MAY 2013

Actuarial UPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Fellows Testify Before House Committees

Expertise in ACA, Social Security

WITHIN THE SPACE OF ONE BUSY WEEK, Academy fellows testified before two different congressional committees, one focused on issues surrounding the Affordable Care Act (ACA) and the other on Social Security's solvency.

On May 20, Academy Senior Health Fellow Cori Uccello testified before the U.S. House of Representatives Energy and Commerce Subcommittee on Oversight and Investigations. Uccello was one of four experts invited to give their perspectives on health insurance premiums under the ACA. Other witnesses included Chris Carlson, principal and consulting actuary at Oliver Wyman Group; Daniel T. Durham, executive vice president of policy and regulatory affairs at America's Health Insurance Plans; and Topher Spiro, vice president for health policy at the Center for American Progress.

Uccello's testimony set the framework for understanding how premiums will change when specific issue and rating rules go into effect on Jan. 1. She emphasized throughout her testimony that: "these rules will affect not only overall average premiums, but also the specific premiums that individuals will face. It is important, however, to highlight that premium changes will differ across states and among individuals."

SEE **TESTIMONY,** PAGE 6

Cori Uccello testifies before the U.S. House of Representatives Energy and Commerce Subcommittee on Oversight and Investigations.

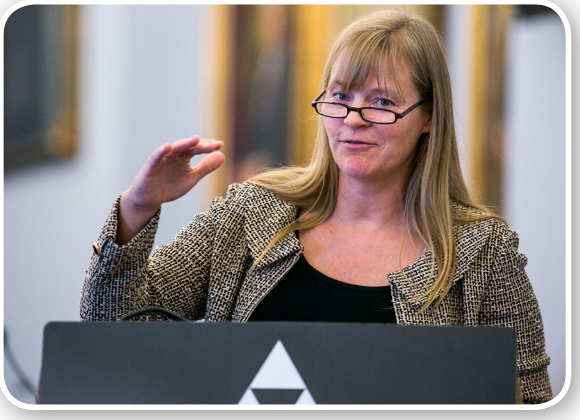
ACA Premium Changes Addressed on Capitol Hill

OF THE MANY QUESTIONS surrounding the Affordable Care Act (ACA) and its implementation, "How will premiums change?" remains at the top of the list. The answer to that question can be complicated, according to Academy experts who briefed congressional staff and reporters May 17 on Capitol Hill.

Audrey Halvorson, chairperson of the Academy's Rate Review Practice Note Work Group, and Cori Uccello, the Academy's senior health fellow, presented information from a related new Academy issue brief, *How Will Premiums Change Under the ACA*? and fielded questions on the complicated matter of premium changes.

Halvorson began by discussing the many factors that actuaries consider as they determine premiums:

SEE **HILL BRIEFING,** PAGE 8



Audrey Halvorson discusses the complicated nature of premiums at the Academy Hill briefing.

JUNE

4 Webinar: Regulatory Issues for Small Insurance Companies

17 Professionalism Webinar: Setting the Ground Rules: Revised ASOP No. 1 and Other Key Information for Actuaries

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

16–17 Casualty Loss Reserve Seminar, Boston

OCTOBER

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, San Diego

NOVEMBER

3–6 CAS Annual Meeting, Minneapolis

4 Academy Annual Meeting and Awards Luncheon, Minneapolis

11–14 2013 Life and Health Qualifications Seminar, Arlington, Va.

15–16 NAAC meeting (AAA), South Beach, Fla.

21–24 NCOIL Annual Meeting, Nashville, Tenn.

DECEMBER

11 Executive Committee Meeting, Washington

15–18 NAIC Fall National Meeting, Washington

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

Comment on the U.S. Qualification Standards

ACTUARIES, including regulators, and the public now have an opportunity to comment on the U.S. Qualification Standards (QS) promulgated by the Academy and applicable to members of all five U.S.-based actuarial organizations. It has been more than five years since actuaries and the public have been asked for their input on the QS—the most recent revisions became effective on Jan. 1, 2008.

The Academy's Committee on Qualifications is soliciting the public for comments or suggestions as part of its review of the QS to see if any new revisions to the standards should be made. The Academy Board of Directors approved the committee's plans to begin this process on May 9. There may or may not be revisions, so actuaries or others who feel strongly about any aspects of the QS should get involved. Since 2008, the committee has received hundreds of questions and comments from individuals, companies, and professional organizations, and will re-consider these comments as it reviews additional input from the public.

