Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

HHS Experts Answer Member Questions on ACA Requirements

AS FULL IMPLEMENTATION OF THE AFFORDABLE CARE ACT (ACA) gets closer to reality, many details needed for its smooth operation have been clarified for Academy members by Department of Health and Human Services (HHS) representatives during three webinars in March. For the first two webinars, a question-and-answer format differed from previous Academy webinar formats and allowed both speakers and participants to delve into greater depth on a variety of pressing questions. A total of nearly 3,000 people logged in to the March webinars to ask questions and get answers.

On March 13 and 14, the Academy hosted a two-part webinar series, *Final Rules on AV Determinations, Essential Health Benefits, and Market Reforms.* Experts from the Center for Consumer Information and Insurance Oversight (CCIIO) at the Centers for Medicare & Medicaid Services fielded questions on topics ranging from technical issues on the calculators to general timing for various ACA provisions. Participants were able to submit questions before and during the webinar.

The March 13 webinar, *Market Reforms*, highlighted areas such as plan definition, geographic rating areas, exchange and non-exchange plans, age rating factors, tobacco factors, qualified health plans, small group rating rules, risk pools, marketwide index rates, guaranteed renewability, and interplay of state-specific and federal requirements. For some participant questions, CCIIO indicated that additional guidance may be forthcoming, such as whether rates can vary if Medicare is primary or secondary, how to address tobacco usage within the wellness rules, and how to treat pediatric dental and vision if carved out. Slides for the event are available.

Questions for the March 14 webinar, *Actuarial Value, Essential Health Benefits, Cost-Sharing Reductions,* were

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Have Your Say on Your Day to Day: Attend the EA Professional Standards Sunday Session

DISCUSS ISSUES affecting how your work is done and perceived by attending the Professional Standards/Media Response Seminar on Sunday, April 7, noon to 5 p.m. A jump-start to the Enrolled Actuaries Meeting, this session's focus is twofold: learn more about how actuarial codes and standards affect and protect your work and career and discover how media perceptions of actuaries influence the profession.

Presenters at this session include current and former members of the Actuarial Board for Counseling and Discipline (ABCD), who will discuss a variety of ethical scenarios and dilemmas addressed by professional standards as well as challenges created by media interest in actuaries and their work. How can you be sure you are meeting all of these requirements? How do the Code and the standards benefit you and your clients? What should you do if you make a mistake? What should you do if a reporter calls?

As an audience member, you will be asked to analyze, discuss, and debate your views of these situations and propose solutions. Also, this is a great opportunity to update your knowledge of professional standards and learn more about the behind-the-scenes work of the ABCD.

CALENDAR

APRIL

6–9 NAIC spring national meeting, Houston

7–10 Enrolled Actuaries Meeting, Washington

11 Minimum Value Calculator Webinar

15–16 Academy Health Practice Council Capitol Hill visits, Washington

16 Academy Executive Committee meeting, Washington

MAY

8 CUSP meeting, Washington

8–9 Academy Board of Directors meeting, Washington

19–22 CAS spring meeting, Vancouver, British Columbia

31–June 1 NAAC meeting, New Orleans

JUNE

9–12 SOA health meeting, Baltimore

JULY

11–14 NCOIL summer meeting, Philadelphia

15 Academy summer summit, Washington

AUGUST

14 Academy Executive Committee meeting, Washington

24–27 NAIC summer national meeting, Indianapolis

SEPTEMBER

Casualty Loss Reserve Seminar, Boston

OCTOBER 2013

1 CUSP meeting, Washington

1–2 Academy Board of Directors meeting and board orientation, Washington

20–23 CCA Annual Meeting, San Antonio

20–23 SOA Annual Meeting

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy website.

Academy NEWS Briefs

March Unleashes a Flurry of Public Policy Activity

SEVERAL ACADEMY WORK GROUPS weighed in on various pending matters in March.

In the health arena:

- The Rate Review Practice Note Work Group submitted comments to the Center for Consumer Information and Insurance Oversight (CCIIO) recommending several modifications to the unified rate review template and instructions associated with the final rules implementing the rate review and disclosure provisions in the Affordable Care Act (March 7, 2013).
- The newly formed Long-Term Care Terminations Work Group sent a letter to the NAIC announcing the work group's formation and its charge to gather data on terminations in long-term care insurance (March 12, 2013).

