Digital Format Enables Quicker, Timelier Delivery

Starting in October, the Health Section's newsletter, *Health Watch*, has moved to a semimonthly, fully digital format. We interviewed Marilyn McGaffin, the *Health Watch* editor, and Karen Shelton, the Health Section chairperson, to get insight into this change and what it means for Health Section members.

***Health Watch (HW):* Why did the Health Section decide to move its flagship newsletter to a digital-only format?**

Marilyn McGaffin (MM): There are many reasons. Among the most important is timeliness. A digital version allows us to share perspectives and information as it unfolds, rather than the delay in delivering content that comes with the tri-annual print schedule.

Karen Shelton (KS): Part of the Health Section's mission statement is to expand the marketplace relevance of health actuaries. A digital newsletter allows us to do just that. More people consume information digitally, and the new format allows our articles to be easily viewed and shared on mobile devices, expanding our reach.

***HW:* What are you looking forward to most about having a digital version of *Health Watch*?**

KS: I am excited about being able to bring content to our readers more quickly. With things in our industry changing so quickly, we can't wait several months before sharing insights with our members.

MM: There have been times when a fellow actuary has wanted to publish an article, but because of our publication dates, the author has said that the date is too late and then pulled the article. It hurts as an editor to have a great article and not be able to publish. So, now, we will be able to publish these articles. As Karen has said, we will be able to bring content to our readers more quickly.

***HW:* With the potential to reach far more readers, interest in having articles published in *Health Watch* may grow. How would someone go about expressing interest in writing an article for the newsletter?**

MM: We are always looking for relevant and leading-edge content. Anyone with an idea should reach out to our *Health Watch* editors, Marilyn McGaffin and Rick Pawelski.

***HW:* Are there any guidelines for writing an article?**

MM: There are some basic guidelines, such as article length should be between 500 and 2,000 words. Authors should provide headshots and a very short biography. The articles should provide continuing education. The articles do go through a vigorous review by an editorial board and Society of Actuaries (SOA) editors. More details can be found on the Health Section website.

***HW:* The *Health Watch* newsletter is just one of the benefits of being a Health Section member. What are some of the other benefits?**

KS: The Health Section does amazing work to benefit their members such as research, continuing education content and networking opportunities. There are member-only benefits such as free, unrestricted access to the journal *Health Affairs* and access to section-created webcasts over one year old. Discounts on section-developed webcasts are also available.

MM: I will take this a step further. I would like to focus on the volunteer activities. Volunteering with a section of the SOA has made me realize what a talented and varied group

of professionals we are. There are so many different forms of continuing education, and the SOA is open to trying them. The fact that the SOA depends upon its members for research and continuing education gives each of us a chance to have a voice. Being involved in a section, more than just belonging to a section, makes the volunteer a much stronger actuary, and one that has much more to offer in the workplace.

***HW:* Marilyn and Karen's terms as *Health Watch* editor and Health Section chairperson, respectively, are ending. Marilyn and Karen, what has been the biggest highlight of your role?**

KS: Wow, that's a tough one to answer! Through the Health Section I've developed friendships with so many talented people and gained invaluable leadership skills. That said, the thing I'm most proud of is building our Initiative 18|11: What Can We Do About the Cost of Health Care? We embarked on this nearly two years ago with the Kaiser Family Foundation in an effort to insert health care actuaries into the discussion on the rising cost of health care. This is not a short-term project but a long-range initiative that continues to evolve and drive solutions. I am excited to see how the Health Section Council will continue to execute the vision of Initiative 18|11.

MM: Being editor of *Health Watch* has been an intense experience. It is very different from my daily employment! I have really enjoyed getting to work with the authors and the SOA editorial staff. I have also enjoyed reading all of the articles, finding the subject-matter experts and learning about areas that I would not even be exposed to in my daily work. This knowledge expansion has spurred me to read other articles about that topic. It has forced me to continually learn. Although this position is coming to a close, my term on the Health Section Council is not. I am looking forward to the other opportunities with the council. ■