Seven questions are of particular interest to the committee. These questions cover issues surrounding:

- Requirements for new and evolving practice areas;
- Continuing education (CE) minimums and maximums;
- Statements of Actuarial Opinion and the Code of Professional Conduct;
- NAIC statements of actuarial opinion and continuing education requirements for those issuing them;
- Carryover requirements for CE credits.

Learn More About ASOP No. 1

Join a panel of experts involved in the drafting and finalizing of new ASOP No. 1, on June 17 for the webinar entitled, Setting the Ground Rules: Revised ASOP No. 1 and Other Key Information for Actuaries. Learn about new information contained in the revised ASOP No. 1, *Introductory Actuarial Standard of Practice*, which becomes effective June 1, 2013. It is a complete revision of the previous Introduction, and includes new, additional content as well as clarification of prior language, and sets the ground rules for all ASOPs.

The Committee on Qualifications will accept comments electronically or through the mail, although electronic submissions are preferred. The committee will post comments in the order in which they were received and will not consider or post anonymous or unsigned submissions. The review process is designed to encourage transparency and dialogue among all interested parties. The committee will not edit, amend, or truncate comments.

The review process is just the first step. Depending on submissions and other factors, the committee may recommend that the QS not be revised. If the committee does decide to change the QS, it will follow the process outlined in Appendix 3 of the QS, which includes an exposure period for comments and Academy board approval.

Comments and suggestions should be submitted no later than July 31.

Know Your Standards: Revised ASOP No. 1 Effective June 1

ACTUARIAL STANDARD OF PRACTICE NO. 1, *Introductory Actuarial Standard of Practice*, a complete revision of the previous introduction, was adopted by the Actuarial Standards Board (ASB) in March 2013 and is effective for all actuarial services performed on or after June 1, 2013. It includes additional content and clarification of prior language, and sets the ground rules for all ASOPs.

Since earlier revisions in 2008, the ASB has received comments that prompted the commit-

CONTINUED ON PAGE 3 ➜

ASOP No. 1, continued from Page 2

tee to look again at what had been the Introductory ASOP, and it is now ASOP No. 1. (*Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*, which previously was numbered as ASOP No. 1 and was changed, effective March 21, 2013, to ASOP No. 2. *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, formerly ASOP No. 2, was repealed on March 14, 2011, and does not apply to actuarial communications issued after that date.)

Michael Abroe, chairperson of the ASB General Committee, and Mary Simmons, a member of the ASB General Committee, were involved with the ASOP No. 1 update process.

"The release of ASOP 1 is appropriate as guidance is updated," Abroe stated. "Each section of the ASOP contains changes and is intended for all actuarial work. Also, Appendices 1 and 2 provide background and responses to comments received."

When asked which comments were most helpful to the work, Abroe said, "Several comments were received with respect to the terms 'must,' 'should,' and 'should consider.' As part of the response process, all ASOPs were reviewed. This was time-consuming, but very informative and beneficial to committee members."

With respect to serving on the ASB General Committee, Simmons said: "I found it to be rewarding to be part of a cross-disciplinary team working on this—getting to see it through from being just an idea to being a full-fledged ASOP."

She sees benefits from the updates for the profession.

"I think that we are all better off if there is no confusion about basic terminology in the ASOPs and no confusion about basic concepts of when the ASOPs apply," she said. "ASOP No. 1 helps to clarify some of these basic concepts when the whole profession is reading the same words and interpreting them."

IN THE NEWS

Senior Health Fellow Cori Uccello wrote "Understanding the Reasons for Premium Changes Under the ACA" for the HealthAffairs blog. Uccello also was quoted in some other articles on ACA and its effects on premium changes:

- "Insurers, Consumers Still Face Uncertainty Over Health Insurance Premium Prices"
- "Actuaries: PPACA May Have Mixed Effects on Costs"
- "Understanding ACA-Related Premium Changes Is Complicated"
- "Health Affairs Blog Post: How the Health Reform Law Will Affect Premiums"
- "What Will PPACA Really Do to Coverage Prices?"

