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The U.S. Health Care System and the Role of the Actuary

Catherine Murphy-Barron, MBA, FSA, MAAA
Vice-President, Health, American Academy of Actuaries

Society of Actuaries in Ireland

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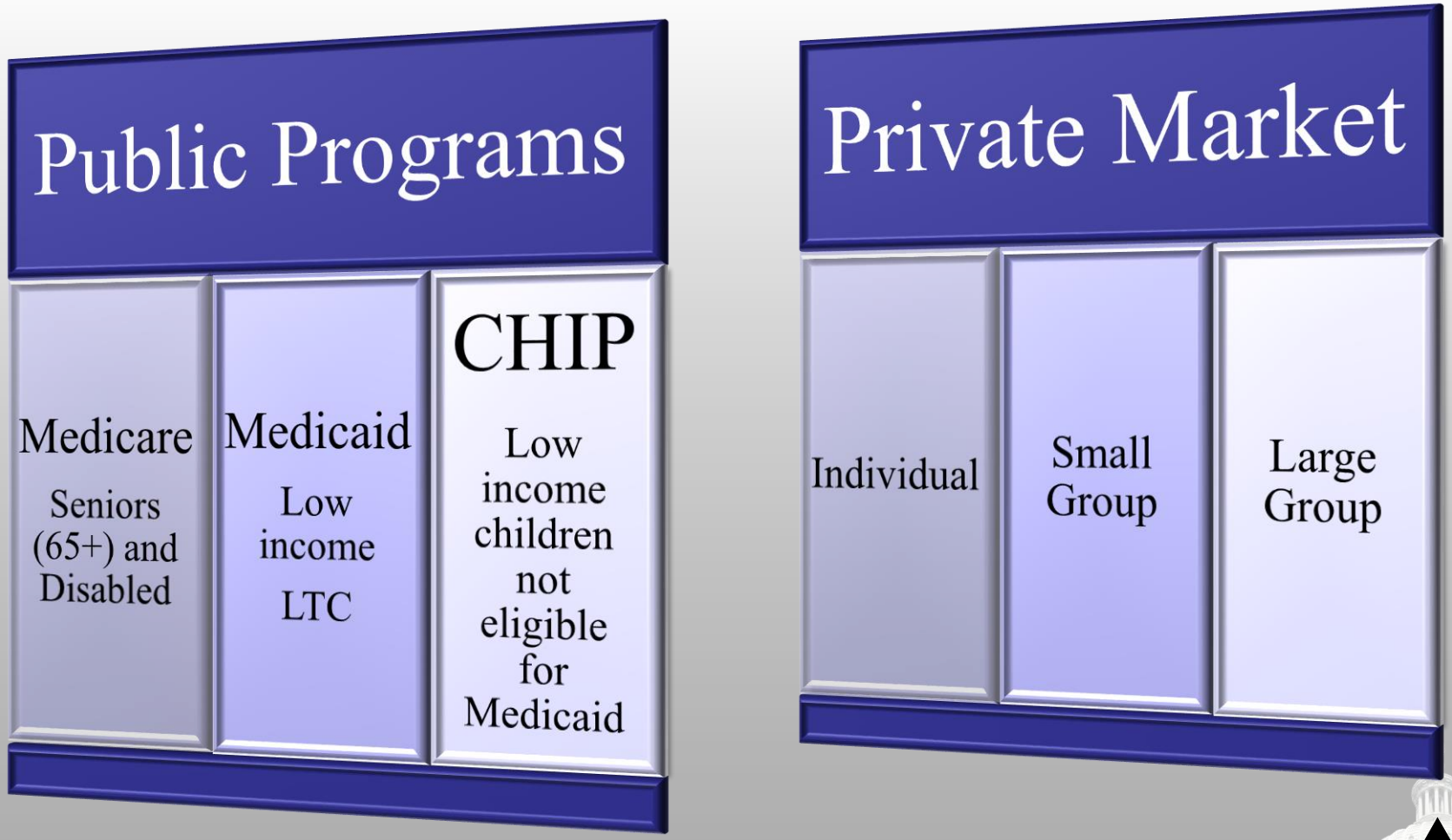
U.S. Health Care System

- What does the U.S. health care system look like?
- What changed because of health care reform?
- What is the role of the health actuary?
- What does the American Academy of Actuaries do?