In the life and financial reporting arenas:

- The International Accounting Standards Task Force sent papers to the Financial Accounting Standards Board (FASB) on issues related to the Insurance Contracts project discussed at a November 2012 meeting with FASB staff (March 5, 2013).
- The Enterprise Risk Management Committee (ERM) exposed a practice note, *Insurance Enterprise Risk Management Practices*, for public comment. The practice note discusses ERM practices within the insurance industry and concepts such as risk culture, risk organization, and risk governance (March 7, 2013).
- The Life Reserves Work Group submitted an amendment proposal to the Life Actuarial Task Force of the NAIC that clarifies the VM-20 approach to model policy loan cash flows in the deterministic and stochastic reserve calculations (March 14, 2013).

And in the casualty arena:

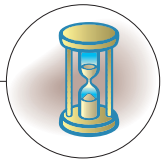
- The Committee on Property & Liability Financial Reporting sent a comment letter to the NAIC's Blanks Working Group on its proposed changes to move all force-placed or lender-placed business from the current line to the write-in line of Schedule P (March 7, 2013).

Honoring an Academy President

ON FEB. 23, 2013, M. Stanley Hughey, a fellow of the Casualty Actuarial Society who served as Academy president from 1984 to 1985, passed away at his home in Naples, Fla. He was 95. A memorial service will be held Saturday, April 6, at 3 p.m. at the Moorings Presbyterian Church in Naples. His full obituary appeared in the *Chicago Tribune*.

IN THE NEWS

- In a *Daily Reflector*'s Op-Ed, "Health care defies predictions," author Scott Mooneyham cites the Academy's Medicaid decision brief and says that states that block Medicaid expansion "will see significant numbers of people who otherwise would have been covered fail to qualify for the subsidies."
- An opinion piece in *The Daily Caller* written by Michael F. Cannon from the Cato Institute cites a *Contingencies* story on health care premium costs for younger participants in the ACA.



PBR Moves Closer to Implementation

WHAT IS AN ACTUARY TO DO when key required formulas have remained fundamentally unchanged for 150 years—in a world and discipline where change rules everything? Outlining the Academy's continuing work on this question, Senior Life Fellow Nancy Bennett discussed principle-based reserves (PBR) at the National Conference of Insurance Legislators (NCOIL) spring meeting on March 8. As the technical work on PBR is winding down, Bennett said, state legislators now will have a greater role to play.

Bennett talked about the Academy's support for the Standard Valuation Law (SVL), and its work as the technical architect of PBR. She noted that the Academy has been involved with nearly every aspect of the new SVL/Valuation Manual and that it will work with the NAIC and state insurance departments to support PBR implementation. She also gave participants a slide presentation that covers key aspects of the PBR implementation and review process.

Bennett outlined the strengths of the PBR approach as an alternative to formula-based reserve methodology and highlighted the Academy's involvement in its design. PBR will replace existing formula reserve requirements with a model-based framework. Bennett noted that the current approach is static and does not work well for certain product types, such as term and universal life insurance. PBR's dynamic model-based framework places greater recognition on credible company experience and a company's unique risk profile. Bennett said it is expected to right-size reserves consistent with the risks underlying the policies being valued.

Bennett also described the dollar impact of PBR, as it is phased in over three years and applied to new policies issued. Generally, reserves for term and universal life will decrease depending on the company. Reserves for most other life insurance policies (e.g., whole life, traditional insurance) will not change. Some products will see required reserves increase, but their nature is difficult to generalize and will vary by company.

LIFE BRIEFS

- **Art Panighetti**, an actuary with Northwestern Mutual in Milwaukee; **Perry Kupferman**, a supervising life actuary for the California Department of Insurance in Los Angeles; **Mark Birdsall**, a consulting actuary for the Kansas Insurance Department in Topeka; and **Peter Bondy**, an actuary with Bondy Advisors in Prairieville, La., have joined the PBR Impact Task Force.
- **Jeffrey Lortie**, a manager at Deloitte Consulting LLP in Chicago, has been appointed chairperson of the Asset Adequacy Analysis Practice Note Work Group. Also joining the work group are **Jo Beth Stephenson**, an actuary with the Texas Department of Insurance in Austin, and **David Ruiz**, a valuation actuary with Pacific Life Insurance Co. in Newport Beach, Calif.
- **Eric Sherman**, vice president and actuary for New York Life Insurance Co. in New York, has joined the Nonforfeiture Modernization Work Group.
- **Francis Radnoti**, an actuary with Protective Life Insurance Co. in Birmingham, Ala., has joined the Life Illustrations Work Group.
- **Nancy Bennett**, the Academy's senior life fellow, is the chairperson for the Academy's newly formed C1 Recovery Subgroup. Also joining the work group are **Jerry Holman**, an actuary with RJH Integrated Solutions in Downers Grove, Ill.; **Chris Trost**, senior actuary for Northwestern Mutual in Milwaukee; **Richard Owens**, an instructor at Ball State University in Muncie, Ind.; **Ruth Sayasith**, vice president and actuary for MetLife in Morristown, N.J.; **Scott Robinson**, senior vice president for Moody's Investors Service in New York; and **Lisa Thomas**, an actuary with CIGNA Investment Management in Bloomfield, Conn.
- **Dean Slyter**, an actuary with Accenture in Cedar Rapids, Iowa, has joined the Annuity Illustration Work Group.
- **Jeffrey Johnson**, assistant vice president and actuary for John Hancock in Boston, has been appointed co-chairperson of the Life Capital Adequacy Subcommittee.