The Academy was mentioned in relation to ACA and its effects in these articles:

- "How Obamacare Will Affect Ranks of Uninsured 'Just Speculation'"
- "Some Nevadans May See Higher Premiums Under Obamacare"
- "Implementing Health Reform: Defining 'Minimum Value' for Employer Coverage"
- "Daniel Kessler: The Coming ObamaCare Shock"
- "Insurers' Networks Will Help Recruit Members on Exchanges"
- "Two States Say 2014 Obamacare Insurance Costs on Low Side"
- "Obama's War on the Young"

An article about the Terrorism Risk Insurance Act in *Insurance Journal* mentions Academy estimates, as does "Tough Talk Begins Over TRIA Renewal."

Martindale.com mentioned the Academy's economic scenario generator in a section discussing insurance company interest rate risk management.

The Academy's work on pensions was mentioned in "Ilinois Pension Reform 101."

Senior Pension Fellow Don Fuerst was quoted in "Saving Social Security: Why New Proposals Are Drawing Fire." Also, Fuerst was interviewed on the MoneyLife radio show about his testimony on Social Security and recommendations to raise the full retirement age.

Academy President Cecil Bykerk was interviewed for the STEM special supplement to the *Washington Post* about why being an actuary is one of the best jobs in America. Additionally, the Academy was cited in several articles discussing the job of actuary and its high ranking on "best jobs" lists: "The Best Job You Never Thought Of" and "The Best Jobs of 2013."

Academy's Annual Member Awards Are Now Open for Nominations

The Jarvis Farley Service Award is given to Academy members whose volunteer efforts on behalf of the Academy have made significant contributions to the advancement of the profession. The Robert J. Myers Public Service Award recognizes actuaries who have made an exceptional contribution to the common good, whether for a single noteworthy public service achievement or a career devoted to public service. And the Award for Outstanding Volunteerism honors Academy volunteers who have made a single, noteworthy contribution above and beyond what is reasonably expected.

American Academy of Actuaries
Election News

2014 Academy Board Elections

Officer Update

In a report delivered at the May 9 meeting of the Academy's Board of Directors, the Academy's Nominating Committee has recommended to the board a slate of officers led by Mary D. Miller as the candidate for Academy president-elect in 2014. In addition to working at the Ohio Department of Insurance, Miller served at the National Association of Insurance Commissioners as vice chairperson of its Casualty Actuarial and Statistical Task Force.

Over the years, Miller has served the public interest through various volunteer positions at the Academy, including as a regular director on the Academy's board, vice president of the Casualty Practice Council, and as co-chairperson of the Financial Soundness and Risk Management Committee. Miller was awarded the 2011 Robert J. Myers Award for Public Service. The Academy Board of Directors will vote on the slate of 2014 officer candidates at its annual meeting, which will be held with its regular fall board meeting on Oct. 1, 2013.

The committee also named Art Panighetti, an actuary at Northwestern Mutual in Milwaukee, to serve a second year as the Academy's treasurer, and for secretary, nominated John Moore from Denver, a consultant with TTerry Consulting and the current vice president for pension issues. The secretary and treasurer positions are elected annually by the board, with a limit of three consecutive one-year terms. Panighetti previously served on the Academy's board as 2010–2011 vice president for life issues.

On the slate to fill what will be three open vice president positions on the board are: Mary Bahna-Nolan, director in the actuarial and insurance management solutions life practice at PricewaterhouseCoopers' Chicago office and chairperson of the Academy's Life Experience Subcommittee for life issues; Eli Greenblum, senior vice president and actuary at the Segal Co. in Washington, and chairperson of the Multiemployer Plans Subcommittee for pension issues; and William Hines, consulting actuary at Milliman in Wakefield, Mass., and chairperson of the Financial Reporting Committee for risk management/financial reporting issues. Vice presidents serve a two-year term on the board.

Regular Director Update

The Nominating Committee will provide a slate to the membership this summer of nominees for the four regular director positions open for election by members in the Academy's third online election. There will be three full three-year terms available for election, and one one-year term to fill the remaining year of the unexpired term that would be created by the election of Mary Bahna-Nolan to be vice president for life issues.

