



# AMERICAN ACADEMY of ACTUARIES

---

## Health Practice Council Cycle Report

Vice President: John Schubert

Staff Liaisons: Holly Kwiatkowski (Federal) and Geralyn Trujillo (State)

December 2006

### HEALTH PRACTICE COUNCIL HIGHLIGHTS

An October 2006 Academy fact sheet, developed by senior health fellow Cori Uccello, highlights findings from an SOA study that provides insights into the costs among nonsmokers exposed to secondhand smoke.

In December, several comment letters and progress reports were made to the National Association of Insurance Commissioners from the State Health Committee and its subsidiaries.

### SENIOR HEALTH FELLOW HIGHLIGHTS

Cori spoke with Sarah Rubenstein of the *Wall Street Journal* regarding how prescription drug data can be used in the health insurance underwriting process.

Cori is working with Tony Moulton, the Director of CDC's Health Public Law Program, who is interested in partnering with the Academy on CDC chronic disease prevention efforts.

Cori fielded questions from Jean Hearn and April Grady of the Congressional Research Service (CRS) regarding risk pooling; from Charlie Jeszeck of GAO regarding how rising health costs are impacting DB health plans; and from Amy Button of the New York State Senate Minority Policy Unit regarding the potential for government-provided reinsurance programs to reduce premium costs.

## STRATEGIC DIRECTIONS

### **I. Educate public policymakers and the general public on aspects of issues relating to financial security and actuarial soundness to promote the public good.**

**Strategy:** The HPC develops public statements on issues related to health care, health care financing, and health insurance to educate policymakers and the general public.

*Consumer Driven Health Plans.* The CDHP Work Group is developing an issue brief, expected to be published early in 2007, that looks at frequently asked questions on Health Savings Accounts. A separate paper examining studies on emerging CDHP experience is due out later in 2007.

*Extreme Events.* The HPC Extreme Events Work Group is developing a paper, due out early in 2007, that explores risks associated with extreme events like hurricanes, earthquakes, and pandemics.

*Health Care Quality.* The Health Care Quality Work Group is developing an issue brief, also due out early in 2007, that provides an actuarial perspective on the economics of health care quality.

*Health Risk-Based Capitol.* The Stop-Loss RBC Work Group continues to work on an update to a prior NAIC report. A progress report was submitted to the Capital Adequacy (E) Task Force for the December NAIC meeting. A preliminary report is expected in March 2007, with a final report and full presentation scheduled for the June 2007 national meeting.

*Individual Medical Market.* The Individual Medical Market Task Force is developing two papers that will be published in 2007. The papers explore affordability issues and barriers in the individual market.

*Medicaid.* The Medicaid Work Group continues to work with graduate students at Ball State University in the collection and preliminary analysis of Medicaid data for their project that entails analyzing and projecting Medicaid enrollment and costs. The project may also incorporate recommendations for a possible program. A preliminary draft of the report is expected in mid-2007. A web page has been created by the students, enabling the group to view the current data.

*Medicare.* A new work group has been formed to examine lessons learned from experience with the new Medicare prescription drug benefit.

*Medicare Supplement.* The Medicare Supplement Work Group continues to monitor the discussions of the NAIC's Medigap Modernization Subgroup, which is developing new MedSupp plans in cooperation with The Centers for Medicare and Medicaid Services (CMS). A comment letter will be submitted to the NAIC at the December national meeting reiterating concerns regarding transitional issues as well as offering assistance.

*Small Group Market.* The Small Group Market Task Force recently published the issue brief *Wading Through Medical Insurance Pools: A Primer*, which highlights issues fundamental to pooling in health insurance.

*Uninsured.* The Uninsured Work Group has two new subgroups – one is examining the fundamental principles of insurance and whether different types of health insurance programs follow these principles, and another group is looking at the actuarial aspects of health care costs. Both papers will be published next year.

**Outlook:** The HPC will continue to educate policymakers and the public on the actuarial aspects of issues related to health care, health care financing, and health insurance, and we will look to expand into new areas of health care public policy where an actuarial perspective would be beneficial.