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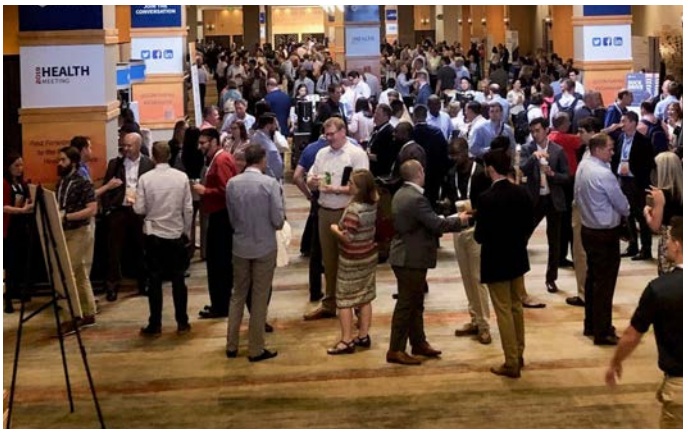
2019 Spring Health Meeting in Review

By Rick Pawelski



Sunday, June 23, was a bright, hot, sunny day in Phoenix. The following day was also bright, hot and sunny. Tuesday was a bright, hot, sunny day as well. The sort of trend analysis required to predict Wednesday's forecast was commonplace as the health actuaries were in town for the Society of Actuaries (SOA) 2019 Health Meeting. Almost 1,000 of us descended on the JW Marriott outside of town to avail ourselves of two and a half days of continuing education opportunities, and to network with an expansive cross section of our profession. This year's meeting continued the trend of increasing quality of sessions as shown by the ratings in Table 1.

Table 1
Health Meeting Ratings by Attendees

Year	Location	Attendees	Rating
2014	San Francisco	1,007	4.00
2015	Atlanta	925	4.09
2016	Philadelphia	1,047	4.14
2017	Hollywood, Florida	945	4.28
2018	Austin, Texas	983	4.18
2019	Phoenix	995	4.35

Audio recordings of all meeting sessions can be downloaded by Health Section members at no cost on the meeting's website.

Visual presentations can be found under the corresponding individual sessions.

KEYNOTE ADDRESS

The opening general session kicked off the meeting proper at 8:30 a.m. Monday. SOA President Jim Glickman addressed the membership, reviewing current SOA initiatives to cultivate diverse membership, expand opportunities for actuaries and leverage volunteer efforts.

Then it was time to hear our keynote speaker. Dr. Joel Selanikio is an award-winning physician, inventor, emergency responder, public speaker and consultant who channeled his wealth of experience and perspective to offer us an intellectual and verbal mashup of consumerism, market disruption, artificial intelligence and health care in order to peek behind the curtain at where things are headed. It all started with steel mills. (Steel mills? Huh? OK, let's see where this goes.) Once upon a time, large steel mills dominated the industrialized world. Then minimills came along, small operations that only did a fraction of what the big mills could do, but they did those things cheaper than the big mills did, and they drained profit from the big mills, a major step in the eventual sharp reduction of the number of full-size mills in many places—a market disruptor. Dr. Selanikio's connection of this scenario to the health care industry was the emergence, slower than in many other business sectors, of artificial intelligence to challenge the need for human input in medical decisions where there is a mass of existing digital data large and comprehensive enough to allow algorithms to be effectively devised. (Spoiler alert: My dad the radiologist and my sister the dermatologist are not going to like where this is headed.)

Some interesting factoids along the way: If you have a million digital pictures of Chihuahuas and a million more pictures of blueberry muffins, it would take humans a lot of man hours to decipher which is which (it's surprisingly difficult, actually) but with all that digital data, an algorithm can be designed to do it better than humans can and much, much faster. So now there are emerging algorithms that analyze the low-hanging fruit of

the diagnosis tree. There's a program that identifies diabetic retinopathy; an app that listens to someone cough and identifies whether they've got pneumonia, asthma or a cold; the data from your Apple watch can be used to diagnose atrial fibrillation. Dr. Selanikio sees these inroads by machine learning as the beginning of a disruptive influence on the health care delivery system, as machines make greater inroads on what humans have been required to do thus far. Radiology and dermatology are two areas with the greatest preponderance of digital image data informing the physician, that's why people like neural networks expert Geoffrey Hinton see a diminishing future for those medical specialists. It was thought-provoking and a bit entertaining, and a small crowd of actuaries surrounded Dr. Selanikio for some informal Q&A while the rest of the attendees set off for the first of nine more time slots to come.