The Nominating Committee has been soliciting regular director candidates from the membership at large since Feb. 1 through notices on the Academy website and in its publications. It is the Academy board's strong preference that those who want to be considered for regular director openings undergo the due diligence provided by the Nominating Committee's regular process. The deadline is June 7 for submitting a nomination directly to the Nominating Committee for these positions. The Nominating Committee intends to announce its slate of regular director candidates to the membership on July 1. At that time, the committee also will provide specific details about how someone may submit a petition to be placed on the ballot for a regular director position. The board has decided that petitions will require signatures of 1 percent of the membership of the Academy and can have no more than 25 percent of those signatures from any one employer. The easiest way to get on the ballot for an Academy regular director position is by submitting a nomination directly to the Nominating Committee. The committee anticipates that a slate of regular director candidates will be announced to the membership Aug. 2, with biographical information and an opportunity to pose questions to candidates, as in the past.

Chaired by 2011 Academy President Mary Frances Miller, the Nominating Committee includes President Cecil Bykerk, Immediate Past President Dave Sandberg, and President-Elect Tom Terry. Other members are Mary Bahna-Nolan, Mark Dunbar, Gary Josephson, Tonya Manning, Marc Oberholtzer, Patricia Rotello, and Shari Westerfield.

Committee Comments on ACA Insurer Fee

ON MAY 17, the Health Practice Financial Reporting Committee submitted comments to the NAIC on its proposed modifications to the Maintenance Agenda Submission Form. The comments discuss the timing differences that certain Affordable Care Act (ACA) assessments have created for carriers, such as when policyholders receive funds before assessments are paid. These differences can create confusing or misleading end-of-year financial statements.

The committee suggests: "Requiring carriers to establish a liability at the end of the data year for amounts already received from policyholders to fund ACA assessments (including the health insurer fee and the temporary reinsurance program collections) would result in the fewest unintended consequences." Concerns about this approach hiding insolvencies could be addressed through changes to the deficiency reserve process, if necessary.

Work Group Looks at Benefit and Payment Parameters Rule

THE RISK SHARING WORK GROUP submitted comments on April 30 to the Department of Health and Human Services on the interim final rule implementing amendments to the Notice of Benefit and Payment Parameters final rule. The work group commented on several aspects of the rules:

- Calculation of allowable costs for the risk corridors program;
- Cost sharing reduction (CSR) reimbursement simplified methodology;
- Risk adjustment payment methodology—use of total premium rather than premium net of certain expense components;
- Interim estimates;
- Risk adjustment and reinsurance data requirements.

Draft Rate Review Practice Note Released

THE RATE REVIEW PRACTICE NOTE WORK GROUP issued on April 26 the exposure draft, *Addendum to Actuarial Practices Relating to Preparing, Reviewing, and Commenting on Rate Filings Prepared in Accordance with the Affordable Care Act*. An addendum to the October 2012 practice note of the same name, the exposure draft covers modifications to the regulations implementing the ACA provision.

For actuaries, these requirements are used for filing with states and HHS when applying for qualified health plan (QHP) status and when a plan or product has an increase, with products, plans, and rating requirements beginning in 2014.

The new rate review and disclosure requirements fall under Parts I, II, and III:

Part I—the Unified Rate Review Template (URRT); Worksheet 1 with aggregate information across the entire risk pool; and Worksheet 2 with information by product and plan within products;

Part II—a summary description of the rate changes filed whenever a rate increase is greater than the threshold for rate review;

Part III—the actuarial memorandum that describes and supports the development of information provided in Part I.

Comments on the addendum are due June 3.

MLR Work Group Weighs in on Medicare Advantage, Part D

THE MEDICAL LOSS RATIO (MLR) Work Group on April 25 submitted comments to the Centers for Medicare & Medicaid Services on the proposed rule implementing MLR requirements for Medicare Advantage and Medicare prescription drug (Part D) programs. The work group focused on key areas that could benefit from further clarification or work group experience with commercial MLR regulation. These include:

- Timing and restatements of MLR reporting;
- Credibility adjustment;
- Issues addressed in CCIIO sub-regulatory guidance;
- Treatment of Part D reinsurance and low-income cost-sharing;
- 100 percent indemnity reinsurance.

ABCD Releases Draft Procedure Revisions

THE ACTUARIAL BOARD FOR COUNSELING AND DISCIPLINE (ABCD) has released an exposure draft of proposed revisions to the ABCD Rules of Procedure. The draft booklet contains several proposed changes:

1. Minor changes to the ABCD process, reflecting its experience since 2005.
2. Language that recognizes electronic forms of communication as valid forms of communication.
3. Deleted references to Washington, D.C., as the location of the ABCD office, although it is the current location. The change eliminates the need to change the Rules of Procedure if any move occurs in the future. The current address of the ABCD is on the back cover of these revised Rules of Procedure.
4. Edits for grammar and internal consistency.

