

Health Insurance Reform Using Actuarial Principles

CAS Ratemaking Seminar

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Health Insurance Reform Using Actuarial Principles

- **Affordable Care Act (ACA) flawed, needs reform**
 - overpricing some to subsidize others
 - subterfuge to get enacted
 - based on flawed Massachusetts plan
- **Yet its goals can be achieved**
 - guarantee coverage to many uninsured today
 - cover pre-existing conditions
 - control high costs
- **New system needed based on workable principles**
 - previously used in auto, homeowners, catastrophe insurance
 - free market, no price controls, state by state, not federal
- **Goal of this session**
 - outline new system
 - explore how true actuarial principles can solve problems

ACA Major Flaws

- Punish young people to subsidize older, sicker
- Misprice everything and have govt rescue insurers
- Federal govt has trouble running complex programs
- Massive losses to be bailed out by general tax system
- No real cost containment – ignored tort reform
- Massachusetts role model now revealed as failure
 - Legislature repealed failed auto insurance system
 - Replaced by assigned risk plan- model for ACA successor

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Understand Reasons for Health Costs Exploding

- Demand huge and growing – more technology, aging population, lifestyles not as healthy
- Supply limited – technology expensive, hospital ERs stressed, 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% extra
 - medical malpractice premiums deter some specialties

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Uninsured Population Large But Not Uniform: Don't Have a Single Solution

Types of uninsured

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

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Replacement Plan Goals

- Make Insurance more available
- Make Insurance more affordable
- Contain basic health care costs
- Minimize govt controls: for more efficiency, innovation, competition, supply
- Portable and Guaranteed Renewable
- Use incentives not mandates
- Insurance not always the answer

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The Solution's Nine Basics

- Free market works: use it
- Price controls don't work
- Copy programs that work: auto, homeowners ins.
- Level tax playing field: Group vs Individual 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, like California's MICRA

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Solution Features

- Hard to price risks: assigned risk plans
- Pre-existing conditions: specialty carriers plus premium support funded by Medicaid block grants
- Between jobs: portable policies
- Young people: FR laws, high deductible policies
- Risk of future health deterioration: guaranteed renewable rates, funded at the outset
- Lower income: premium support
- Destitute/homeless: Medicaid
- Already Sick: Medicaid, clinics
- Non-citizens: Financial responsibility laws

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Future Challenges

- Expand tax deductibility to individual policies
- Block grant Medicaid to states (\$60+ billion a year)
- Pricing 100 million new individual policies
- Specialty carriers for pre-existing conditions
- Administer premium support better than food stamps
- Tort reform by state: incentive? more Block grants
- Repeal state laws on “community rating”
- Lobbying by those who lose by the change
- Transition problems – repeal ACA mandates?
 - taking away PEC coverage?

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