LOTS OF CHOICES

With 95 sessions to choose from in some two dozen categories of health care specialty, there was a wealth of educational opportunity in the offing. Each actuary had the opportunity to tailor their experience depending on their greatest areas of interest. For me, the value-based reimbursement sessions were a draw, and I attended three of them that week. There was a just bit of overlap between the presentations that served to create greater emphasis on important topics such as various challenges to provider-carrier cooperation. I got to hear up-and-coming actuaries, experienced actuarial leaders, a physician, a data scientist and the CEO of an accountable care organization give their views on the fine points of incentive alignment and the quadruple aim—only a triple aim at my last Health Meeting—of better care, better patient experience, lower cost and now improved provider experience.

The SOA Health Section continues to promote the greater use of non-standard session formats to increase audience engagement, thereby improving retention of information presented and generating session content customized to participating attendees. The buzz group session titled Managed Care—Next Steps to Reduce Health Care Costs divided the room into groups that each discussed several probing questions about the future of managed care. Attendees brought a wide range of experience, ideas and insight to these conversations, and we were each challenged to consider the issues at hand, evaluate the ideas of those around us and offer ideas of our own. Meanwhile, other sessions leaders used live polling and bingo games to make their presentations pop.

Speaking as someone with a mix of medical and dental plan experience, examination of the connection between medical health and dental health is something I've considered from both ends of that spectrum, and this topic was covered in two other sessions I attended. Once again, I was intrigued by the mix of speakers as actuaries, academics and public health advocates discussed emerging research on this issue and reminded us that while correlation does not imply causation, neither is causation precluded.

There were many opportunities to network with new and old acquaintances from the health actuarial profession. The networking reception Monday evening was a slightly more formalized and better-fed version of the daily web of relaxed, collegial conversations between past and present coworkers, clients, friends, and friends of friends. Tuesday morning's fun run/walk was a well-organized, 5-kilometer discovery that it really is a dry heat, so 80 degrees at 6:00 a.m. doesn't feel bad at all.

A SOBERING TOPIC

The lunch session on Tuesday brought our second keynote speaker, and the topic of the day was the addiction epidemic. The scheduled speaker was Austin Eubanks, a Columbine survivor who became addicted to opioids following treatment of gunshot wounds, eventually accomplished long-term sobriety and became active in the treatment of addiction. Unfortunately, a few weeks before the meeting, Mr. Eubanks "lost the battle with the very disease he had worked so hard to help others face."[1] His family has created the Austin Eubanks Memorial Fund. Contributions will be used to develop a program for individuals and families who are victims of mass violence.

The meeting committee, struck by this reminder of how widespread and damaging the addiction crisis is, felt this issue should remain in the forefront, and worked to find another person to speak on this public health crisis. Dr. Lipi Roy, a nationally recognized influencer in the field of addiction, spoke of the need to recognize it as a disease rather than as a moral failing. Imposition of a stigma only impedes treatment, making the societal costs even higher. Only through treatment will improvement occur.

LAST DAY

Wednesday morning's Health Section breakfast was an opportunity to hear Health Section Chairperson Karen Shelton's review of current section activities in the areas of education, research and marketplace relevance. She then introduced Scott Wood, a local expert in the employee benefits space, who described what market dynamics he'd been seeing in the Arizona market. He touched on drivers of health care costs, product strategy, membership engagement and other items.

One of the last sessions of the meeting on Wednesday was an opportunity for me to help Dave Dillon, Doug Norris and Joe Wurzburger present professionalism studies in the form of a mock trial. These three have presented this before and I was pleased to join them as the judge of the courtroom, complete with robe and gavel. We went through several challenges to the Actuarial Standards of Practice, the SOA Code of Professional Conduct and other published guidance, leading to open

discussions of the underlying principles of each. The tone was upbeat, the audience seemed engaged, and we moved along through cases involving premium deficiency reserves, use of credentials, qualification standards, proper assumptions and conflicts of interest. At the end of this session, I brought down the gavel to officially bring this mock trial—and the 2019 Health Meeting—to a close.

