

The Actuary Is In: Answering Your Questions on Health Reform

Karl Madrecki, MAAA, ASA
Member, Health Practice Council
American Academy of Actuaries

Catherine Murphy-Barron, MAAA, FSA
Chairperson, Uninsured Work Group
American Academy of Actuaries

David A. Shea, Jr., MAAA, FSA
Chairperson, Federal Health Committee
American Academy of Actuaries

Dale Yamamoto, MAAA, FSA
Chairperson, Joint Committee on Retiree Health
American Academy of Actuaries

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Keys to Viable Health Reform

- Insurance markets must attract a broad cross section of risks
 - Risk pooling fundamentals
 - Adverse selection
 - Market reforms
 - Individual mandate
- A level playing field is required for market competition
 - Public plan option
- Health spending growth must be reduced



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Insurance Markets Must Attract a Broad Cross Section of Risks



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Risk Pooling Fundamentals

- Risk pools are large groups of individuals (or groups) whose medical costs are combined to calculate premiums.
- Pooling risks together allows the costs of the less healthy to be subsidized by the healthy.
- In general, the larger the risk pool, the more predictable and stable the premiums can be.
- BUT, creating larger risk pools will not necessarily lower premiums.
 - Must consider the size of the risk pool AND how it is comprised.



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Adverse Selection

- If a pool attracts those with higher expected claims (i.e., adverse selection), premiums will be higher.
- When insurance is voluntary, adverse selection occurs because people have more knowledge about their health care needs.
 - Individuals at greater risk of high health spending are more likely to desire coverage.
 - Lower-risk individuals are more likely to opt out.
- Bringing in low-risk individuals (as opposed to only higher-risk individuals) will help to moderate premiums by mitigating adverse selection.

Issue and Rating Rules

- Certain issue and rating rules can exacerbate adverse selection and individual rates
- Guaranteed issue
 - Prohibits insurers from denying coverage based on health status
 - Gives individuals an incentive to delay purchasing coverage until they have health care needs
- Limiting (or prohibiting) premium variations by age, health status (or other factors)
 - Can raise the premiums for younger and healthier individuals, causing them to opt out of coverage

Mechanisms to Increase Participation

- In the absence of mechanisms to increase participation of lower-risk individuals, moving to guaranteed issue and modified community rating can lead to market disruption (e.g., increased premiums and more uninsured)
- Mechanisms to increase participation
 - Imposing an individual (and/or employer) mandate
 - Limiting open-enrollment periods with penalties for delayed enrollment
 - Subsidizing premiums/tax credits for low income
 - Instituting automatic enrollment

Individual Mandate/Market Reforms

- Impact of individual mandate and market reforms will vary across states, depending on their current market rules
- In states that allow underwriting and premium variation by health status:
 - The uninsured population may be less healthy, on average, than the insured population.
 - Moving to guaranteed issue/community rating would bring in less healthy, potentially raising premiums.
 - An individual mandate would help moderate premium increases by ensuring low-risk individuals maintain coverage.

Individual Mandate/Market Reforms

- Impact of individual mandate and market reforms will vary across states, depending on their current market rules
- In states with guaranteed issue and/or community rating:
 - The uninsured population may be healthier, on average, than the insured population
 - An individual mandate will bring in lower-risk individuals, potentially lowering average premiums
- In states with high risk pools, whether and how individuals are incorporated into the individual market could affect the impact of market reforms/individual mandate.



Individual Mandate/Market Reforms

- If a mandate is implemented, it should be in conjunction with a move to stricter issue and rating rules. Otherwise, moving to stricter issue/rating rules would result in high-risk individuals enrolling first, thereby raising premiums



A Level Playing Field is Required for Market Competition



Market Competition Requires a Level Playing Field

- Plans competing to enroll the same individuals must operate under the same rules.
- Plans that operate under rules more advantageous to high-risk individuals will enroll those individuals; same with low-risk individuals
- Over time, the premiums will change to reflect this adverse selection; premiums for plans attracting high-risk individuals will increase, leading to more adverse selection
- Level playing field issues could arise under several reform scenarios:
 - If a national or regional exchange/connector is established and plans are available both inside and outside the exchange
 - If insurance is allowed to be purchased across state lines under today's varying state insurance laws
 - If a public plan option is made available



Public Plan Option

- If implementing a public plan option, the following are needed to establish a level playing field:
 - Issue and rating rules must be the same for private and public plan options
 - Premium rates must be actuarially sound
 - Benefit package requirements must be the same
 - Any premium subsidies must be available for both private and public plan options
 - Provider payment levels must be comparable
 - Other state requirements must also apply to the public plan option (e.g., special assessments, consumer protections)

Health Spending Growth Must Be Reduced

Health Care Spending

- Reform proposals need to focus on controlling the rate of health spending growth
- Drivers of cost growth:
 - New technologies and treatments
 - More comparative effectiveness research can ensure that new technology and treatments add value, not just cost
 - Provider payment systems do not properly align financial incentives to maximize quality and value
 - Systems could be restructured to encourage coordinated, cost-effective, and quality care
 - Generous plan designs that encourage utilization
 - Value-based insurance designs can encourage more cost-effective use of high-value service

Questions/Comments

For more information, contact:
Heather Jerbi
Senior Health Policy Analyst, Federal
American Academy of Actuaries
1850 M Street, NW
Washington, DC 20036
202-785-7869
jerbi@actuary.org