The ABCD prefers electronic submissions, but accepts comments delivered electronically or by mail. The deadline to submit your comments to the ABCD is June 30, 2013. Find out more at the ABCD website.

Testimony, continued from Page 1

Uccello described several complicated factors that determine how individual premiums will change in January, including the:

- Success of the individual mandate requirement and premium subsidies to attract low-cost enrollees to risk pools;
- New benefit requirements under ACA that increase plan generosity and reduce out-of-pocket costs;
- Choices employers make in their coverage and the demographics and health status of employees who move to the individual market;
- Current state issue and rating rules and their similarity or difference with those beginning in 2014;
- Demographic characteristics and health status (and income when determining premiums net of subsidies) of individuals.

Several legislators had follow-up questions for the witnesses. Chairman Tim Murphy (R-Pa.) asked Uccello about the individual mandate and different projections based on its success in attracting low-cost enrollees, querying whether a lot of these estimates were based on the assumption that many people would sign up. "Do they also take into account that if people see rates go very high for themselves, regardless of subsidies, they may not sign up and then that will affect rates as well?" Murphy asked.

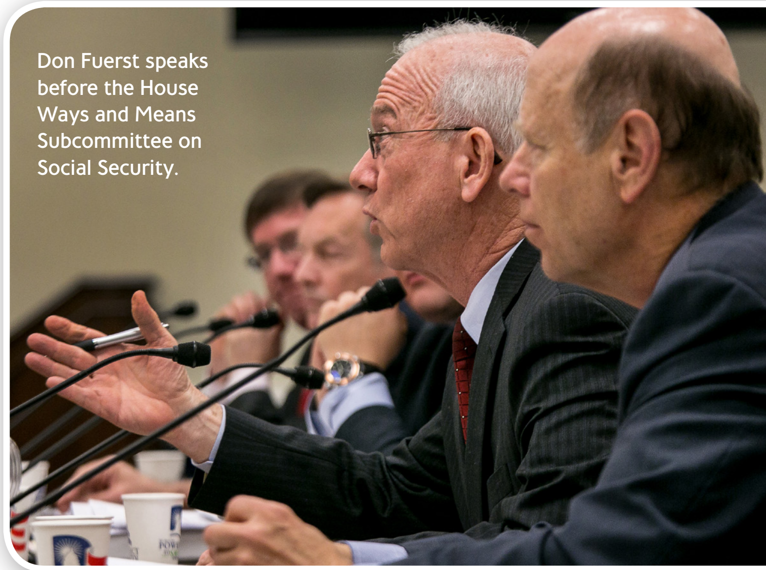
"Each of those projections makes assumptions regarding participation in the market," Uccello told the committee. "Key to the viability of this program is attracting the lower-cost people into the pool to help offset the higher costs of other people."

When other members had similar questions on projects and costs, Uccello reiterated the importance of the individual mandate and premium subsidies but also noted that factors such as reinsurance programs and catastrophic plans for adults up to age 30 can help lower premiums.

"It depends on how effective those provisions are at mitigating the other upward pressures," she said.

It was the turn of Academy Senior Pension Fellow Donald Fuerst to testify on May 23, at a hearing of the House Ways and Means Subcommittee on Social Security. Witnesses discussed various bipartisan proposals for addressing Social Security's continuing solvency and the effects new approaches would have on beneficiaries, workers, and the economy.

In addition to Fuerst, witnesses included Jason Fichtner, senior research fellow at the Mercatus Center; G. William Hoagland, senior vice president at the Bipartisan Policy Center; Ed Lorenzen, executive director of the Moment of Truth Project at the Committee for a



Don Fuerst speaks before the House Ways and Means Subcommittee on Social Security.

Responsible Federal Budget; Leticia Miranda, senior policy adviser of economic security policy at the National Council of La Raza; and C. Eugene Steuerle, an institute fellow at the Urban Institute.

"A longer life creates numerous benefits for individuals, but brings with it an expensive challenge: how to provide financial security for our seniors," Fuerst told the committee.