CASUALTY BRIEFS

- **Christopher Carlson**, chief actuarial officer with the Ohio Bureau of Workers Compensation in Columbus, has joined the Workers' Compensation Committee.
- **Wei Xie**, an actuarial manager with Ernst & Young LLP in Chicago, has joined the Joint Program Committee for the CLRS Seminar.
- **Zoe Rico**, an actuary and consultant with Aon Risk Consultants Inc. in Dallas, has joined the Terrorism Risk Insurance Subcommittee.
- **Pat Teufel**, a consulting actuary in West Hartford, Conn., has joined the Casualty Practice Council.

PROFESSIONALISM BRIEFS

- **Michael Toothman**, consulting actuary for Actuarial & Risk Consulting Services in Ardmore, Pa., is the chairperson for the Academy's COP Disciplinary Task Force. Also joining the task force are **Kevin Dyke**, chief actuary for the Michigan Department of Insurance and Financial Services in Lansing; **Cande Olsen**, vice president for Actuarial Resources Corp. in Chatham, N.J.; **Steven Ostlund**, an actuary with the Florida Office of Insurance Regulation in Tallahassee; and **Richard Young**, an actuary with the New York State Teachers Retirement System in Albany.

Academy Submits Written Testimony on Medicare Sustainability

ON MARCH 8, Cori Uccello, the Academy's senior health fellow, submitted written testimony to the House Ways and Means Subcommittee on Health for its recent hearing that examined Medicare's traditional fee-for-service (FFS) benefit design.

To improve Medicare sustainability, Uccello outlines ways that reforms to Medicare's FFS structure could better align incentives on the beneficiary side. Currently, three factors make this difficult. First, Medicare has no annual limit on cost-sharing liability, which places beneficiaries at risk for catastrophic health costs. Second, the supplemental policies carried by most Medicare beneficiaries blunt incentives for seeking the most reasonable cost for services. And finally, the structure of certain fee-for-service deductibles doesn't always motivate patients to seek the most cost-effective care.

Some options that have been proposed for restructuring the FFS benefit design are unifying the Part A and B deductibles and adding a cost-sharing limit that would protect beneficiaries against catastrophic health costs and potentially encourage them to seek cost-effective care. She notes that these changes could be done in ways that are budget neutral or that reduce Medicare spending overall. For the greatest savings, the plan design changes would encourage beneficiaries to take a more active role in their health care, seek care when necessary, and learn more about the cost and expected outcomes of their care. Along the same lines, provider and beneficiary incentives would need to be consistent, and everyone would need more information on costs, quality, and treatment effectiveness.

Uccello notes that such restructuring is a short-term solution. A longer-term solution might be transitioning to a value-based insurance design, although it also will require comprehensive restructuring of not just the benefit design but also the payment and delivery systems for Medicare to have a more integrated, coordinated, and cost-effective system.

Nominations Solicited

The Actuarial Foundation is now accepting nominations for the distinguished John Hanson Memorial Prize, which recognizes the best paper addressing an employee benefits topic. For more information about submissions, visit the foundation's website. The nomination deadline is June 1, 2013.

