



AMERICAN ACADEMY *of* ACTUARIES

May 22, 2009

The Honorable Max Baucus, Chairman
The Honorable Charles Grassley, Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Senators:

On behalf of the American Academy of Actuaries' Health Practice Council, I appreciate the opportunity to comment on the second in the Senate Finance Committee's series of policy options papers, *Expanding Healthcare Coverage: Proposals to Provide Affordable Coverage to All Americans*," issued on May 14, 2009.

As Congress addresses health care reform, including new approaches to expand affordable healthcare coverage to all Americans, we urge you to carefully and thoughtfully consider a number of key actuarial issues (especially pertaining to health insurance risk pools). Over the last few years, the American Academy of Actuaries has published a number of policy statements in this area (highlighted at the end of this letter) that provide additional detail related to the specific comments below. We appreciate the opportunity to offer these comments for your consideration:

Section I: Insurance Market Reforms

A move to guaranteed issue in the individual health insurance market (aligning with the 2-50 employees small group market) would increase access among those in poorer health. Without a strongly enforced coverage mandate, however, individual rates would likely increase significantly in those states that currently allow underwriting and/or rate based on health status. This is characteristic of a voluntary market where younger and/or healthier segments are under-represented in a risk pool. Moving to an elimination of health status as an issue and premium rating factor would likely result in significant rate increases to younger and/or healthier segments, without full and robust enforcement of a coverage mandate. It would be necessary to include all of the young and healthy individuals in the pool in order to keep premiums at the lowest levels possible.

The policy options presented in your draft are predicated upon continuance of the existing market for large employers (>50 employees) to access health insurance, yet reform the market for non-group and small employers by imposing guaranteed issue and prohibiting premium variations by health status. These market changes could provide an incentive for large employers to shift their older and less healthy workers into the individual market. Shifting costlier workers to the individual market would help keep health costs lower for large groups, but would drive up premiums in the individual market. Therefore, it may be necessary to develop rules to prevent large employers from shifting workers with high health spending to the individual market.

Many selection concerns could be mitigated by including a risk adjustment system. Nevertheless, risk adjusters do not and cannot account for all risk inherent in the system, and any risk adjustment system, no matter how sophisticated, will present opportunities for gaming. As such, there should be a regulatory authority to administer controls to detect and resolve any inappropriate activities related to treatments and coding, as well as monitor health plan marketing activities.

Section II: Making Coverage Affordable

The benefit levels outlined in the options paper's high, medium, low, and lowest plan offerings are more generous than those typically purchased in the current small group and individual markets. Requiring such benefits could result in a significant premium increase for many current participants. Moreover, many currently uninsured are young and healthy individuals who decided to forgo coverage. The premiums they would face could be much higher than those of plans they chose not to purchase. These individuals may be the most apt to prefer to remain uninsured and pay a corresponding penalty, especially if the penalty is much less than the premium.

Of key importance is how "actuarial equivalence" is defined and quantified. The Health Practice Council is supportive of using actuarial equivalence to quantify relative benefit value. For more detail on actuarial equivalence, please refer to the Academy's recently released policy statement on the issue, referenced at the end of this letter.

Section III: Public Health Insurance Option

Establishing a public plan to compete directly with private plans is a potentially viable concept, *as long as* rules for both public and private offerings are the same. Creating a fair and competitive marketplace requires a level playing field between the public and private plans. This includes applying the same issue and rating rules, benefit package requirements, and eligibility criteria for premium subsidies equally to the public and private plans. In addition, provider payments in the public plan should be reasonable. Setting a public plan's provider payment rates at levels lower than those in the private plans could help control the public plan's costs, but it could also result in cost shifting to private plans and reduced access to providers. In addition, premium rates for the public plan must be actuarially sound. To ensure that the public plan premiums are self-supporting, and therefore on an equal footing with private plans, the public plan should include a premium rate stabilization fund. This fund would be in lieu of the surplus requirements placed on private plans.

Section IV: Role of Public Programs

The concept of offering Medicare coverage for individuals between 55 and 64 should be further examined from a cost perspective. Offering such an option to ensure access to coverage addresses a fundamental objective; at the same time, though, affordability is critical (as is employment status). This approach could incentivize employers to encourage early retirement for many of their older workers, shifting healthcare costs to Medicare and the public sector. This expansion of Medicare enrollment could increase cost-shifting to the private market and should be studied further, including detailed cost projections. And, finally, such an expansion of Medicare would further exacerbate the core financial condition of the program.

Section VI: Prevention and Wellness

Promoting prevention and wellness, not only in public programs but also in private offerings, is important. While the proposed rating regulations restrict rate variations for traditional rating characteristics (such as age), and eliminates the use of health status rating, we would encourage expansion of rating variation allowed for demonstrated wellness behaviors and supporting results. For example, non-smokers, with documented consistent appropriate dietary patterns, a regimented exercise program, and normal levels of cholesterol, blood pressure, and body mass index, should have the opportunity for markedly lower premiums than others.

There is inherent value in the implementation of value-based insurance designs (VBID). The goal of value-based insurance design is to structure plan design incentives to optimize patient health through more effective utilization of health care services. In particular, VBID aims to lower the financial barriers to high-value treatments (i.e., those with evidence of clinical benefit). VBID rests on the premise that quality health care can be achieved in a cost-effective manner by encouraging the use of high-value

services and discouraging the use of low-value services (i.e., those with little or no evidence of clinical benefit). Restructuring health insurance plans to provide more incentives for patients to receive better quality and more effective care can help refocus the health care system on value rather than volume, especially if the provider payment system is restructured accordingly, as well.

Thank you, once again, for the opportunity to provide an actuarial perspective regarding these important health care reform efforts. If you have any questions or would like to discuss these comments further, please contact Heather Jerbi, the Academy's senior health policy analyst, at 202.785.7869 or Jerbi@actuary.org.

Sincerely,

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Vice President, Health Practice Council
American Academy of Actuaries

Additional American Academy of Actuaries Policy Statements

- Critical Issues in Health Reform: [Actuarial Equivalence](#) (May 2009)
- Critical Issues in Health Reform: [Market Reform Principles](#) (May 2009)
- Critical Issues in Health Reform: [Individual Mandate](#) (May 2009)
- [Risk Classification in the Voluntary Individual Health Insurance Market](#) (March 2009)
- [Fundamentals of Insurance: Implications for Health Coverage](#) (July 2008)
- [Wading Through Medical Insurance Pools: A Primer](#) (September 2006)
- [Risk Pooling: Is It Really the Key to Health Care Reform?](#) (March 2009)