



SOCIETY OF ACTUARIES

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# **Actuarial Celebrities in Hollywood (Florida, that is!)**

## **Highlights from the 2006 SOA Spring Meeting**

by Mary van der Heijde and Chris Stehno



**T**his year's Society of Actuaries Health Spring Meeting was held at the Westin Diplomat hotel on the beach in beautiful Hollywood, Florida on June 20-22. The conference was well attended by many who were looking forward to taking in equal shares of sunscreen, sand and fun along with underwriting, avian flu and risk management. Who says actuaries don't know how to have a good time!

The conference hotel was right on the beach, with plenty of opportunities to swim in the pools and the ocean as well as soak up the sun. Even with the beautiful beach beckoning to attendees, the sessions were very well attended. Perhaps this is a testament to the group of especially strong speakers for this year! The meeting ran full-days on Tuesday and Wednesday, and wrapped up by noon on Thursday. Each presentation time was 90-minutes long, offering five to eight different concurrent presentations from which attendees could choose one to attend. In addition to the concurrent presentations, there were also three excellent keynote speakers and an evening reception.

There were 65 different concurrent sessions offered, with about 140 member presenters including 38 guest presenters. Because there were so many sessions and just two of us reporting, we were only able to attend a sampling of all of the

presentations offered. There were many excellent presentations we were unable to include in this article, yet you can get more information about these at <http://handouts.soa.org>. At this site, most presenters posted their PowerPoint presentations in their entirety.

Richard Anderson, the executive vice president of UnitedHealth Group, started off the conference with a keynote address comparing the similarities and differences between the airline industry and the healthcare industry. Some key points Richard made were that both hospitals and airlines have very complicated infrastructures, and rely on cross-subsidization between customers to be sustainable. The introduction of low cost airline carriers and specialty hospitals has significantly impacted the legacy of airlines and hospitals, respectively, by focusing on the most profitable routes and patients.

Don Fetterolf, MD, the corporate vice president of Health Intelligence at Matria Healthcare and Chairman of the DMAA Quality and Research Committee, spoke during Tuesday's general luncheon about different philosophies regarding measuring and improving effectiveness of disease management.

Dr. Michael Osterholm, director of the Center for Infection Disease Research and Policy (CIDRAP), gave a keynote address at the general luncheon on Wednesday about the impending threats from an influenza pandemic. Dr. Osterholm spoke about many of the lesser known impacts of a pandemic, such as an economic and social domino effect from an inability of many international systems to handle such a disruption. Many industries work on a "just-in-time" basis, where they rely heavily on shipments from previous links in a distribution chain. Dr. Osterholm advises actuaries and others involved in business to develop preparedness plans, which aim to better prepare for the financial and social impacts of a pandemic.

Steve Berna of Trivantage Pharmacy Solutions, Bill Crown of i3 Innovus and Cathy Gibson from WellPoint spoke about recent developments in Specialty Pharmaceutical (SRx), and the impact of these drugs on pricing and patient behavior. Just

about everything that could make the trend higher is happening within the specialty drug portion of pharmacy budgets. New drugs, new treatments and new indications for existing SRx drugs are putting utilization trends three to four times higher than non-SRx drugs. This puts the overall SRx drug trend in the low 20 percent range and shows that a portion of the pharmacy budget for SRx is currently 18 percent and is predicted to become 26 percent by 2008.

"Many employers and insurance companies are looking at their benefit structures that allow SRx drugs to be paid under both the pharmacy and the medical benefits, which set up potential inequities to members," said Steve. "Medical benefits were not designed with these new high tech SRx drugs in mind, and in most cases it is like trying to play a DVD in a VCR."

Bill Crown said that for traditional pharmaceuticals, it is often possible to offset the costs of prescription drugs from medical offsets in the form of a reduction in future medical costs. However, SRx are extremely expensive. So, even if they do reduce some future medical costs, it is unlikely that this reduction will offset their costs. Bill said, "A mix of traditional and specialty pharmacy treatments will often be most cost effective from the perspective of the payer. Health economic modeling, which combines efficacy data from clinical trials with real world cost data, is needed in order to provide payers with the information that they need to make coverage and benefit design decisions for specialty pharmacy."

Dr. William Vennart, the national medical director at CareAdvantage, presented about Predictive Modeling (PM) and provided a clinical perspective on how PM can be used to refine actuarial and underwriting practices, predict future risk, define underlying drivers of trend and evaluate care management initiatives. The presentation created a new perspective on the value of PM tools and why actuarial and underwriting departments should incorporate them into daily activities. In addition, the presentation illustrated other important factors aside from R-square when selecting a predictive model.

"All predictive models have inherent strengths and weaknesses. CareAdvantage elected to work with a categorical clinical model developed by 3M Health Information Systems due to the degree of case mix and severity adjustment, and its ability to predict non-cost events such as hospital admissions, ER visits and procedures," said Dr. Vennart. "These characteristics assist us in understanding underlying health risk and future resource consumption as well as (disease management) program performance. A categorical model also

allows us to identify specific clinical parameters, such as early stage diabetics, to refine case identification, care management interventions, and the measurement of disease progression over time."