Many thanks are in order to all those who made this Health Meeting a success, beginning with the co-chairs of the Meeting Committee, Ashley Borcan and Deana Bell, who put in so much time and effort to assemble content. Joe Wurzburger, the SOA staff fellow, was a steady participant in every step of preparation. Heather Jameson of the SOA also was a go-to person for many of the committee's needs, and Mike Nowak was invaluable in finding and facilitating keynote speakers. From there the list grows exponentially, to all the other SOA staffers and volunteers who helped bring a thousand people together in the desert for three days. A special thanks goes out to everyone who presented a session, or even just submitted an idea, for this year's meeting. That level of engagement and commitment benefits us all, and it is a complement to our profession that there are so many who are so willing and able to step forward. The 2020 Health Meeting will be in Chicago. Hope to see you there! ■

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ENDNOTE

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Managing Health Insurance Company Risks in a Recession

By Dave Nelson and Keith Passwater

The current U.S. market expansion started in the third quarter of 2009, making this the longest in U.S. history, surpassing the record 120-month expansion of the 1990s.[1] And, given our unsettling memories of past recessions, we thought it might be useful to contemplate how insurance companies would be impacted by the next recession in similar—and new—ways. While we had our own thoughts on this, we were determined to gather a range of input through interviews with several health-insurer chief actuaries of companies large and small.

Although most economists put the probability of a U.S. economic recession in 2019 well below 50 percent,[2] it is a practical certainty that the U.S. will experience a recession at some point in the future and this article may help actuarial leaders prepare. Part of good preparation may include open discussions now between actuarial executives and their leadership peers about the potential implications of the next recession.

DEFINITION OF A RECESSION

While there is no single definition, a recession is generally understood to be at least two quarters of low economic activity, tight credit and high unemployment. If the recession is deep, investment spending, household income and business profits fall; bankruptcies and unemployment increase.

Many of the actions we describe in this article work well in response to the insurance cycle risk, which is caused by aggressive pricing to gain market share. We are focusing here on a recession where many people lose their job, more people worry that they could lose their job, and health insurance companies face financial difficulties.

Recessions give actuaries great opportunities to shine.

Annual unemployment has exceeded 6 percent several times since World War II.[3] See Table 1.

Table 1
Years With High Rates of Unemployment

Period	Average Annual Rate of Unemployment
1949	6.1%
1960–61	6.1%
1975–86	7.6%
1990–93	6.7%
2008–13	8.2%

Source: *Bureau of Labor Statistics. Databases, Tables & Calculators by Subject,* From: 1949 To: 2019 (straight average across months). Accessed Aug. 8, 2019.

The numbers in Table 1 are nationwide averages, which of course vary significantly by geography. Typically, variances by market are so large that companies in different areas can have very different experiences and needs for corrective action.

CHIEF ACTUARIES' THOUGHTS

The actuaries with whom we spoke reflected on the last recession and identified some consistency in their companies' business experience. One intuitive impact of a recession is weak membership growth. Chief actuaries noted that negative in-group change (a declining number of members among retained employer groups) was a very significant challenge. During expansion periods, in-group change tends to grow as employers hire to meet rising business demands. In the last recession, companies in desirable regions, such as the Sunbelt, saw some influx of displaced workers seeking new opportunities. However, companies in other regions had the double problem of layoffs with worker exodus.

In terms of claim cost, all chief actuaries noted that costs rose materially in the last recession due to employees rushing to get service and prescriptions prior to layoff, and due to the increased use of continued insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, which was very adversely selective. As the recession deepened, severity of

conditions increased noticeably, particularly in mental health, substance abuse and stress-related conditions such as heart disease.

Actuaries struggled to adjust rates in response to increasing claims costs due to a combination of opposing forces:

- Company leaders, concerned about membership issues and perceived excessive actuarial conservatism, pushed for lower rates to meet membership goals, and
- A public sense that carriers should be willing to miss earning targets in recession when citizens are under economic duress and other businesses are losing money.

Additional comments on experience from the last recession included the following:

- Small group enrollment declined, significantly accelerating a long-term trend of a declining percentage of small employers offering coverage. This enrollment decline was anti-selective as a result of less experienced, younger (and generally healthier) employees being more likely to lose their jobs. Additionally, small employers' decision-making was anti-selective when an employee (who is frequently a friend or family member) was being treated for a serious medical condition.
- COBRA enrollment increased (sometimes doubling as a percent of the commercial book of business) as a result of rising layoffs. COBRA enrollment was further increased by the passage of the American Recovery and Reinvestment Act (ARRA) of 2009, which included subsidies up to 65 percent of a laid-off employee's premium, starting March 1, 2009.[4] This made expensive COBRA coverage far more affordable to laid-off employees than in prior recessions. The increased COBRA enrollment was slightly better risk than COBRA in general; however, this incremental COBRA risk was still dramatically worse than the active employee risk. Companies' commercial blocks saw 50 or even a 100+ basis point medical loss ratio (MLR) increase from this tiny incremental membership due to the higher morbidity.
- In some parts of the country, individual enrollment increased as wealthier individuals sought to replace coverage lost due to early retirement or other separation.
- Medicaid enrollment increased as more individuals and families qualified for coverage. Medicaid expansion ushered in by the Patient Protection and Affordable Care Act (ACA) of 2010 further expanded dramatically Medicaid enrollment.
- Providers, who felt the financial pressure from greater levels of uncompensated care (due to increased uninsured patients), sought higher rates from commercial carriers.

