

Comparing Health Benefit Plans: Demystifying “Actuarial Equivalence”

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Purposes For Comparing Health Plans

- To compare a given health plan with a standard plan design (e.g., does the plan cover at least as much as a specified plan?)
- To compare the employer value provided to the participants (e.g., does the employer meet maintenance of effort requirements?)



What “Actuarial Equivalence” Is

- General term used for applying some measurement to two benefit plans to see if the resulting values are sufficiently close for the specified purpose
- No universal definition—the purpose will determine the specific method applied



What “Actuarial Equivalence” Is Not

- Only rarely will actuarially equivalent plan designs result in the same premiums, because plan premiums will reflect:
 - Expected selection when multiple plan choices are offered
 - Actual negotiated prices
 - Utilization management techniques



Actuarial Equivalent Cost Method: General

- Compare value of spending incurred by insurer for different insurance plan designs
- Using a given population, calculate insurer spending under different plan designs
 - Use historical data adjusted to the time period being analyzed
 - Determine plan cost under base plan design
 - Determine plan cost under alternative plan designs, incorporating utilization changes if appropriate
 - Can adjust alternative plan design until plan cost under standard plan and alternative design are equal
- The specific population used matters



Actuarial Equivalent Cost Method: Key Assumptions

- Typically, provider network differences are not included in actuarial equivalence calculations
- Potential plan design differences
 - Cost sharing levels (including deductibles, coinsurance, copayments, out-of-pocket limits, benefit limits)
 - Services covered
- Depending on the goal of the actuarial equivalence analysis, utilization changes due to plan design differences can be incorporated



Actuarial Equivalent Cost-Sharing Method

- Calculate share of insureds' health spending that is covered by insurance
- Using a given population, calculate share of spending that is covered by insurance under different plan designs
- Should result in the same conclusions as cost method, unless use different assumptions regarding utilization changes or if provider network differences are incorporated differently



Whether/How to Incorporate HSA or Other Health Account Contributions

- Many issues need to be considered
- What is the purpose of the plan comparison?
- Who contributes to the account?
 - Employer-provided contributions
 - Individual contributions
- Who does the account belong to?
 - HSAs belong to the individual
 - HRAs can be forfeited
- Are accounts used or carried over?
- Because of selection issues, plan comparisons should be performed over a broad population rather than just those with HSAs.



Other Issues

- The use of the word “equivalence” can be misleading because it overstates the sense of precision. Actuarial equivalence analysis is inherently an estimation exercise and is therefore somewhat inexact.
- Estimates depend on the data sources, projection methods, and assumptions.
 - A range of assumptions may be appropriate
- Plans that are deemed to be actuarially equivalent during one year, will not necessarily be actuarially equivalent in subsequent years.



Actuarial Equivalence Guidelines Under Medicare Part D

- “Actuarial equivalence” has a specific meaning in the context of MMA and subsequent regulatory guidance, but the meaning is not explicitly defined.
- Actuarial equivalence under PDP and MA-PD plans.
 - Benefits that differ from defined standard benefits are allowed if they are at least actuarially equivalent to defined standard benefits.
- Actuarial equivalence for plan sponsors accepting a retiree drug subsidy.
 - Gross Test is tied to the determination of creditable coverage.
 - Net Test is tied to the determination of a financial subsidy for plan sponsors.



Actuarial Equivalence Language in Legislation

- Because the methods used to perform actuarial equivalence comparisons can vary based on the intended purpose of the comparisons, legislation containing actuarial equivalence provisions should specify the goal(s) it is trying to achieve.
- Specific actuarial equivalence methods and procedures can be set forth in legislation or regulation.



Questions/Comments

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