



SOCIETY OF ACTUARIES

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Highlights from the Annual Meeting of the Group Underwriters Association of America

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The first jointly sponsored Group Underwriters Association of America/Society of Actuaries meeting was a success with many industry professionals finding value in having members from both organizations in attendance. Since actuaries and underwriters work so closely together in managing risk for their companies, the sessions provided opportunities for honest discussions facing the industry today. Sessions covered topics on group life, disability, medical and dental.

The meeting was held at San Francisco's Grand Hyatt on Union Square from May 22-25. Featured speakers, such as Terry McAuliffe (former Democratic National Committee chairman) and Dr. Dale Henry (noted educator and speaker), and fun activities, like a city tour and dinner on Fisherman's Wharf, rounded out the experience. A description of session highlights follows.

Group Life and Disability

On the group life and disability side, 2004 industry profits improved for long-term disability, short-term disability and group term life products. Profit improvement was due primarily to lower loss ratios. Investment returns and sales growth are continuing challenges for the industry as a whole.

Both actuaries and underwriters are becoming more creative at increasing sales for their companies. There has been little market growth in the ancillary markets—the industry is just churning business between companies. The greatest opportunity for growth is seen in the worksite market as employers continue to be challenged by concerns over the rising cost of health care.

There is an increasing number of risk management tools at the fingertips of actuaries and underwriters. Companies who can efficiently mine data and use it to manage their blocks of business (on both macro and micro levels) will be the most successful. There was considerable evidence at the SOA/GUAA meeting of companies becoming more efficient with data management (i.e., maximizing the use of census data when underwriting a case and using various business analysis tools for financial underwriting).

The well-known "Let's Talk Shop" sessions at GUAA allowed actuaries and underwriters to compare industry practices and talk about risk management solutions to common issues facing many companies.

The Long-Term Disability and Life Experience Committees of the Society of Actuaries have been working hard to develop new valuation recommendations for long-term disability claims and group life waiver claims. The LTD experience table is expected to be finalized later this year and a valuation table proposal is expected in 2006. Preliminary results indicate little variation in overall reserves as compared to Table 95a.

Medical

On the medical side, "Let's Talk Shop—Medical" offered a chance for participants to share their ideas and experience with recent market trends. Many agreed that customers are reluctant to change carriers this year and new case sales are unusually difficult to come by. A few companies are trying to improve their close ratios by offering new features like longer-than-12-month rate or fee guarantees or guaranteeing network discounts. Many are working hard to keep rates competitive by quoting multiple plan design options or expanding medical underwriting to larger case sizes. Some other trends discussed were bariatric surgery (covered by most carriers), consumer directed plans (lots of quoting but few sales so far) and increased requests for coverage of early retirees with no employer contribution.

"Troublesome Trends in Buying Behavior" covered some of the ways that brokers and customers are increasingly structuring plans to steer their better risks into an ASO plan and their high-cost employees into a fully insured HMO. Milliman actuary Leigh Wachenheim discussed some specific trends and issues observed, in particular: 1.) setting up a new fully insured subsidiary that happens to include higher-cost members while the remainder of the group is ASO, 2.) establishing a high-deductible insured plan and a fund to reimburse employees for some or all of those costs, without disclosing the existence of the fund during the quote process and 3.) establishing employer and employee



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contribution levels that incent healthy members to choose the ASO plan with lower benefits over the fully insured HMO. (She referenced the article “New Risks for Health Insurers and HMOs” by Steve Kaczmarek and Bill Thompson, available at <http://www.milliman.com>.) Underwriting leaders from Tufts Health Plan shared case studies on how some live cases were handled.

Recommendations for managing (and hopefully reversing) the situations discussed were: reducing benefit levels on the HMO product to bring the plan and employee contribution closer to the ASO; requiring that the HMO be the only plan offered in areas where it is available; reducing pooling levels so customers see more of their own experience in the rates; or setting rates that cover the increased costs and further anti-selection expected at the next enrollment (while giving the client plenty of notice on those large increases). One case study demonstrated great success reversing a situation where a carrier had only a small and disproportionately sicker piece of an account’s membership. They decided to aggressively set rates below the other offered plan to attract a healthier membership, and so far they have seen a dramatic change in their memberships’ profile. In addition, some carriers have refused to work with certain brokers who have demonstrated a tendency to use these types of tactics against the HMO.

“What’s Happening to Stop Loss?” featured a range of perspectives from a stop-loss reinsurance actuary (Ira Slotnick of Converium), an actuary for an insurer writing stop loss on its own ASO accounts (Greg Sullivan of Cigna Healthcare) and an underwriter for an insurer writing stop loss with TPA’s (John Llenaugh of Mutual of Omaha). All agreed that the market is still somewhat soft and it is difficult (if not impossible) to sell the high rate increases needed to cover leveraged trend. Determining the value of network discounts to stop loss is also a challenge, especially when relying on data from outside TPAs or MGUs who may not have access to details about hospital contract provisions for catastrophic claims. Some underwriting techniques and rules continue to

be used to protect the carriers—no one has given in to pressure for multi-year rate guarantees, and lasers are still common. Some in the industry have considered or tested using predictive modeling tools in underwriting, but most have found it cannot take the place of manual review by specialized nurses and underwriters.

Dental

The session, “Direct Reimbursement Plans” described this unusual but growing option, where employers reimburse a set percentage and/or dollar amount of employee claims, without restricting covered providers or procedures. The presentation showed that some employers have found they can define their own benefit structure to limit costs while also reducing employee confusion and complaints. In “Tackling Challenges for Group Dental from Small Groups to Jumbo Cases,” SOA members Ray Martin and Neal Luitjens discussed typical industry parameters by case size segment, such as target loss ratios, morbidity loads, distribution systems and costs and plan designs.

There were also several interactive dental sessions including “Let’s Talk Shop—Dental,” which covered how many of the same trends seen on medical affect this product, and the increasing prevalence of voluntary and even individual plan offerings. In wide-ranging conversations on the “Generalist vs. Specialist Underwriter Model” and “Developing the Underwriter” participants shared ideas and lessons learned on effective organization structures and practices.

The efforts of the GUAA and SOA members who worked to put this meeting together are greatly appreciated. Group benefits actuaries are encouraged to attend a meeting in the future. More information about the Group Underwriters Association of America, including a calendar of future events, is available at <http://www.guaa.com>. 📄