## **II. Advocate for public policy outcomes that are actuarially sound.**

**Strategy:** The HPC reaches out to policymakers and state regulators to promote actuarially sound public policy outcomes.

*Medicare Financing.* The Medicare Steering Committee published the revised issue brief *Medicare's Financial Condition: Beyond Actuarial Balance*, updated to reflect information from the 2006 Medicare Trustees' Report. The paper highlights the committee's view that Medicare faces serious long-term financing problems that should be addressed as soon as possible. A Capitol Hill briefing on the financial conditions of the Medicare and Social Security programs was held earlier this year.

The Medicare Finance Work Group is developing a paper, due out in January 2007, that provides an overview of how the Medicare program is funded and its current financial status before presenting potential options to address the Medicare's financial problems. The paper stresses the need for reforms to bring the program into balance.

*Medicare Part D.* The Medicare Part D Subgroup submitted a report and proposed RBC risk factors to the NAIC in response to the Medicare Part D program and they will regroup in early 2007 to revisit and make any necessary alterations to the risk factors and instructional changes.

*Small Group Market.* The Small Group Market Task Force, with assistance from the Individual Market Task Force, closely monitored action on legislation introduced by Sen. Enzi (R-WY) that would have allowed the creation of Small Business Health Plans (S. 1955), which are similar to fully-insured AHPs. In May, they finalized a comment letter to Senate leaders on S. 1955 that addressed improvements in the legislation as well as potential areas of concern with respect to the small group market.

**Outlook:** The HPC will continue to reach out to policymakers and state regulators to promote actuarially sound public policy outcomes, where appropriate. One area where the HPC is likely to focus its efforts to promote actuarially sound public policy in 2007 is related to Medicare financing.

|  |
|--|
| <p><b>III. Advocate on behalf of the actuarial profession in order to promote and protect the profession and to increase the influence of the Academy and the actuarial profession in the creation of public policy that affects the profession.</b></p> |
|--|

**Strategy:** The HPC works on behalf of the profession to promote, protect, and increase the influence of the Academy through meetings with and briefings for external audiences, and the development of public statements that highlight an actuarial perspective on health care, health care financing, and health insurance issues. Academy involvement with organizations such as GASB, FASB, and the NAIC, and the development of practice notes are aimed at increasing the Academy's influence on issues that would affect the profession or where the profession has a stake.

*Meetings with External Audiences.* Academy staff regularly attend and represent the Academy at conferences hosted by key external organizations such as NAIC, NCOIL, CMS, AHIP, AcademyHealth, etc. Separate meetings are also scheduled as necessary with these organizations and with governmental staff. Staff also attends SOA and CCA meetings. Academy staff maintains contact with these key audiences on a regular basis. Recent interactions with external audiences have included discussion on medical reinsurance with the Maryland State Insurance Department, discussions on the retiree drug subsidy system with CMS, and discussions with congressional staff on HSAs, AHPs, and other health issues.

*Capitol Hill Visits.* On March 9 and 10, the Health Practice Council and the Federal Health Committee met with 30 congressional offices, federal agencies, and the Administration during their annual trek to Washington, DC. Sixteen members of the Academy participated in this 2-day event where the discussions focused on various other health care issues ranging from Medicare Part D to health insurance market reforms.

*Public Statements.* The HPC promotes the value of an actuarial perspective through their issue briefs and monographs on a variety of health care issues.

*Capitol Hill Briefings.* The HPC holds briefings that feature actuaries as experts on various health care issues for congressional staff and health policy experts on a regular basis. Recent briefings have addressed issues including Medicare financing and health insurance risk pools. Future briefings are expected on these and other health care topics.

*GASB and FASB.* The Joint Retiree Health Insurance Committee continues to monitor pertinent regulatory and legislative issues. In April, the committee submitted a letter to GASB on the proposed GASB technical bulletin, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D*. They are also involved in issues related to GASB 45. Additionally, the committee sent a letter earlier this year to FASB regarding a FASB-approved project that will likely result in the requirement that pensions as well as OPEBs be recognized on the balance sheet.