U.S. Health Care System



Brief History of the U.S. Health Care System

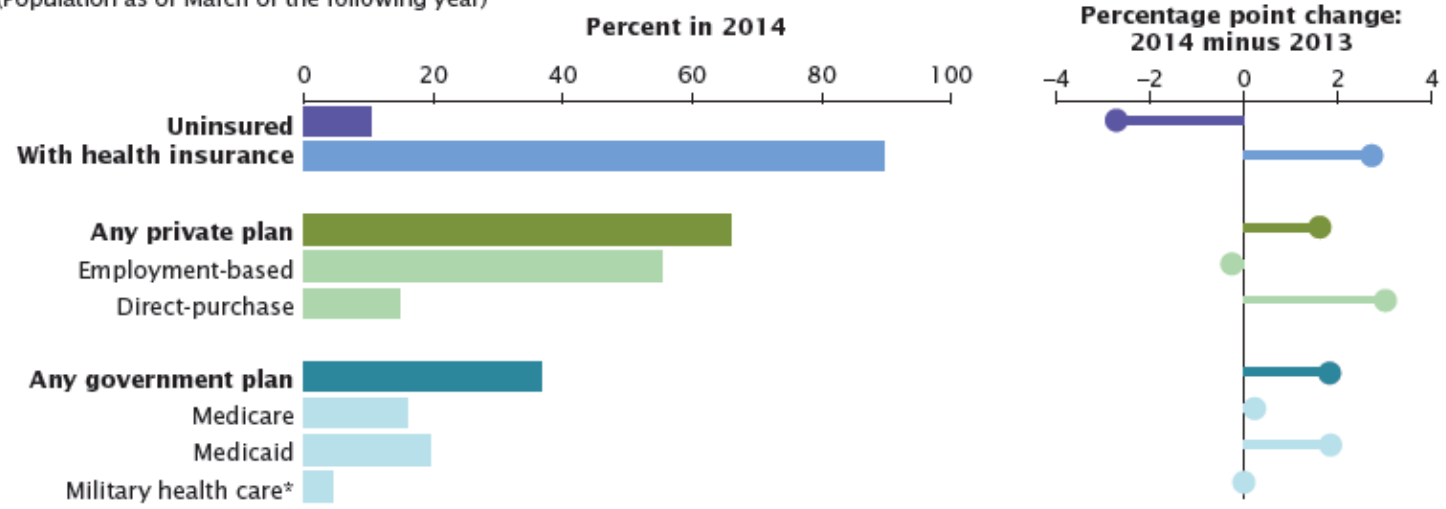
- Government wage controls during WWII and Korean War led to employer-based health insurance
- Medicare established in 1965
  - Federal coverage of over 65 population
- Medicaid established in 1965
  - States given option to receive Federal funding to provide coverage low income children and disabled

Where Do People Get Their Coverage?

Figure 2.

Percentage of People by Type of Health Insurance Coverage and Change From Last Year: 2014

(Population as of March of the following year)



Note: Between 2013 and 2014, there was not a statistically significant change in the percentage of people covered by employment-based health insurance or military health care.

*Military health care includes TRICARE and CHAMPVA (Civilian Health and Medical Program of the Department of Veterans Affairs), as well as care provided by the Department of Veterans Affairs and the military.

For information on confidentiality protection, sampling error, nonsampling error, and definitions in the Current Population Survey, see <www2.census.gov/programs-surveys/cps/techdocs/cpsmar15.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 2014 and 2015 Annual Social and Economic Supplements.

Source: United States Census Bureau: Income Poverty & Health Insurance Coverage in the US
https://www.census.gov/hhes/www/hlthins/data/incpovhlth/2014/tables.html
Accessed February 8, 2016

