriers, health organizations and property/casualty carriers
- Applicable to a number of products (specific and aggregate stop loss, HMO reinsurance, provider excess, carrier medical excess reinsurance)

The working group needs experience data from carriers writing medical excess of loss business. All experience will be submitted to the AAA and will be kept confidential. The experience provided to the working group will be summarized by Academy staff, will not contain the names of the carriers and will be protected by confidentiality agreements between the data owners and the Academy and supporting confidentiality agreements between the Academy and the working group members.

The request for assistance went out at the end of May. If you received the information, please contribute your data. If you write medical excess of loss insurance or reinsurance and haven't received a request, please contact Geralyn Trujillo at Trujillo@actuary.org. Thank you.

Advocates for this coverage point out that comprehensive care is not financially feasible in this market, and these products play a valuable role in bringing some level of coverage to the underinsured market. To address the public policy issues, carriers should take care to educate agents and consumers on the nature of the coverage being purchased, be clear in marketing materials and not overstate the coverage provided. In addition, they should consider offering these plans in combination with other coverage such as a high-deductible medical plans or critical illness insurance in order to provide more comprehensive coverage.

Coverage of the meeting would not be complete without reporting on Wednesday's entertaining Health Section luncheon where a story from the prior day's NBC Today Show was shown. The story's lead-in was "What do actuaries and cowboys have in common?" Well, to spoil the surprise ending, the answer is "absolutely nothing." The story covered a study done by *careerjournal.com,* which ranked different professions in terms of variables such as income, stress, physical demands, outlook, security and work environment. Actuaries were ranked at the top and cowboys were ranked at the bottom of this list. Why are cowboys ranked so low? To paraphrase a quote from the cowboy interviewed for the story – "sometimes you get bit by things."

All in all, the Big Easy was big fun, but now it's time to go home and rest up for the Annual Meeting in October. Hope to see you there.

IAA Disability Income Product Team

The Health Section of the International Actuarial Association (IAA) has formed a number of product teams to provide its members with a forum for discussion of international health insurance issues. Among these newly formed product teams are Income Protection Insurance, Long-Term Care Insurance and Critical Illness Insurance.

The IAA is an association comprised of various national actuarial associations, including the Society of Actuaries and the Canadian Institute of Actuaries. If you are a member of one of these national organizations, you are already a member of the IAA. Members of the IAA have the opportunity to join the IAA Health Section, which is a grassroots organization designed to bring together health actuaries from around the world. The new product teams will assist the IAA Health Section in its activities by providing specialized expertise on niche products.

One major focus of The IAA Health Section and its product teams are preparing a health track for the International Congress of Actuaries, to be held in Paris from May 29-June 2, 2006. Each of the product teams will be planning one or more sessions for this meeting. These teams will also support planning efforts for other international meetings, such as the East Asian Actuarial Conference scheduled for September 2005 in Bali.

Along with preparing sessions for these meetings, the IAA Health Section is also interested in fostering other forms of communication among international health actuaries. It is in the process of developing an online newsletter, e-mail listservs and Web sites with links to information sources of interest to health actuaries. The product teams will be actively involved in all of these efforts.

All of the IAA Health Section product teams are currently seeking new members and the need is particularly great for the Income Protection Team. If you or your colleagues have experience or interest in international issues, or if you know of actuaries working in these fields overseas, please consider joining (or inviting them to join) one of the new product teams by contacting Dan Skwire at *dan.skwire@milliman.com*.