Health Watch Newsletter

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Letter from the Editor ... Art Imitating Life with Health Insurance

by Gail M. Lawrence

I finally got around to watching the movie Crash the other day on DVD. As most of you already know, the movie contains multiple story lines about egregious acts of racism. And then there is one other story line about the evil HMO that is repeatedly denying treatment for one of the characters.

This is hardly the first time that Hollywood has taken some shots at the industry. There was also John Q and The Rainmaker. If art imitates life, I'd say that the health insurance industry is currently suffering from a poor reputation. While Hollywood does not always get its facts straight, it is echoing a frustration that consumers have with the industry.

It wasn't that long ago that everyone loved to hate the phone and cable companies and it wasn't too hard to figure out why. Customers did not have a choice in their providers and when service was bad, there wasn't a whole lot to do other than just get mad. Fortunately, technology (with a little help from Judge Harold Greene) changed the essence of the communications business and competition has done an amazing job of creating a staggering array of choices at relatively low costs.

When it comes to health insurance, the typical consumer does not get a lot of choices.

If the consumers are employed, the employer may give them a choice of several plans and those choices will reflect the values and budget of the employer. And most employers have been cutting back on benefits while costs have skyrocked.

If the consumers are unemployed, self-employed or work for an employer not offering health insurance, the consumer may be able to purchase coverage in the individual market. A significant portion of applicants will be declined, have premiums rated-up and/or have waivers attached to their policies denying benefits for named conditions. High-risk pools (with high-risk premium levels) may then become the choice of last resort for some consumers, assuming premiums are still affordable.

Limiting choice may be the industry's answer to anti-selection, but it can be a source of dissatisfaction for the typical consumer. The lack of options for consumers can intensify their frustrations with administrative headaches and high rate increases.

In the senior market it was refreshing to see the abundance of choices that consumers had with Medicare Part D plans. The large number of choices was sometimes criticized as "confusing" for seniors, but it would be an enviable problem for most non-seniors.

While consumer-directed health plans seem like a step in the right direction, like the communications industry, the government could very well change the rules on risk selection, swinging the doors wide open on more choices for consumers. I won't be surprised if this happens some day.

On another note, with this issue we are introducing a new interview feature called, "Navigating New Horizons—An Interview with …." It is our goal to introduce you to a few health actuaries who have stretched the boundaries of our profession in some positive and innovative ways.

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Gail M. Lawrence is a consulting actuary. She can be reached at 515-224-4380 or at *LawrenceConsulting@mchsi.com*.

Given the Health Sections' silver anniversary, it seemed most fitting to begin this series by visiting with some early members of the Health Section. We expect our future interviewees will have some of the same characteristics as those exhibited by the health section founders.

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Letter to the Editor

I read with a combination of curiosity, concern and amusement the piece by Chris Stehno on the value of Lifestyle Analytics in underwriting. This HSN article follows a related one published in the January/February 2006 *Contingencies*. It seems like yesterday that chronic disease diagnostic indicators in claim data were the sure underwriting future and would bring us into the 21st Century, but alas we are still in 1957. The promise of getting ahead (or at least not falling behind) has some allure for industry leaders and at the price of 10 cents per household, why not?

'Why not and why?' I pondered. I quickly became the devil's advocate (I hate him when he makes me do it) and these questions arose. How much garbage data do you get with the 10 cents? What is the cost to aggregate and parse the "significant amounts of consumer data tied to their addresses?" What if the person moves?

From the article, much of the consumer purchases of value in underwriting appeared to be related to diet and exercise (of course life insurance underwriters would be interested in my VISA purchases of skydiving trips, speedboats and small aircraft). Really I don't purchase much food because my wife does most of the shopping. Except for a bit of snow skiing, my exercise comes from running and a bit of hiking/backpacking, which I worry my VISA bill won't reflect. As for the food, the credit card is in her name but she took my surname and so I expect the analytic could link her to me, the subscriber. But what about the food she purchases for guests, in-laws or that the kids don't eat? Will the analytic process account for lunches and dinners on my corporate AmEx? Surely use of cash for purchases, especially healthy carnival and sporting venue fare, or food consumed in office and church potlucks, will not be properly accounted for or allocated. Some will envy the unhealthy that shop at the local chain whose scan data is not in the set purchased by their employer's insurer or those participating in the charitable 'scrip' programs. Of course, the reliability of warehouse data quality is not as infamous as data warehouse security, but ponder that too.

The example Mr. Stehno gives of the desirable early identification of the pre-diabetic or new diabetic was presented in convincing language. But the devil at my ear said, 'wait a sec'.' Mr. Stehno said, "once diagnosed with diabetes, the first behavior change an individual makes is to start purchasing diet food." That means there was a diagnosis, presumably by a doctor, who presumably filed a claim. Granted Scantron data might be processed a bit faster than your claim department gets the claim paid, but how much fun (or efficient) is it to look for diet food purchases in a mountain of credit card grocery store data? I think looking for that diagnosis might be a bit easier too. Plus, you'll also catch the guy who gets his diagnosis and decides to go ahead and stay on the all Twinkie meal plan. Given the 12-18 months he'll be on your health plan, isn't he as likely to explode as a large claim as the guy buying diet food?

Yes, we should fear the Brave New World of lifestyle analytics in underwriting, but maybe not in 2007.

Wes Edwards, FSA, MAAA

Response from Chris Stehno:

I have found that the data aggregators do a good job sorting through many of the questions that Mr. Edwards raises. For example, they are always better than our clients at knowing about changes of address. And, the proof in the pudding is that the resulting data has a strong statistical fit with medical events.