

**Health Insurance Reform
Using Casualty Principles**

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Health Insurance Reform Using Casualty Principles

- Affordable Care Act (ACA) may not survive –
 - basic feature undermined: young people highly overpriced
- Yet its goals can be achieved:
 - control high costs
 - deal with many uninsured today
- New system needed based on workable principles:
 - previously used in auto, homeowners, catastrophe insurance
 - plus deal with special problems, e.g. preexisting conditions
- Goal of this session:
 - outline new system
 - explore how casualty actuaries can solve problems

Understand reasons for health costs exploding

- Demand huge and growing – more technology, aging population, lifestyles not as healthy
- Supply limited – technology expensive, hospital ERs tested, time to train docs, govt fee limits discourage new docs
- Today's system ignores usual response mechanisms:
 - someone else pays the bill, hard to change insurers,
 - limited price info for consumers
- Tort system exacerbates costs –
 - defensive medicine costs huge – 10% to 15%
 - med mal premiums deter some specialties

Uninsured population large but not uniform:
Don't have a single solution (like ACA)

- High Cost/Hard to Price: pre-existing conditions, other uncertainties
- Buyer rejects high cost product: over-priced for young people, wealthy can self-insure
- Chronically ill/poor: insurance doesn't work
- Non-citizens: in shadow economy

New Plan Goals: Basic and Subsidiary

- Contain basic health care costs
- Insurance more available
- Insurance more affordable
- Minimize govt controls: for more efficiency, innovation, competition, supply

Other: Portable and Guaranteed Renewable,
. Use incentives not mandates,
. Recognize insurance not always the answer

The Solution's Nine Basics

- Free market works: use it
- Price controls don't work
- Copy programs that do work: auto, HO ins.
- Level playing field: Group vs. Indiv. Policies
- Combat Overutilization
- Use premium support, not price controls
- Avoid new federal laws, if possible
- Customize solution by type of uninsured
- Tort reform by state, e.g. like California's

Sample solutions

- Hard to price risks: assigned risk plans
- Pre-existing conditions: specialty carriers plus insurance stamps funded by Medicaid block grants
- Between jobs: portable policies
- Young People: FR laws by state, high deductible policies
- Risk of future health deterioration: guaranteed renewable rates, funded at the outset
- Lower income: insurance stamps
- Destitute/homeless: Medicaid (Insurance doesn't work)
- Already Sick: Medicaid, clinics (Insurance doesn't work)
- Non-citizens: Financial responsibility laws < hospital admission

Future Challenges

- Remove employer plan tax deductibility
- Block grant Medicaid to states (\$300 billion a year)
- Administer insurance stamps better than food stamps
- Tort reform by state: incentive? more Block grants
- Specialty carriers for pre-existing conditions
- Pricing 100 million new individual policies
- Repeal of state laws on "community rating"
- Lobbying by current system beneficiaries

Current Health Insurance Establishment: Resisting Cost Based Pricing?

- "For health insurance markets to be viable, they must attract a broad cross section of risks."
- "Pooling risks together allows the costs of those at higher risk of high medical costs to be *subsidized* by those at lower risk."
- "In the absence of universal coverage, some degree of adverse selection is inevitable."
- "Achieving universal coverage through coverage *mandates* or other means would eliminate adverse selection.."
- "Achieving universal health insurance coverage could reduce the need to charge different premiums by gender"