HEALTH BRIEFS

- **James Paprocki**, corporate senior actuary for Coventry Health Care in Green Bay, Wis., and **Brian Collender**, a senior manager at Deloitte Consulting LLP in Chicago, have joined the Medical Loss Ratio Subgroup.
- **Robert Beal**, a consulting actuary with Milliman Inc. in Portland, Maine, has been named co-chairperson for the Individual Long-Term Disability Work Group. Also joining the work group are **Gregory Gurlik**, a senior actuary for Northwestern Mutual in Milwaukee and **Brian Holland**, assistant vice president and actuary for Munich American Reassurance Co. in Atlanta.
- **Daniel Davidson**, an associate director for Unitedhealthcare Community and State in Minnetonka, Minn., has joined the Medicaid Work Group.
- **Thomas Rhodes**, assistant vice president and actuarial director for MIB Solutions Inc., has joined the Medicare Supplement Work Group.
- Joining the Joint Committee on Retiree Health are **Geoffrey Kuhn**, vice president of Aon Hewitt in Chicago; **Alex Rivera**, a senior consultant for Gabriel Roeder Smith and Co. in Chicago; and **Liaw Huang**, a consultant for TTerry Consulting LLC, in Chicago.

2013 ENROLLED ACTUARIES MEETING

April 7–10 | Marriott Wardman Park Hotel | Washington

The 38th annual Enrolled Actuaries Meeting, sponsored by the American Academy of Actuaries and the Conference of Consulting Actuaries, is almost here. Take advantage of an extensive array of educational sessions, complete your continuing education credits for the 2011–2013 enrollment cycle (including those needed ethics and core credit requirements), and catch up with old friends and colleagues.

Seminars available before and after the meeting include:

- Professional Standards/Media Response Seminar (April 7);
- 2013 Pension Symposium: Outlook for Private Sector Pension Funding (April 10–11).

For more information or to register, go to www.enrolledactuaries.org.

Private Employers Should Have Option to Raise Retirement Age

Is Age 67 the New Normal?

WHEN IT COMES TO SOCIAL SECURITY RETIREMENT BENEFITS, workers born after 1960 qualify at age 67. For many private pension plan retirement benefits, the qualifying age still stands at 65. In fact, ERISA does not even allow defined benefit plans to have a normal retirement age beyond age 65. In a new issue brief released on March 7, the Academy's Pension Committee recommends that such private pension plans be allowed to rethink this approach.

Rethinking Normal Retirement Age for Pension Plans outlines several ways in which the workforce generally and private employees specifically would benefit if private plans were allowed to align their retirement age with that of Social Security. First, employees working those two additional years could benefit from the extra income and build up their savings, especially as life expectancy for many workers has continued to lengthen. Since the normal retirement age was set at age 65 in 1935, the life expectancy of a 65-year-old American has increased 40 percent. The normal retirement age for Social Security increased from 65 to 67 for those born after 1960, and yet the normal retirement age for qualified defined benefit plans has not changed.

Allowing such plans to follow Social Security's lead would help change the general age expectations for retirement in this country. Such altered expectations then would encourage workers to remain employed longer. Doing so will help them increase their retirement standard of living, which often falls in the current system when workers choose to retire early and take a 20 to 30 percent benefit penalty for doing so. With this shift in mind-set, American workers would expect to work to age 67 and would benefit from the extra income and ability to save.

Given the complexity of such a shift, the Academy recommends that changing the maximum allowable normal retirement age should be voluntary and not a mandate. Not every defined benefit plan would want this change. Plans for industries that require lower retirement ages because of the physical demands of the work or because of little change in participant longevity need earlier retirement ages. Also, raising the retirement age requires plans to adjust many factors, including how to treat those nearing their current retirement age versus those who have more time to make the adjustments and how benefit accruals will be affected.

PENSION BRIEFS

- **Matt Larrabee**, a principal with Milliman in Portland, Ore., has joined the Public Plans Subcommittee.
- **Steven Rabinowitz**, senior vice president at The Segal Co. in New York, has joined the Multiemployer Plans Subcommittee.

Do you know a deserving student?

Support the future of the actuarial profession while fostering the best and brightest students. Tell a deserving student about the Actuarial Foundation's scholarship programs. Applications for the 2013-2014 school year are now available.

Chicago Icon Applauds the Efforts of Actuaries

Nationally known personal finance expert Terry Savage has high praise for actuaries and their commitment to improving math and financial knowledge through the Actuarial Foundation.

Experts, continued from Page 1

focused yet wide-ranging. Experts from CCIIO reviewed benchmark plans, minimum value, payment processes, out-of-pocket maximums, health savings account/HRA issues, actuarial value, minimum value calculator, and cost-sharing. In several cases, CCIIO responded to questions about specific plan designs and concerns caused by counterintuitive results from the AV calculator. Issues for which additional guidance may be necessary include treatment of certain unique plan designs, silver plan designs and HSA-compatible plans, and treatment of state-mandated benefits. Slides are available.

