

# Soundbites

## from the American Academy of Actuaries' Health Practice Council

by Heather Jerbi and Melissa Stevens

### What's New

Despite some recent uncertainty about the prospects for health care reform, the issue remains on nation's domestic agenda. As such, the Academy's Health Practice Council (HPC) has been actively involved in educating policymakers on the actuarial considerations related to many of the provisions being considered—insurance market reform, individual mandate, public plan option, etc. The council and its work groups/task forces have been engaging policymakers in a number of ways including producing educational policy statements and issue briefs, hosting Hill briefings, visiting with congressional/agency staff, and participating in panels hosted by external policy organizations. We continue to receive and respond to inquiries from policymakers, as well as the media, related to health care reform.

### Policy statements

One ongoing project is in response to feedback received during the course of the annual Capitol Hill visits. The HPC and the Federal Health Committee have developed a series of short policy statements, providing an actuarial perspective on various potential components of health care reform proposals. These statements are called *Critical Issues in Health Reform* and address the following issues:

- Actuarial Equivalence
- Administrative Expenses
- Gender Considerations in a Voluntary Individual Health Insurance Market
- Health Insurance Cooperatives
- Individual Mandate
- Market Reform Principles
- Merging the Small Group and Individual Markets
- Minimum Loss Ratios
- Public Plan Option
- Risk Pooling
- Transitioning into New Markets

The HPC has developed a dedicated webpage through the Academy's website in order to highlight these new policy statements, as well as additional materials related to health care reform. The

Web page can be found at: [http://www.actuary.org/issues/health\\_reform.asp](http://www.actuary.org/issues/health_reform.asp).

In addition to this series of policy statements on specific health care reform issues, the HPC and the Society of Actuaries collaborated on two projects, both resulting in public policy statements based on research provided by the Society. The first project was a comment letter<sup>1</sup> developed in July by a joint work group of the Academy's Federal Long-Term Care Task Force and the Society's Long-Term Care Insurance Section Council regarding the *Community Living Assistance Services and Supports Act* (CLASS Act). The comment letter, submitted to the Senate Committee on Health, Education, Labor and Pensions, addressed the work group's analysis of the structure and funding approaches proposed in the CLASS Act. It indicated that premiums may exceed affordable levels for those in the intended population of the CLASS Act and that the program (as structured) would be unlikely to cover more than a very small proportion of the intended population.

On November 2, another joint work group of the Academy's Health Practice Council and the Society of Actuaries held a webcast<sup>2</sup> for media and congressional staff in conjunction with the release of a detailed technical report<sup>3</sup> on the necessary start-up capital requirements for health insurance cooperatives and a public plan option. Under the modeled scenarios, the work group found that start-up capital requirements ranged from \$1.7 billion to \$45.6 billion. The wide variation is attributable to three unknowns—how many people enroll, the difference between pricing assumptions and actual claims, and average claims.

### Capitol Hill/Media briefings

In addition to the development of policy statements, the Academy has hosted briefings for congressional staff and the media and met with congressional

<sup>1</sup> [http://www.actuary.org/pdf/health/class\\_july09.pdf](http://www.actuary.org/pdf/health/class_july09.pdf)

<sup>2</sup> [http://www.actuary.org/briefings/health\\_nov09.asp](http://www.actuary.org/briefings/health_nov09.asp)

<sup>3</sup> [http://www.actuary.org/pdf/health/tech\\_coops\\_nov09.pdf](http://www.actuary.org/pdf/health/tech_coops_nov09.pdf)

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committee staff on a number of occasions. On June 19 and 22, the Academy hosted two briefings related to health care reform. On June 19, Cori Uccello briefed members of the press on the keys to a viable health care system: markets must attract a broad cross section of risks, market competition requires a level playing field, and health spending growth must be reduced. On June 22, Karl Madrecki, Cathy Murphy-Barron, David Shea and Dale Yamamoto briefed policymakers on similar material. The briefing offered an extended period of time for the approximately 35 congressional staff and external health policy attendees to ask questions of the actuaries. This briefing was followed by a targeted Hill visit with the health policy team with one of the House committees with jurisdiction for health care reform.

### Medicare

In October, the Medicare Steering Committee released a new issue brief, *Medicare Advantage Payment Reform*.<sup>4</sup> The issue brief discusses the current Medicare Advantage payment system, provides an overview of the goals of the program, and addresses two alternative mechanisms for reducing payments to Medicare Advantage plans.