*NAIC.* The Health Practice Financial Reporting Committee (HPFRC) continues to monitor NAIC projects in the health area as well as other practice areas. They also continue to promote the profession through their work with the NAIC. Academy staff and members regularly attend NAIC national meetings as well as other meetings held throughout the year.

*Practice notes.* Practice notes have been published on several issues this year including actuarial equivalence for employers taking the retiree drug subsidy, group long-term disability insurance, Medicare Supplement reserves and liability, and statutory reserves for individual disability insurance. Other practice notes are in development including one on actuarial equivalence of PDPs and MA-PDPs, disease management, large group medical, and general considerations.

*White Paper.* The Premium Deficiency Reserves (PDR) Work Group continues to work on a white paper aimed at practicing actuaries, companies, and regulators. A draft is expected to be available this year, and a final document is expected before the end of the first quarter in 2007.

**Outlook:** The HPC will continue to work on behalf of the profession and will look to expand their involvement, where appropriate, with organizations such as GASB, FASB, and the NAIC, and we will continue to develop practice notes in 2007 to promote and protect actuarial practice in the health practice area.

|  |
|--|
| <b>IV. Advocate on behalf of the actuarial profession for sound public policy outcomes to increase the recognition, appreciation, and use of actuaries in new areas of practice.</b> |
|--|

**Strategy:** The HPC is looking to expand into new areas or to explore new issues where an actuarial perspective would be beneficial.

*Principles-Based Approach.* The LTC Principles-Based Work Group continues to focus on the long-term care implications of a principles-based approach to reserving and capital. The work group provided an overview to the Accident and Health Working Group in June; a progress report will be submitted to the NAIC in December; and a formal presentation is expected during the March 2007 NAIC meeting. Additionally, the work group will be reaching out to the SOA on the issue of an industry morbidity table.

*International.* The Health Practice International Task Force continues to monitor and participate in actuarial health issues that are discussed on the international level. The task force will be holding

quarterly conference calls. It has been suggested that a small group be formed in order to reach out to non-actuarial international organizations, such as the World Bank and the World Health Organization. Additionally, the task force is reaching out to the IAA Health Section.

**Outlook:** The HPC will continue to look to expand into new areas and to explore new issues where an actuarial perspective would be beneficial. In particular, we will be increasing involvement in the international arena and on issues related to the PBR approach.

### **Senior Health Fellow Activities**

The senior health fellow, Cori Uccello, implements the public policy strategic directions through her interactions with congressional aides, other governmental officials, external audiences, health care policy experts, and journalists. She is also involved with numerous HPC activities.

#### *Government Outreach.*

- Spoke with Tony Moulton, the Director of CDC's Health Public Law Program, who is interested in working with the Academy regarding CDC chronic disease prevention efforts.
- Spoke with Jean Hearn and April Grady of the Congressional Research Service (CRS) who had questions regarding risk pooling, and with Charlie Jeszeck of GAO regarding how rising health costs are impacting DB health plans.
- Spoke with Amy Button of the New York State Senate Minority Policy Unit regarding the potential for government-provided reinsurance programs to reduce premium costs.

#### *Media Outreach.*

- Spoke with Sarah Rubenstein of the *Wall Street Journal* regarding how prescription drug data can be used in the health insurance underwriting process.
- Developed the Academy fact sheet, "Costs Associated with Secondhand Smoke," which was released in October. The fact sheet and press release generated over 30 media placements.

#### *Conferences Attended.*

- Conference of Consulting Actuaries annual meeting in Rancho Mirage.

#### *Other Academy Activities.*

- Participated in conference calls of subgroups of the Uninsured Work Group, the Tax Reform Work Group, the Consumer-Driven Health Plans Work Group, and the Medicare Outreach Work Group.
- Drafted memo outlining health-related tax reform options.
- Reviewed and provided comments on a draft HSA issue brief.
- Participated in the Academy leadership meeting and the HPC's fall planning session.