In another webinar on March 20, representatives from CCIIO discussed the new methodology for reconciling cost-sharing reduction payments and answered questions from attendees on the new method as well as the final payment notice for risk adjustment, reinsurance, and risk corridors. Each of the webinars re-emphasized to those on the government side of ACA that certain actuarial concerns require further guidance. Officials asked actuaries to weigh in with their comments on several still-pending aspects of various rules.

Comments on the MV calculator can be submitted to minimumvalue@cms.hhs.gov. Although CCIIO does not expect to make any additional changes to the AV calculator in the near future, actuaries who do have any comments on technical issues or concerns with the calculator can submit them to ActuarialValue@cms.hhs.gov.

Actuarial Update

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Hospital Price Increases Not Always What They Seem

WHEN HOSPITAL EXECUTIVES EXPLAIN why they raise rates on private payer insurance, they inevitably cite Medicare losses. But the data do not bear this out, according to Jeff Stensland, principal policy analyst for the Medicare Payment Advisory Commission (MedPAC).

Stensland presented a webinar on Feb. 21 sponsored by the American Academy of Actuaries that took an in-depth look at the relationship between Medicare and private insurance provider payment rates. "What the hospital executives say—and what I think they really want to believe—is, 'Yes, we're charging high prices to private pay insurers, but Medicare made me do it,'" said Stensland.

Called the cost shift hypothesis, this theory asserts that a hospital's input costs are outside of its control and that below-cost Medicare and Medicaid rates force up private insurance prices. The conclusion? Medicare losses cause high private insurance prices.

But Stensland and his colleagues assert that the data do not support this claim. Instead, Stensland proposes another theory to explain the higher private insurance rates: revenue shift. This hypothesis posits that hospitals will use market power to increase revenue beyond the minimum needed for operations. "Market power is when a hospital has enough clout to make it hard for insurers to say no," said Stensland.

This can be the result of high market share (large hospital systems that own all hospitals in a regional market, for example) or because the hospital is the only one in the area that has a key technology patients need. "When hospitals have market power," Stensland said, "they'll use it to get more revenue." The effect is the opposite of that proposed by the cost shift hypothesis. Instead of Medicare losses causing higher private insurance prices, those higher prices cause losses for Medicare patients.

"Ask yourself: Why do hospitals that have higher costs seem to have the highest profits?" said Stensland.

The key to the cost shift hypothesis is the belief that hospitals' costs are fixed. But MedPAC's research contradicts that claim. As evidence, Stensland presented hospitals' standardized input costs per discharge. The median cost was $11,500, but the costs varied widely—from $8,000 to $15,000. Stensland pointed out that under the cost shift hypothesis favored by hospitals, there wouldn't be such a wide distribution of costs because, as the hospitals say, the costs are exogenous (outside of their control).

To further support the revenue shift hypothesis, Stensland presented data that showed the difference in costs between hospitals that are under

financial pressure (with a median non-Medicare margin of less than 1 percent) and those that are not (with a non-Medicare margin of more than 5 percent, suggesting high profits on commercial payers). Both nonprofit and for-profit hospitals under high financial pressure reported standardized inpatient costs of 92 percent of the national average. Those hospitals not under high financial pressure reported inpatient costs of 105 percent (for nonprofit hospitals) and 100 percent (for for-profit hospitals) of the national average.

"This shows us that hospitals that don't have much market power are under pressure to contain costs," said Stensland. Whereas those not under financial pressure have high costs because they have more revenue to spend.

Stensland also pointed out that a review of academic literature does not support hospitals' assertion that when Medicare policy changes, hospitals in markets with low Medicare payment rate growth have below average commercial rate growth. In fact, a 2012 study by Chapin White found the opposite to be true: that lower Medicare prices lead to lower private insurance prices.

As for the view that high costs are necessary for high-quality care, Stensland said that the data do not support that either. A MedPAC study compared the 2011 performance of relatively efficient hospitals (those that historically kept costs low, had low mortality rates, and had high patient satisfaction rates through 2010) to less efficient hospitals. It found that these historically efficient hospitals kept risk-adjusted costs per discharge 10 percent lower than average while at the same time maintaining a mortality rate 13 percent lower than average in 2011.

All of this, Stensland said, suggests that hospitals' profits on commercially insured patients are driving up Medicare costs. There is a lack of evidence that hospitals' losses on Medicare patients are driving up rates hospitals charge commercial insurers.

—LAURA MULLANE