### NAIC activities

In September, the Health Practice Financial Reporting Committee released a new practice note, *Practice Note on the Revised Actuarial Statement of Opinion Instructions for the NAIC Health Annual Statement Effective December 31, 2009*.<sup>5</sup> On June 13, the National Association of Insurance Commissioners (NAIC) Blanks Working Group adopted revised instructions for the health annual statement actuarial opinion. The revised instructions are effective for the Dec. 31, 2009 annual statement filing. The revised health actuarial opinion instructions: require a qualified health actuary to be appointed by the board of directors; include recommended language, any deviations or additions to that language must be identified in a “check box” section; and require a supporting Actuarial Memorandum. The Academy included discussion of these changes at the Life and Health Qualifications Seminar, held in November in the Washington, DC area.

The Stop-Loss Work Group has partnered with the Society of Actuaries (SOA) to update stop-loss factors for health RBC formulas. The SOA will be collecting and analyzing data from volunteer companies, and the Stop-Loss Work Group will use the aggregated data to propose an update to the current stop-loss factors. Insurance companies and reinsurers interested in supplying data for the study should contact Barbara Scott at the SOA, at [bscott@soa.org](mailto:bscott@soa.org), and provide her with your name and contact information.

The NAIC also asked the Academy to examine the current health care receivable factors. Currently, all health care receivables use the same factor. In response, the Academy formed the Health Care Receivable Factors Work Group, which will analyze the current factor for each line and make a recommendation to the NAIC. The NAIC is looking to make any necessary changes effective in time for the 2010 year-end financial statement.

### International Experience

In light of ongoing efforts to reform the U.S. health care system, members of the Health Practice International Task Force are developing articles on a variety of international health care systems. The November/December edition of *Contingencies* featured an article on international health reform, *Health Care Reform: Learning from Others—Netherlands*,<sup>6</sup> which is the second in a series of articles. The first article appeared in the May/June edition of *Contingencies*. In that article, John Berkto interviewed Yair Babad, an Israeli actuary. Both articles can be found on the Contingencies Web site at: <http://www.contingencies.org/>.

<sup>4</sup> [http://www.actuary.org/pdf/health/ma\\_oct09.pdf](http://www.actuary.org/pdf/health/ma_oct09.pdf)

<sup>5</sup> [http://www.actuary.org/pdf/practnotes/sao\\_sept09.pdf](http://www.actuary.org/pdf/practnotes/sao_sept09.pdf)

<sup>6</sup> [http://www.contingenciesonline.com/contingenciesonline/20091112?sub\\_id=qxyLfphSqUiJ#pg54](http://www.contingenciesonline.com/contingenciesonline/20091112?sub_id=qxyLfphSqUiJ#pg54)

## Ongoing Activities

The Academy's Health Practice Council has many ongoing activities. Below is a snapshot of some current projects.

**Health Practice Financial Reporting Committee** (Darrell Knapp, Chairperson)—The committee continues to work on updating several practice notes (Small Group Certification, Large Group Medical, and General Considerations).

**Long-Term Care Principles-Based Work Group** (Bob Yee, Chairperson)—This work group is in modeling phase of their work and will be providing quarterly updates to the NAIC Accident and Health Work Group in 2009.

**Stop-Loss Work Group** (Eric Smithback, Chairperson)—This work group is continuing to update a 1994 report to the NAIC on stop-loss factors, and is currently checking data calculations prior to re-starting the modeling phase of their work.

**Disease Management Work Group** (Ian Duncan, Chairperson)—This work group has begun development of a public statement on evaluating wellness programs.

**Medicare Supplement Work Group** (Michael Carstens, Chairperson)—This work group has submitted recommended changes to the Medicare Supplement Refund Formula to the NAIC's Medicare Supplement Refund Formula Subgroup, of the Accident and Health Working Group, and continues to work with the NAIC to develop a refund formula.

If you want to participate in any of these activities or you want more information about the work of the Academy's Health Practice Council, contact Heather Jerbi at [Jerbi@actuary.org](mailto:Jerbi@actuary.org) or Melissa Stevens at [stevens@actuary.org](mailto:stevens@actuary.org). ■

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