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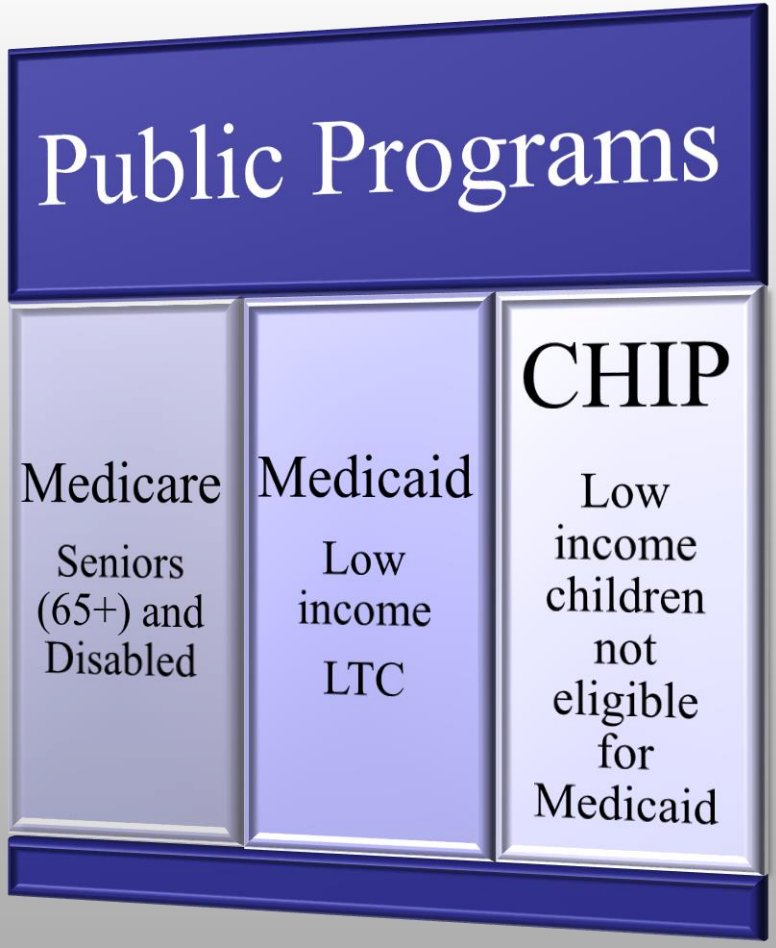
Some Coverage is Provided by the Government



Medicare

- Provides medical coverage for over 65 and disabled under 65 population
- Covers about 16% of the population[1]
- Small premium
  - Equivalent to about 25% of outpatient and physician costs
  - High income beneficiaries pay additional premium
- Some cost sharing

[1] United States Census Bureau Health Insurance Coverage Status and Type of Coverage by State All People: 1999 to 2012
https://www.census.gov/hhes/www/hlthins/data/historical/HIB_tables.html
Accessed February 8, 2016

Medicare Advantage

- Risk contracting with private health insurance carriers
- Established in 2003
- Carrier receives monthly risk adjusted capitation to provide benefits *at least as* rich as traditional Medicare
- About 30% of Medicare beneficiaries now enrolled in Medicare Advantage plans[2]

[2] Kaiser Family Foundation Medicare Advantage and Traditional Medicare: Is the Balance Tipping? http://kff.org/medicare/issue-brief/medicare-advantage-and-traditional-medicare-is-the-balance-tipping/ Accessed February 8, 2016

Medicaid & CHIP

- Medicaid
  - Provides medical coverage for low income children and their parents, pregnant women, and the disabled
  - Joint Federal and state program
  - Feds set minimum eligibility, states can expand
- Children's Health Insurance Program (CHIP)
  - Expands coverage for children with Federal support

Most coverage provided by private insurers

Private Market

- Employer based
  - Large or small group (typically <50 employees)
  - Employer typically pays all or part of premium
  - Likely includes dependent coverage
- Direct purchase/individual
  - Beneficiary bears full cost