He noted that a later full retirement age could help mitigate Social Security's long-range financial problems and that addressing Social Security's solvency now would permit more modest changes to be phased in gradually.

"Raising the full retirement age addresses Social Security's long-range financial problems while responding to changing demographic factors," Fuerst said. "In particular, raising the full retirement age will compensate for increases in longevity, preserve the current benefit formula, increase labor force participation, and preserve disability benefits."

Policy options that target challenges associated with a later retirement age, such as disparate longevity among lower wage workers and job opportunities for older workers, could be addressed through other programs.

Video recordings of both hearings are available at http://www.actuary.org/content/newsroom.

Life News

LPC Analyzes PBR Implementation

THE ACADEMY SUBMITTED TWO LETTERS to the NAIC on May 6. The Life Practice Council sent comments to the Principle-Based Reserving (PBR) Implementation (EX) Task Force on its PBR Draft Implementation Plan. The letter underscored the importance of new language added to Section 1 relating to PBR methodology and the willingness of the Life Practice Council to work with NAIC to develop appropriate procedures. The PBR Strategy Subgroup submitted comments on the draft NAIC legislative brief on PBR.

Casualty News

CPC Comments on Mortgage Insurance Document

THE CASUALTY PRACTICE COUNCIL (CPC) commented on the Bank for International Settlements' document on the market structure, underwriting cycle, and policy implications of mortgage insurance. The CPC organized its response into two general categories: underwriting recommendations (including prudent origination and underwriting of mortgages and mortgage insurance) and capital, safety, and soundness recommendations (including capitalization and prudent accounting provisions).

LIFE BRIEFS

- **Aaron Weatherman**, an actuary with Allstate Insurance Co. in Northbrook, Ill., has joined the Life Financial Reporting Committee.
- **Randy Wright**, an actuary with Transamerica in St. Petersburg, Fla., has joined the Nonforfeiture Modernization Work Group.
- **Mike Harrington**, a consulting actuary with Actuarial Resources Corp. in Overland Park, Kan., has joined the Annuity Reserves Work Group.
- **Link Richardson**, vice president and actuary for American General Life Companies in Houston, has been appointed chairperson for the C3 Life & Annuities Work Group. Also, joining the work group are **Dale Uthoff**, vice president with Aviva USA in West Des Moines, Iowa; **Zengdi Zhuang**, assistant vice president and actuary with the Hartford Life Insurance Companies in Simsbury, Conn.; **Nancy Bennett**, senior life fellow for the American Academy of Actuaries in Washington, D.C.; **Patricia Matson**, vice president of Massachusetts Mutual Life Insurance Co. in Springfield, Mass.; and **Jeff Johnson**, assistant vice president and actuary for John Hancock USA in Boston.

PENSION BRIEFS

- **Derek Guyton**, partner at Mercer in Chicago, has joined the Joint Committee on Retiree Health.
- **David Gustafson**, chief policy actuary for the Pension Benefit Guaranty Corp. in Washington, D.C.; and **Jeff Litwin**, senior vice president for Sibson Consulting in New York, have joined the Lifetime Income Risk Joint Task Force.
- **David Kausch**, chief actuary with Gabriel Roeder Smith and Co. in Southfield, Mich., has joined the Public Plans Subcommittee.
- **Jason Russell**, a consulting actuary with Horizon Actuarial Services in Silver Spring, Md., has joined the Multiemployer Plans Subcommittee.
- **Karen Glenn**, an actuary with the Social Security Administration in Baltimore, has joined the Social Security Committee.
- **John Stokesbury**, director for Deloitte Consulting LLP in Parsippany, N.J., has been appointed chairperson for the Pension Accounting Committee, and has joined the Pension Practice Council.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Matthew Covalle**, manager of advanced modeling with PolySystems Inc. in Chicago, has joined the ORSA Subgroup.

Hill Briefing, continued from Page 1

- Risk pools (who is covered);
- Projected medical costs (including health care use and prices);
- Other premium components (for example, administrative costs, taxes, and profit);
- Laws and regulations that affect these factors.

Uccello then went on to explore the various provisions in the ACA that affect premium components, and how premiums could change as a result. For instance, the guaranteed issue, individual mandate, and premium subsidies will affect the risk pool and therefore average premiums. But determining the overall effect is complicated because these factors can move premiums in the opposite direction.

