

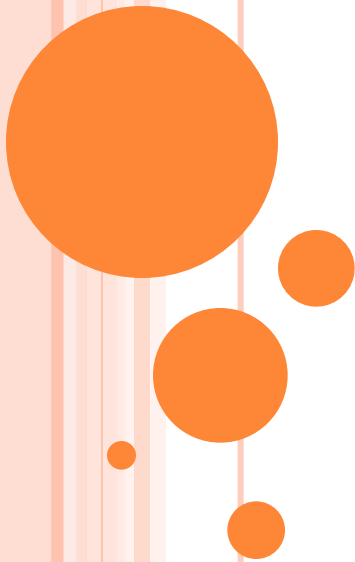
CASUALTY LOSS RESERVE SEMINAR

Reserving for Medicare Set-Asides

LOB-4

Timothy L. Wisecarver

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RESERVING FOR MEDICARE SET-ASIDES

○ Discussion Outline

- MSA Considerations That May Bear on Costs and Reserves
- Potential Impacts of MSAs on Payout Patterns, Case Reserves and Ultimate Loss Amounts
- Prevailing Industry Practices and Approaches
- Some Observations About the CMS/MSA Environment
- Conclusion and Summary



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RESERVING FOR MEDICARE SET-ASIDES

- MSA Considerations That May Bear on Costs and Reserves
 - Identification of Subject Claims
 - “Active” Cases
 - “Latent” Cases
 - Carrier Evaluation of Medical Exposures
 - Negotiation of Settlement Between Carrier and Claimant
 - Submission of Proposed MSA to CMS



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RESERVING FOR MEDICARE SET-ASIDES

- MSA Considerations That May Bear on Costs and Reserves (continued)
 - CMS Review of Proposed MSA
 - Timing
 - Amount
 - Carrier/Claimant Response(s) to Decision
 - Complete Settlement
 - Settle Indemnity
 - Abandon Settlement



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RESERVING FOR MEDICARE SET-ASIDES

- Potential Impacts of MSAs on Payout Patterns, Case Reserves and Ultimate Loss Amounts
 - Delaying/Prolonging Payments and/or Case Reserve Emergence
 - Difficulty in Identifying Subject Claims
 - Real Expansion of Claims Subject to MSA Provisions
 - Work Involved in Preparing/Submitting Set-Aside Proposals
 - Delays in CMS Review of Proposed Settlements
 - CMS Returning Higher Set-Aside Amounts Than Proposed



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RESERVING FOR MEDICARE SET-ASIDES

- Potential Impacts of MSAs on Payout Patterns, Case Reserves and Ultimate Loss Amounts (continued)
 - Accelerating/Compressing Payments and/or Case Reserve Emergence
 - Improvements in Identification Processes
 - Streamlining Set-Aside Preparations
 - Better CMS Response Times
 - Closer Agreement Between Carrier and CMS Valuations



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RESERVING FOR MEDICARE SET-ASIDES

- Potential Impacts of MSAs on Payout Patterns, Case Reserves and Ultimate Loss Amounts (continued)
 - Changing the Loss Picture in Ways Not Limited to Timing
 - Indemnity/Medical Attribution of Payments and Reserves
 - May Discourage Settlements, Especially of Medical Benefits
 - Additional Component of Volatility, Administrative Cost and Loss Potential



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RESERVING FOR MEDICARE SET-ASIDES

- Prevailing Industry Practices and Approaches
 - MSA Obligations Acknowledged as Liabilities
 - Separate/Discrete MSA Payment and/or Case Reserve Provisions Are Uncommon
 - Bulk/IBNR Reserves Focused on MSAs Are Also Uncommon
 - MSAs Are Broadly Handled as a Settlement Phenomenon
 - MSAs Are Recognized as a Possible Explanatory Variable When Evaluating Experience, Reserve Changes



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RESERVING FOR MEDICARE SET-ASIDES

- Prevailing Industry Practices and Approaches (continued)
 - Data Limitations Restrict Opportunity for More Explicit and Granular Reserving Approaches
 - (Section 111 Data Reporting Requirements are Extensive but Largely Unrelated to Reserving Metrics)
 - 132 Named Fields – just one dollar field (TPOC)



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RESERVING FOR MEDICARE SET-ASIDES

- Prevailing Industry Practices and Approaches (continued)
 - If Better Data Became Available:
 - Paid and Incurred Development
 - Frequency/Severity
 - MSA as Ratio to Total or Other Loss
 - MSA as Ratio to Premium
 - Other?



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RESERVING FOR MEDICARE SET-ASIDES

- Some Observations About the CMS and MSA Environment
 - Electronic Communication, New Contracting Entity or Entities Have Materially Expedited Processing
 - Improved Consistency in Settlement Amount Determinations, Particularly for Prescription Costs
 - Further Improvement, Additional Flexibility Thought to be Desirable



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RESERVING FOR MEDICARE SET-ASIDES

- Conclusion and Summary
 - MSAs Are an Important Factor in Costs and Reserves for Some Claims
 - MSAs May Be an Important Factor in Costs and Reserves for Some Books of Business
 - MSAs are Recognized and Treated as an Explanatory Variable for Observed Cost and Reserve Fluctuations
 - MSAs are Not Often Treated as a Discrete Component of Costs and/or Reserves



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RESERVING FOR MEDICARE SET-ASIDES

- Conclusion and Summary (continued)
 - Data and System Limitations are Significant
 - Volume May Be Limited and Results May Be Volatile
 - Appropriate Methods Need Not Be Novel or Unusual

