Health Equity from an Actuarial Perspective
Health Plan Pricing

Rebecca Sheppard, MAAA, FSA, MHS
Member, Health Equity Committee

Cori Uccello, MAAA, FSA, FCA, MPP
Senior Health Fellow

Presentation to AHIP
September 12, 2023
About the Academy

The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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 more information, please visit:

www.actuary.org
Why actuaries care about health equity

• Key health decision-makers rely on actuaries for advice
• Unique skillset to quantify costs of health disparities to the health care system
• Commitment to identifying and addressing issues on behalf of the public interest
• Desire to explore and understand whether any actuarial practices inadvertently lead to or exacerbate health disparities and inefficient use of health care dollars
• Potential to use actuarial principles to reduce health disparities and improve health outcomes
American Academy of Actuaries
Health Equity Committee

• Created to contribute actuarial perspective to health equity

• Focus:
  ➢ Evaluate actuarial practices in the context of health equity
  ➢ Educate actuaries and other stakeholders on health equity issues
  ➢ Apply an equity lens when considering the impact of current or proposed health care policies
Definitions used by the Health Equity Committee

Health Equity: Everyone has a fair and just opportunity to be as healthy as possible. This requires removing obstacles to health such as poverty, discrimination, and their consequences, including powerlessness and lack of access to good jobs with fair pay, quality education and housing, safe environments, and health care.

Health Disparities: Differences in health or its key determinants that adversely affect marginalized or excluded groups. Disparities in health and in the key determinants of health are the metric for assessing progress toward health equity.

Social Determinants of Health: Nonmedical factors such as employment, income, housing, transportation, child care, education, discrimination, and the quality of the places where people live, work, learn, and play, which influence health.

Initial phase—Discussion brief developed a list of questions and topics to explore further

- Comprehensive list served as starting point for further analysis
- Four areas of focus:
  - Health plan pricing
  - Health plan benefit design
  - Provider contracting and network development
  - Population health management
Subsequent papers explored issues in more detail.
Health equity and health plan pricing

In what ways might the methods of pricing plan benefits, developing premiums, and paying plans affect health disparities related to access to coverage, coverage affordability, and health outcomes?
Experience data and trending data forward

• Health actuaries analyze historical claims experience and apply assumptions about cost changes over time to develop premium rates
• Do these data and methods embed any disparities into premiums?
  ➢ Proactively identifying any biases embedded in the data can help determine whether results and conclusions are compromised
  ➢ Data to identify disparities need to be collected
Health care spending can understate health care needs for marginalized populations

Social Risks
- Income
- Education
- Race/ethnicity
- Housing/environment
- ...

Genetics

Health behaviors

Health Care Needs
- Health status
- Health conditions

Medical care

Environmental Factors

Health Care Spending
- Health care utilization
- Price

Barriers to care
- Transportation
- Financial
- Time
- Provider access
What are the implications of understating health care needs in premium development?

• Are plan incentives to enroll underserved populations affected?
• If premiums don’t fully reflect health care needs, are there incentives to ignore those needs?
• Are trend rates developed separately for different enrollee groups, and, if so, how does this affect health disparities?
Methods of pricing new or additional benefits

- Challenges to pricing new health benefits:
  - Selection of external data source, especially to estimate spending for services with low utilization
  - Actuarial models that isolate the cost of the new benefit may ignore related reductions in other spending
  - One-year health insurance term may discourage benefits if offsetting benefits would not be realized until future years

- Conservativeness in methods and assumptions may discourage adding benefits that aim to address health disparities
Geographic and other rating factors

• Allowable rating factors reflect societal view of what degree of rate variation and cross subsidization is acceptable

• Unintended consequences can result
  
  ➢ If certain marginalized populations are clustered within cohorts used to develop rating factors, disadvantaged groups could be rated differently from other groups
Illustrative rating example: geographic rating areas

Rating Region 1
Surcharge 1.05

Rating Region 2
Discount 0.95

Rating Region 3
Surcharge 1.10

Rating Region 4
Discount 0.975
Illustrative rating example: geographic rating areas (cont.)

Expensive Health System
i.e., Academic Medical Center

Rating Region 1
Surcharge 1.05

Less Expensive Hospital
i.e., Community Hospital
Risk pooling and cross-subsidization

• The more broadly a risk pool is defined, the greater the potential cross-subsidy.

• An intention of the ACA single risk pool is to make insurance more available and affordable for those with higher health care needs.

• Although subsidization across various health statuses is expected, unintended consequences can occur when disadvantaged populations underutilize services or use lower-cost providers

  ➢ Underserved populations, along with the healthy, may be subsidizing those who are non-healthy, have easy access to health care, or use higher-cost providers
Illustrative rating example: risk pooling and cross-subsidization

- **Healthy**
  - Use lower-cost providers
  - Sick but face barriers to care
  - Premium
  - Low-cost claimants

- **Sick**
  - Use higher-cost providers
  - No significant barriers to care
  - Premium
  - High-cost claimants
  - Claims
  - Cross-subsidy
Risk adjustment and health equity

• Goals of risk-adjusting payments to plans:
  ➢ To appropriately compensate plans for the risks they bear, especially when they are limited by issue and rating rules
  ➢ To reduce insurer incentives to risk select

• Evolution of risk adjustment models
Should risk adjustment incorporate social needs?

• Concern that risk adjustment doesn’t adequately reflect health care needs of underserved or under-resourced populations

• Lack of adequate payments could reduce insurer incentives to enroll these populations and meet their health care needs

• BUT, risk adjustment is based on health care spending, which may not reflect health care needs
Potential methods to incorporate social needs into risk adjustment

- Direct inclusion of social risk factors into risk adjustment model
  - Not appropriate when coefficients are negative (e.g., when spending understates needs)
  - Even if positive, might not be sufficient to address true needs
- Constrained regression
  - Can reduce plan under-compensation for specified groups
- Pre-processing data transformation
  - Adjust the spending data to better reflect health care needs
- Increased payments outside of the risk adjustment model
- Are requirements needed to ensure extra payments are used to better address unmet needs?
On the horizon

- October 10: Presentation on health equity and provider contracting/network development
- Ongoing work to focus on strategies to incorporate more equity-enhancing features in health insurance benefit design
  - Series of issue briefs
  - Symposium on November 15
Additional Resources
American Academy of Actuaries Health Equity Committee

• Health Equity from an Actuarial Perspective: Questions to Explore
  https://www.actuary.org/sites/default/files/2021-03/Health_Equity_Discussion_Brief_3.21.pdf

• Health Equity from an Actuarial Perspective: Health Plan Pricing

• Health Risk Assessment and Risk Adjustment in the Context of Health Equity

• Health Benefit Design Innovations for Advancing Health Equity: Removing the Barriers to Successful Implementation: Issue Brief 1—Overview

• Additional issue briefs and other materials available at:
  https://www.actuary.org/committees/dynamic/HEALTH_EQUITY
Additional Resources
External resources on incorporating social risks into risk adjustment


Questions?
Thank You

For more information contact:

Matthew Williams, JD, MA
Senior Policy Analyst, Health
American Academy of Actuaries
Email: williams@actuary.org