The Actuary

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MEDICARE REVIEWED AFTER EIGHT MONTHS

At a panel on "Medicare — An Analysis After Eight Months" held by the Chicago Actuarial Club on March 20, Dr. Ted LeBoy, Assistant Medical Director of Continental Assurance Co., commented on some changes that had been observed.

The average length of hospital stay for people in the Medicare age group in Illinois increased by 2.1 days according to a survey taken of 628 community institutions as of December 1966. A further increase appears likely so far this year. One reason for this rise is the additional medical problems discovered during hospitalization when the original diagnosis indicated only a limited stay.

Physicians whose fees have been modified to conform to the provisions of the law have not complained of the adjustments. This may be due to the fact that in a great many instances services are now being paid for where there was formerly a quasi-charitable attitude. Usual and customary charges formerly meant usual for the physician and customary for the area. With the Medicare definition of a prevailing charge for the area, both terms, usual and customary, are being used to describe charges by physicians. In the carriers' commercial business, reductions in payments for physician's services based upon an insurer's usual and customary clause are being resisted by physicians if the reason for the reduction is that their charge is in excess of the customary charge for the area.

Other panelists were Dr. C. L. Reeder and Messrs. William Love and William Cannon. The last two described the Medicare operations of insurers in Illinois and some of their problems. Questions from members elicited further comments.

Charges by physicians increased to the prevailing charge for their area when they learned what that was, with an obvious inflationary effect. Every bill submitted to an insurer must be examined; for example, deductible requirements must be satisfied and charges in excess of the usual and customary must be ascertained. The insurers are using this experience as an aid in paying claims for like cases.

Bills for a physician's services are first compared with bills he had submitted previously for the same procedure. They then are compared with the prevailing charge for the area. About 10 percent of the bills are questioned; this usually discloses that a more complicated procedure was performed than that originally described. Adjustments are made on about 2 percent of the bills.

Actuaries Club Meetings:

May 8, Michigan Actuarial Society, Detroit, Michigan

May 19, Hartford and Boston Actuaries Club, Boston, Massachusetts

May 25-26, Actuaries Club of the Pacific States, Ogai, California

May 26, Middle Atlantic Actuaries Club (Semi-Annual), Richmond, Virginia

Conference . . .

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He made the point that the mathematical framework, which can be very general, represents merely a starting point for consideration of real problems. Professor Bruce M. Hill pointed out that the Bayesian statistician relies on a mathematical framework that permits combining subjective assumptions with statistical distribution functions.

Dr. Hilary L. Seal presented practical applications of regression analysis. In one case, where the loss ratio for automobile accidents was assumed to be equal to the product of four factors, a suitable transformation reduced the multiplicative model to a linear model.

Dr. Joseph G. Bryan, using a logarithmic transformation, developed the loss ratio for outstanding automobile bodily injury claims on the basis of an analysis of settled claims.

Mr. Gordon D. Shellard discussed a model for the loss ratio under Major Medical Insurance where the four major variables were age, sex, marital status, and duration. He developed separate formulas for each sex in terms of the three remaining variables.

Mr. Edward A. Lew discussed experiments with discriminant analysis to evaluate the underwriting significance of various characteristics of life and health insurance risks. No matter how good the separation might be, appreciable errors in classification are common, even in cases where the significant characteristics are reasonably well understood.

Digests of the papers presented at the conference may be obtained by writing to Professor Cecil Nesbitt, Department of Mathematics, University of Michigan, Ann Arbor, Michigan 48104.

LETTER TO THE EDITOR

Dear Editor:

In the March issue of *The Actuary*, you report that the preparation of a special form regarding pension costs was "revealed" at the March 7 meeting of the American Pension Conference. You indicate that this form "is being prepared to comply with Opinion No. 8" of the AICPA and that the form "is for auditors to use when requesting necessary information from actuaries with respect to pension plans."

Some attending the March 7 meeting were not aware that such a "special form" was revealed, and I think *The Actuary* exaggerates the importance of this particular form. So far as I am able to determine, this form has no official sanction and represents only the efforts of one or two accounting firms to think through and perhaps simplify the auditing problems that may arise under Opinion No. 8. We have been exposed to other efforts along the same line.

I also think the assertion that the form is for auditors to use "when requesting necessary information from actuaries" must contain an inaccuracy. Information can be properly provided to accountants by actuaries only at the request of the actuary's principal.

Since numerous aspects of Opinion No. 8 have practical significance only in special cases, completion of a form contemplating all of the ramifications of Opinion No. 8 would create unnecessary expense for most employers. I do not believe that practicing auditors wish to impose an excessive expense on their clients, and my guess is that no standard reporting form for actuaries will be developed under Opinion No. 8.

JOHN HANSON
Chicago, Illinois
April 7, 1967