As we asked these same actuaries about the next recession, they cited similarities and some noteworthy distinctions for their business:

- The claim cost dynamics mentioned previously are very likely to repeat.
  - Employees at real or perceived risk of layoff accelerate elective surgeries, pharmacy refills and physical exams.
  - Severity of conditions increase noticeably, particularly in mental health, substance abuse and stress-related conditions.
- Fewer small group companies will offer health insurance in the next recession. Further, some of the same forces that drove adverse selection in the last recession are likely to drive adverse selection again.
- COBRA enrollment is much less likely to spike since the ARRA benefits are no longer being offered, and subsidized public exchanges would be a good alternative to COBRA.
- As a result, enrollment on public exchanges is likely to increase significantly in the next recession. Unfortunately, with the elimination of the already-modest penalty for not obtaining health insurance, the incremental exchange enrollment is likely to be high risk.
- The number of uninsured are likely to rise dramatically (even greater than in the last recession) as those with better health morbidity are likely to forego enrollment on the exchange knowing they can elect coverage at the next open enrollment should their health deteriorate.
- Enrollments of dependents up to age 26 who can remain on their parent's plan are likely to increase.
- Given financial stress that states are already experiencing with Medicaid budgets, the next recession is likely to drive eligibility changes that will limit Medicaid enrollment growth. Also, morbidity is likely to grow worse as those with significant health needs retain eligibility, whereas those with better morbidity are more likely to lapse.
- Providers again are expected to experience increased uncompensated care and seek increased revenue from commercial lines. This problem is likely to be worse as a result of the ever-increasing share of lower-pay government business putting pressure on commercial business to offset government shortfalls.

A tightening of administrative expense budgets as a result of shrinking business volumes is also a concern. Chief actuaries should monitor staffing impacts in company operational areas,

such as the claims shop, which can affect their visibility into company performance due to disrupted claim payments or premium collection patterns. Chief actuaries should also anticipate the potential demand to shrink actuarial staff just as company executives seek greater and faster insights from actuarial teams. The effective actuarial leader helps their staff increase productivity to match new demands while also persuading other executives to support appropriate actuarial staffing.

Increased actuarial work volumes occurred in the last recession, raising the stature of the actuaries significantly in the subsequent period. Staffing that followed grew dramatically due to a new appreciation for the contributions of the actuarial group and the massive new demand created by the ACA.

It is worth noting that the asset side of the balance sheet suffered some losses due to the mortgage crisis and the commensurate worthlessness of some mortgage-backed securities. Fannie Mae's stock, held by some carriers back in 2008, dropped by 97 percent from Jan. 1, 2008, to Nov. 1 of that year.[5] However, health carriers generally experienced less balance sheet disruption due to their shorter duration holdings as contrasted with life carriers.

ACTUARIAL ROLE IN A RECESSION

Recessions give actuaries great opportunities to shine. While executive leaders are frequently affected by market panic and disconcerting anecdotes, actuaries can bring great value when they accurately measure costs, prepare fact-based reports and initiate corrective actions. When actuaries do their job well, they minimize fearful speculation, thereby keeping company management from overreacting and taking actions that damage the company's long-term interest.

Simple, regularly produced reports are a good place to start. Fact-based discussions can be facilitated by publishing market employment statistics, benefit-adjusted trends, statistics about the average age of the company's membership, COBRA take-up rates and benefit buy-down activity (like the purchase of higher deductibles and higher copays).

Understanding financial results can be challenging in a recession. One needs to accurately measure benefit-adjusted medical cost trends and identify the issues (selection, inaccurate rate relativities, provider cost increases, new drugs, etc.) that are driving higher-than-expected costs and lower-than-expected premiums. The number of confounding issues to quantify is huge, including expected losses:

- If premium relativities are inaccurate since price could drop more than claims.
- On group contacts rated by rate relativities that do not vary as the employer lays off younger workers and employees add sick family members.
- From COBRA, adverse selection from many sources, more and accelerated claims, and provider fee increases.

