



AMERICAN ACADEMY *of* ACTUARIES

February 24, 2010

The President of the United States Barack Obama
President of the United States of America
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Re: Bipartisan Meeting on Health Reform

Dear Mr. President,

As you prepare for the bipartisan health reform meeting to be held on February 25 at Blair House, the American Academy of Actuaries'¹ Health Practice Council would like to focus your attention on those critical actuarial aspects of health reform legislation that will need to be addressed in any final comprehensive reform measure that you might reach. These issues support the stated goals of reducing the number of uninsured, increasing the availability and affordability of coverage, and enhancing the focus on quality of care and health spending growth. If these goals are to be achieved, the following three key criteria, critical to a viable health insurance system, must be met:

- **For long-term sustainability, health spending growth must be reduced.** According to the most recent CMS estimates, annual spending growth is projected to average 6.1 percent over the next decade, or 1.7 percentage points higher than the growth in the economy. As a result, health spending will increase from 17.3 percent of GDP in 2009 to 19.3 percent in 2019. Reining in health spending is key to a sustainable health system that is affordable to individuals, employers, and the government.

Decision makers need to find ways to control spending, and provisions to control health care spending should be a cornerstone of any health reform efforts. These should include not only one-time improvements that will lower spending in the short-term, but also provisions that will permanently lower spending growth. Health reform efforts provide an important imperative to begin shifting the health care payment and delivery systems to focus on cost-effective and high quality care, which can potentially reduce long-term spending growth. Policymakers need to ensure that promising approaches and successful demonstration projects are adopted on a broad scale in a timely manner.

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- **For insurance markets to be viable, they must attract a broad cross section of risks.** If an insurance plan attracts only those with higher than average expected health care spending, otherwise known as adverse selection, then premiums will be higher than average reflecting this higher risk. Attracting healthier individuals will ultimately help keep premiums more affordable and stable.

Adverse selection concerns arise not only at issue, but also at renewal. When insurance is voluntary and underwriting is permissible, healthier individuals may be able to purchase a new policy at a lower premium compared to their renewal premium should premiums increase with policy duration. As a result, the average claim costs and premiums of individuals retaining coverage will increase over time. Keeping premium rate increases more affordable and stable requires that plans maintain a broad cross section of risks in addition to controlling health spending growth.

The interactions between different reform elements, such as market reforms, premium subsidies, and coverage mandates and penalties, need to be examined and the consequences of those programmatic interactions need to be fully considered.

Implementing market reforms to prohibit insurers from denying coverage and to restrict how much premiums can vary will result in adverse selection and upward pressure on premiums unless low-risk individuals have incentives to purchase coverage. An individual mandate can bring low-risk individuals into the pool. To be effective, however, the penalties for not complying with the mandate must be meaningful relative to the premium charged. This is especially important when limits on premium variations by age raise premiums for younger individuals.

Premium subsidies can also bring lower-risk individuals into the pool. When premium subsidies are high as a share of premiums and applicable to a majority of the population, an individual mandate is less important. When premium subsidies are more limited, however, an individual mandate and its associated penalties are more important to ensure participation by low-risk individuals.

- **Market competition requires a “level playing field.”** For health insurance markets to be viable, plans competing to enroll the same participants must operate under the same market rules. If one set of plans or insurers operate under rules that are more advantageous to high-risk individuals, then they will migrate to those plans; low-risk individuals will migrate to the plans more advantageous to them. In other words, the plans that have rules more amenable to high-risk individuals will suffer from adverse selection. Over time, the premiums for these plans will increase, leading to more adverse selection and threatening the viability of those plans.

From an actuarial perspective, creating a fair and competitive marketplace requires several elements: (1) all plan options must operate under the same market rules, including those related to issue and rating rules and benefit requirements; (2) premium rates must be actuarially sound; (3) provider payments must be comparable for all plans; and (4) any state requirements must apply equally to all participating plans. All plans competing for the same

enrollees, including any health insurance cooperatives, new public plans, or private plans available across state lines, must conform to these requirements.

The American Academy of Actuaries' Health Practice Council strongly urges that you provide attention during your deliberations at Blair House to these matters and that you view these criteria as requirements for a sustainable health insurance system with increased access to affordable health insurance. We will continue to analyze and comment on new proposals to ensure that health reform legislation is based on actuarial principles. We welcome the opportunity to serve as an ongoing resource to you on health care reform issues through remainder of the legislative process. If you have any questions or would like to discuss these comments further, please contact Heather Jerbi, the Academy's senior health policy analyst (202.785.7869; Jerbi@actuary.org).

Sincerely,

A handwritten signature in black ink, appearing to read 'A.A. Bingham, Jr.', followed by the credentials 'FSA, MAAA, FCA' written in a smaller, less legible hand.

Alfred A. Bingham, Jr., MAAA, FSA, FCA
Vice President, Health Practice Council
American Academy of Actuaries