"We could see an influx of higher-cost people due to the guaranteed issue provision," Uccello said. "On the other hand, depending on the effectiveness of the individual mandate and premium subsidies, lower-cost people could be drawn to the pool."

Beginning in 2014, insurers in most states will have less flexibility regarding the extent to which they can charge different premiums to different individuals, based on age. And charging different rates by health status will be prohibited.

Uccello and Halvorson stressed the importance of moving beyond questions about the changes in average premiums. Ultimately, premium changes will vary across states, depending on how their current rules compare with those taking effect in 2014, and across individuals, depending on their demographic and health status characteristics.

States that already have restrictions and requirements similar to those in the ACA could see their premiums decrease, as the individual mandate and premium subsidies attract low-cost people to the insurance market. Less restrictive states could see their premiums go up. With only a few states posting new premiums, it is too early to get a definitive handle on overall trends.

At the individual level, relative premiums will shift from the less healthy to the healthy, because of prohibitions on health status ratings. Relative premiums will also shift from older adults to younger ones because of rules limiting premiums to a 3-to-1 age ratio. The prohibition on gender rating will alter who pays more, depending on age.

Although it can be relatively straightforward to understand the effects of these various factors in isolation, Uccello noted the need to consider all of the factors together to assess the impact on any particular person or subgroup.

Other factors affecting premiums include new plan generosity requirements that could increase premiums but reduce out-of-pocket costs. In addition, employer decisions on whether to continue offering coverage and the characteristics of any workers who switch to the individual market will affect premiums.

Projecting premiums gets complicated in other ways as well, including the usual uncertainties that accompany any brand-new endeavor such as the ACA.

"We are at the beginning of the process," Halvorson said. "Preliminary rates in 2014 can be different than what will become final in later years. And, the rates will differ across states. Actuaries are incorporating all of the factors and making their best judgments."

Uncertainty will decrease over time as information regarding plan experience under the changing market dynamics becomes available.

Both Halvorson and Uccello responded to questions regarding insurer incentives to either under- or overstate premiums.

"The Academy has emphasized the need for premiums to be adequate to cover claims and expenses," Uccello said. "They should not be set too high or set too low."

Halvorson added that the temporary risk corridor program and the medical loss ratio (MLR) requirements reduce incentives for plans to overstate premiums.

When asked specifically about the ACA provisions that could put downward pressure on premiums, Uccello listed premium subsidies, the individual mandate, catastrophic plans available to young adults, and the temporary reinsurance program. In response to a question regarding plan generosity, she noted the need to consider how the ACA affects not just premium costs, but also total out-of-pocket costs, including cost sharing.

As the briefing wrapped up, Uccello and Halvorson reiterated the key factors that will underlie the ACA's effects on premiums: the success of the individual mandate and subsidies in attracting young and healthy people to the risk pool; plan generosity requirements; employer decisions to offer coverage and how they influence who joins the exchanges and who remains in employer-sponsored plans; state variations in market rules pre- and post-ACA restrictions and requirements; and individual demographic characteristics and health status.

Actuarial Update

COMMUNICATIONS REVIEW COMMITTEE
Stephen Rosen, Chairperson
Jenna Farriss
Paul Fleischacker
John Gleba
Ken Hohman
Gareth Kennedy
Barbara Lautzenheiser
Tonya Manning
Bob Meilander
Geoffrey Sandler
Debbie Schwab
Chet Szczepanski

EDITOR
Julia Goodwin
editor@actuary.org

DESIGN AND PRODUCTION
BonoTom Studio Inc.

DESIGNER
Paul Philpott

PUBLICATIONS AND MARKETING PRODUCTION MANAGER
Cindy Johns

American Academy of Actuaries

PRESIDENT
Cecil Bykerk

PRESIDENT-ELECT
Tom Terry

SECRETARY
Stephen Rosen

TREASURER
Art Panighetti

VICE PRESIDENTS
Mike Angelina
Maryellen Coggins
John Moore
Cande Olsen
David Shea
Karen Terry

EXECUTIVE DIRECTOR
Mary Downs

DIRECTOR OF COMMUNICATIONS
Charity Sack

ASSISTANT DIRECTOR FOR PUBLICATIONS
Linda Mallon

EXECUTIVE OFFICE
The American Academy of Actuaries
1850 M Street NW
Suite 300
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org