In the Healthcare and Information Technology session entitled "Looking Behind the Wizards Curtain," Steve Epstein with MEDai, Dan Dunn with IHCIS and Craig Johns with Milliman spoke about new data and methodologies that are soon to impact actuarial decision making. Epstein focused on artificial intelligence (AI) methodologies that are trained by data through programs that utilize human logic and knowledge. He discussed the pros and cons of such models and ended with an example where the nonlinear AI method made a significant difference in the estimate of PMPM.

On the other hand, Craig focused not on new methodologies, but on new data as a means of boosting predictive powers. His presentation looked at appending lifestyle-based consumer data to augment traditional medical predictive modeling. Craig stated the advantage that consumer-based lifestyle data brings to the table is that unlike medical data, which is generally available on 30 percent or less of the population, consumer data is available on more than 90 percent of the population. In addition, consumer-based lifestyle data does not have the problem with regression to the mean like medical data does in years two and beyond.

The session about comparing various nations' health systems gave great insight to the similarities and differences between many of the public and private healthcare systems around the world. One interesting conclusion was that no single country stands out as "best in class" as far as having an ideal healthcare system. Dr. Sadhna Paralkar of Reden and Anders, who is a licensed medical doctor trained in India and has worked in the managed care industry in the United States for more than 10 years now, pointed out that although India has very low spending as a percentage of GDP as compared to most other countries in the world, the private sector statistics for cost and care are much closer to those of more developed countries. "Low levels of spending on care in India are not a reflection of a poor healthcare delivery model, but is primarily due to an under-funded system," says Dr. Paralkar.

In a unique session, SOA Director Joel Albizo, Jacobson Group recruiter Margaret Resce Milkint and ex-actuary turned real-state entrepreneur Dave Duncan discussed the competitive threats to actuaries from non-actuaries. In an SOA survey, Joel stated that on the positive side, people see

(continued on page 27)

actuaries as providers of essential technical services. However, on the negative side, actuaries are perceived to be poorly positioned to influence or become senior management. Joel went on to describe the SOA's Marketing and Market Development Plan that is focused on addressing these issues.

Margaret started off by painting a rosy picture of the growing demand for insurance related occupations now that the boomers are exiting the marketplace. However, she went on to point out that actuaries are facing increasing competition as they look to step outside of the traditional roles and are even facing new competition within their traditional roles. The competitors include MBAs, bio-statisticians, health economists, CFAs, CPAs, PhDs, financial engineers and risk managers. Margaret addressed some of the challenges that actuaries need to address, including poor communication skills, lack of knowledge depth and strategic outlook, and lack of P&L expertise.

Ian Duncan of Solucia Inc., Bradley Scott of Reden & Anders, Terri Bauer of Aetna and Alan Gard of Cigna had extremely good attendance for a presentation about new developments in trend analysis. Ian addressed the contribution of conditions and changes in their prevalence to overall trend as well as methods that we have used to adjust for these changes so that we can measure trend on a constant-risk basis. Brad discussed the success Reden & Anders has had incorporating macroeconomic modeling into its medical cost trend forecasting processes. This type of modeling provides meaningful insight into future directional changes of healthcare trends, particularly with respect to utilization. It must be used as a supplement to—and not a substitute for—detailed experience-based analysis and projections of key trend components, such as provider contracting changes, product mix, geographic mix, demographic mix, day content, etc.

Terri gave insight about a hot topic—the effects of Part D on pharmacy trends. There is a great deal of speculation right now on what the short- and long-term impacts of Part D might be on pharmacy trends, both for PDP plans themselves and for commercial offerings. However, at the moment, speculation is all that is available; Part D is still very new, just six months old, compared to Medicare at 40 years old. So, the jury is still out. Terri's presentation focused on things to think about and to be aware of as you ponder for yourself what the significance of Part D might be for pharmacy trend. To begin to anticipate what the

impacts could be, an actuary will want to think about how Part D works, certain provisions of the Medicare Modernization Act, the pharmaceutical industry itself, and the political environment overall.

In spite of the fact that the session entitled "The Future of Benefit Design" was on the last day at the last time slot, it had one of the largest attendances throughout the whole conference. This can be attributed to one of two things: actuaries really care about the topics being discussed at the conferences, or mostly everyone spent the first few days of the conference at the beach and were scrambling on the last day to get all of their CE credits. Whatever the reason, the two presenters were appreciative of the large audience.

Both Michelle Baade with SimplyWell and Chris Stehno with Milliman's Denver office (one of the co-reporters for this article) agreed that the future of plan benefits lies in population health management. Chris started his presentation by identifying the largest barrier to health plans considering population health management—that being data. By historically focusing only on claims data, health plans know little to nothing about 70 percent or more of the covered population. Chris suggested using alternative data sources like application data, health-risk appraisals (HRAs), and consumer datasets to target, segment, uniquely communicate with and engage the entire population.

Michelle presented examples and results of an integrated model for population health management. SimplyWell's integrated model includes: HRAs, health screenings, individual action plans, education modules, healthy lifestyle coaching, and health appointments and trackers. Michelle also discussed a variety of incentive programs that SimplyWell uses to drive participation in the programs, involving: plan design benefits such as lower premiums, deductibles and copays; HSA deposits; Visa gift cards; company store rewards; and other company perks like parking spaces and free days off work.

We will end this report with these questions: Are we really ready for a plan that encourages participants to be healthy? What is the world coming to?

All in all, this year's conference was great fun and at a wonderful location with excellent speakers. We look forward to seeing you at the SOA's Annual Meeting in October! 🍷



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