Pre-Reform Small Group

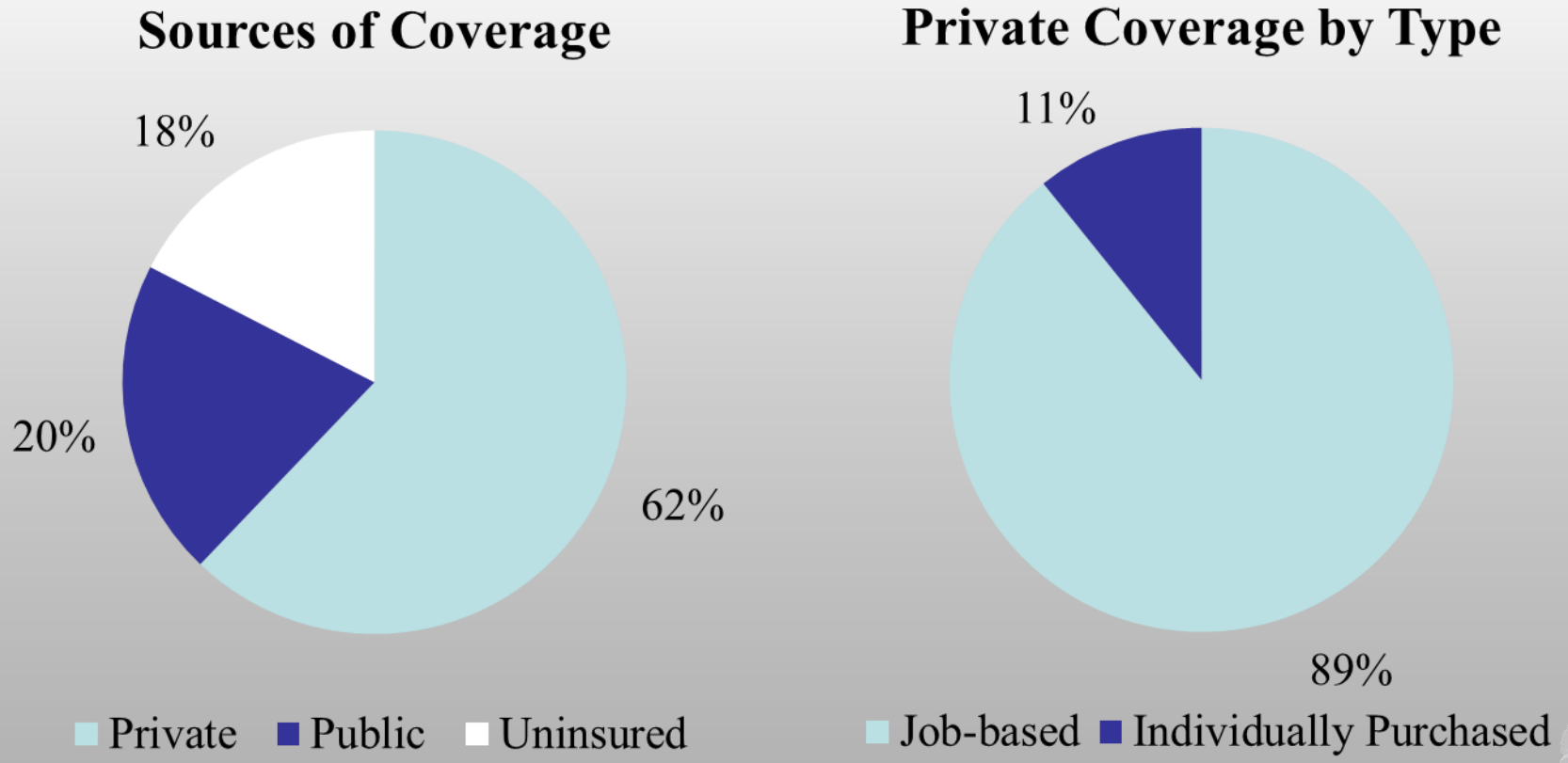
- Did not have to offer coverage (many didn't)
- Coverage guaranteed issue
- Most states allowed premiums to vary by
  - Prior group experience
  - Average age of the group
  - Industry
  - Geographic location
- Tended to have higher cost sharing than large group coverage

Pre-Reform Individual Market

- Roughly 10% of non-elderly Americans had private coverage
- Coverage voluntary
- Most states allowed underwriting based on health status
- Premium typically varied by age
- Buyers generally cost conscious
- Buyers typically chose higher cost sharing due to cost

Pre-Reform U.S. Health Care System

Coverage of Non-Elderly Americans in 2010



Source: Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2011 Current Population Survey*, Employee Benefits Research Institute, September 2011.

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Why Were People Uninsured?

Uninsured Rate by Family Income Non-elderly Americans in 2010	
Family Income as % of Federal Poverty Level	**Uninsured Rate**
0 – 99 %	33.4%
100 – 149%	32.6%
150 – 199%	28.6%
200 – 299%	20.7%
300% or more	8.5%

Source: Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2011 Current Population Survey*, Employee Benefits Research Institute, September 2011.