### **People Issues**

- John Schubert is the new Vice President of the Practice Council.
- Mike Abroe is again leading the State Health Committee. Warren Jones will serve as Vice Chair.
- David Shea is the new chairman of the Federal Health Committee. Patrick Collins will serve as Vice Chairperson.
- Leigh Wachenheim is the new chairperson of the Medicaid Work Group, taking over for Grady Catterall.
- Darrell Knapp is again leading the Health Practice Financial Reporting Committee, taking over for Rowen Bell.
- Lynette Trygstad is leading the new Part D Lessons Learned Work Group. Other members include: John Bertko, Jan Carstens, Troy Filipek, Michele Hooper, Beth Lieberman, Donna Novak, Anna Rappaport, Paul Schultz, Gordon Trapnell, Cori Uccello, and Harry Sutton (Interested Party).
- Sheeren Sayre has recently joined the LTC Principles-based Work Group as a member. Steve

Clayburn has also joined the Work Group as an interested party.

- Bart Frye and Tom Whitcomb have joined the Medicaid Work Group as interested parties. Steve Sherman has also joined the Work Group as a member.
- Shiraz Jetha has joined the Health Practice International Task Force as an interested party.
- Ken Clark has joined the Medicare Supplement Work Group as a member.

## Publications

**The following Health Practice Council public statements have been issued in the past year:**

| Publication  | Audience   | Publication Date |
|--|--|------------------|
| Fact sheet on the costs of secondhand smoke  | Congress, public policy orgs., general public, media, etc. | October 2006     |
| Issue brief on medical insurance pools   | Congress, etc.   | September 2006   |
| Comment letter to FASB in response to ITC on Bifurcation   | FASB, actuaries, etc.                                      | August 2006      |
| Comment letter to NAIC's Medigap Modernization Subgroup  | NAIC, actuaries  | August 2006      |
| Practice Note - Group Long-Term Disability Income Insurance  | Actuaries  | August 2006      |
| Comment letter to Citizens' Health Care Working Group  | Members of the Citizens' Health Care Working Group         | August 24, 2006  |
| Comment letter on exposed revisions to the <i>Qualifications Standards</i>   | Qualifications Committee/Actuaries                         | July 5, 2006     |
| Presentation to the NAIC A&HWG on the LTC Principles-based Work Group project  | NAIC, actuaries  | June 9, 2006     |
| Letter to FASB regarding proposed changes in financial accounting standards for OPEBs                                    | FASB   | May 31, 2006     |
| Issue brief update <i>Medicare's Financial Condition: Beyond Actuarial Balance</i>                                       | Congress, etc.   | May 2006         |
| Comment letter on S. 1955  | Congress, etc.   | May 4, 2006      |
| Comment letter on proposed GASB technical bulletin on Medicare Part D retiree drug subsidy                               | GASB   | April 17, 2006   |
| Practice Note – Actuarial Equivalence for Plan Sponsors Accepting a Retiree Drug Subsidy under the Medicare Drug Benefit | Actuaries  | March 2006       |
| Practice Note – Medicare Supplement  | Actuaries  | March 2006       |
| Practice Note – Statutory Reserves for Individual Disability Income Insurance  | Actuaries  | March 2006       |

**The following HPC publications are expected to be completed within the next six months:**

| Future Publication   | Audience                                    | Expected Publication Date*           |
|--|---|--------------------------------------|
| Practice notes on Large Group Medical and General Considerations                             | Actuaries                                   | 2007                                 |
| Practice note on Disease Management  | Actuaries                                   | Exposure draft: Early 2007           |
| White paper on premium deficiency reserves   | Actuaries, regulators, etc.                 | Late 2006/Early 2007                 |
| Paper on emerging CDHP experience and issue brief on HSAs                                    | Congress, etc.                              | Early 2007                           |
| Practice note(s) on actuarial equivalence of PDPs and MA-PDs under the Medicare Drug Benefit | Actuaries                                   | Exposure draft due out early in 2007 |
| Issue brief how the individual market works  | Congress, etc.                              | 2007                                 |
| Issue briefs on health care quality  | Congress, etc.                              | Early 2007                           |
| White paper on "Best Estimates" (Done through RMFR Council)                                  | Actuaries, accountants, public policymakers | 2006/2007                            |