Even though the work effort can be substantial, all of these impacts—and more—need to be quantified and explained in a way that keeps management from panicking and reacting in ways they will regret later. In that regard, it may be necessary to investigate rumored issues which are unlikely to be a driving problem in order to demonstrate that they are, in fact, irrelevant. Fighting fear with actuarial judgment is less successful than fighting with well-designed, data-rich analysis. Of course, actuarial staffing demand must be managed as well.

Table 2
Issues Actuaries Face and Steps to Resolve Them

Issue	Solutions		
Premium	Raise rates	Make sure benefit relativities are accurate	Maximize risk adjustment revenue
Underwriting	Tighten UW requirements	Make sure renewal rates meet pricing targets after rate negotiations are complete	
Claims initiatives	Revise claims edits	Increase the efficacy of subrogation efforts	
Medical cost initiatives	Renegotiate provider contracts	Introduce a narrow network product which allows customers to "buy down" large rate increases	Increase sales payments for profitable business
Lower sales costs	Cut out sales layers	Increase sales payments for profitable business	
Lower administrative costs	Lay off staff		

Actuaries are often at their best when they help the company take effective corrective actions. When times are tough, actuaries need to engage their colleagues' throughout the company—in underwriting, sales, claims, network management, pharmacy and medical affairs—to generate and evaluate improvement ideas. It is also important to stay in touch with actuarial consultants and actuaries from other companies. They will be facing similar issues. Learn from their experiences and keep an open mind to a wide range of possibilities (see Table 2).

Quantifying improvement efforts is critical. The first item management usually thinks about when faced with financial difficulty is laying off staff. But, of course, the Affordable Care Act requires claims to comprise 80-85 percent of the premium dollar,[6] creating a greater potential to identify claims-related cost savings than staffing reduction savings which, by definition, comprise no more than 15-20 percent of the premium dollar. In fact, this thought process often causes leaders to begin thinking of ways to retain staff critical to the implementation of improvement efforts.

Normally, cost reduction initiatives can be implemented more quickly than rate increases. It takes 12 to 24 months to detect a rate deficiency, secure rate approval from the applicable government entity, and adjust customer rates once contractual rate guarantees expire. Conversely, improving claims edits to identify duplicate or unbundled claims can be implemented retroactively if the claim has not yet been submitted for payment.

It is key to deal with financial difficulties without overreacting. Multi-market companies have geographies and products that experience a recession in very different ways, and consequently require tailored solutions. Even more importantly, all markets and products need accurate cost estimates that do not extrapolate onetime items over a long period and generate excessive rate calculations.

In a recession, routine actuarial work products for reserving, pricing and trend measurement become very important to senior management. There can emerge greater pressure on the actuaries from some business leaders to be conservative and from others to be optimistic.

Actuaries need to present best estimate numbers (as well as the reasonable potential range of outcomes) and continue to ensure that all work is of high quality. Standards for internal peer review need to be vigilantly observed even when work volume and time pressure is high. In addition, to maximize quality and prevent second-guessing, it is often wise to ask actuarial consultants to review potentially contentious work.

Successful leaders inspire their staff to step up during a recession by helping them understand the opportunity for critical contribution. Such leaders also protect their staff from unreasonable work demands through the hiring of extra staff, the use of more consultants, negotiated deadlines and fending off non-productive assignments. Managing the sales challenge is particularly important. Salespeople, actuaries and underwriters are under high stress as customers shop the market in response to large renewal rate increases. It is important that the actuarial team plan ahead for frequent requests for alternate benefits and multiple rounds of tense rate negotiation.

Of course, any variance from expectation (favorable or unfavorable) is cause for closer examination. On the other hand, when an insurance company experiences a negative financial variance, almost everyone in the company gets extremely interested in financial matters. Senior management wants to understand current results and they want to know what will happen next. It is a perfect time for actuaries to add value by preparing fact-based reports, and by providing regular forecasts with explanation of experience drivers. By doing so, actuaries can help the company focus on real improvement opportunities and create understanding about reasonable future results. Lastly, it's worth noting that there is a discernable pattern of interesting actuarial opportunity and promotion following company negative financial variance. By demonstrating excellent risk analysis and calm decision-making under pressure, actuaries can show themselves to be excellent candidates to lead. ■

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