Why Were People Uninsured?

Uninsured Rate by Work Status of Family Head Non-elderly Americans in 2010	
Work Status of Family Head	**Uninsured Rate**
Full-time, Full Year Worker	13.9%
Full-time, Part Year Worker	30.7%
Part-time, Full Year Worker	28.0%
Part-time, Part Year Worker	24.6%
Non-Worker	28.8%

Source: Paul Fronstin, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2011 Current Population Survey*, Employee Benefits Research Institute, September 2011.

Why Were People Uninsured?

Uninsured Rate by Age Non-elderly Americans in 2010	
Age	**Uninsured Rate**
Under 18	9.8%
18 to 24	27.2%
25 to 34	28.4%
35 to 44	21.8%
45 to 64	16.2%
65 and older	2.0%

Source: Carmen DeNavas-Walt, Bernadette D. Proctor and Jessica C. Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Census Bureau, September 2011

Health Care Reform

- Patient Protection and Affordable Care Act (ACA) signed into law March 23, 2010
- Focused *primarily* on expanding coverage
  - Expanded Medicaid for low-income individuals
  - Provided subsidized coverage for low/middle income
- Most significant reforms effective in 2014

Key Elements of Reform

- Individual and employer mandates to buy coverage
- Medicaid expansion
  - Adopted in only 32 states due to Supreme Court decision
- Public exchanges to simplify purchase and facilitate administration of subsidies
  - Premium subsidies between 133% and 400% of federal poverty limit (FPL)
  - Cost-sharing subsidies available up to 250% of FPL
- Individual and small group market reform

Insurance Market Reforms

- Guaranteed issue
- Modified community rating (age, tobacco, family size, geography)
- Elimination of lifetime limits
- First dollar coverage of preventive services
- Risk-sharing mechanisms (risk adjustment, reinsurance, risk corridors)

Slowing Health Care Cost Growth

- Focused on Medicare because Federal Government pays for Medicare
- Delivery system reform – Accountable Care Organizations (ACOs)
  - Physicians and hospitals that work together to manage and coordinate care
- Payment system reform – Bundled Payments
  - Single, predetermined lump sum for all services related to specific treatment or condition

Role of the Actuary

- Health insurance regulated by the states
  - Potential for different rules and regulation by state
- Premium rates generally require certification by qualified health actuary
  - Individual and small group market
  - Medicare Advantage bids
  - Managed Medicaid capitation rates

Role of the Actuary

- Risk adjustment – Medicare and commercial
  - Part of the rating process
  - Part of ongoing operational focus
- Provider risk contracting
- Financial statements
- Other typical actuarial functions

About the Academy

- Washington-based 18,500+ member professional association
- Mission is to serve the public and the U.S. actuarial profession
- Work includes both professionalism and public policy

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- As the public voice for the U.S. actuarial profession, the Academy provides independent and objective actuarial information, analysis, and education for the formation of sound public policy.
- The Academy identifies and addresses issues on behalf of the public interest on matters in which actuarial science provides a unique understanding.
- On Capitol Hill and in the media, the Academy is invited, welcomed, and trusted to provide reliable and credible expertise on policy issues.

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- The Academy provides for the establishment, maintenance, and enforcement of high professional standards of actuarial qualification, practice, and conduct.
- The Academy advances actuarial practice by informing and educating its members on public policy and professionalism issues and current and emerging practices.

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Health Practice Council Responsibilities

- Provide information to Congress and senior federal policymakers and regulators.
- Work closely with the National Association of Insurance Commissioners (NAIC) on health issues.
- Communicate and coordinate activities related to health and professionalism within the Actuarial Standards Board (ASB), Actuarial Board for Counseling and Discipline (ABCD), and other actuarial organizations.
- Develop and maintain practice notes.
- Keep membership informed of public policy issues and related Academy activities.

Concluding Thoughts

- U.S. was enjoying a slow-down in health cost growth
  - Recent uptick due to high drug trends
- History suggests rising costs are tenacious
- Aging population will put upward pressure on costs
- Information technology is making more sophisticated provider collaboration practical
- Health care reform has increased coverage levels
- Still need to tackle cost of health care