RWJF Actuarial Challenge
Round 1 submission
Team name: Team DC
12/9/16

Team Member: David Carlson, MassMutual Life, Springfield, MA

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Introduction/background for Team DC

I do not want to weigh this submission down with too much in the way of semi-relevant background, but, since I anticipate that it will be quite different relative to more robust submissions, I believe a small amount of background/context will be helpful.

I personally have very limited health insurance expertise (my entire career has been in the life and life-related asset management businesses), and had hoped to bring my non-health business expertise, along with intense interest but only layman's knowledge of the ACA, to a team with health experts. However due to unforeseen circumstances, I've decided, recognizing that it will necessarily be from a different, much more surface-level perspective than most or all of the other submissions, to go ahead and submit my thoughts as a "team of one."

This Executive Summary will actually be the entire submission since, per above, I am not in a position to deeply/expertly develop it further.

Apologies for that sort of complicated introduction – I appreciate the review committee's time and indulgence.

Overall context/view of US healthcare system – perspective from outside the business

As noted above, I am not in the health insurance business, and am obviously not a provider, so my only participation in the system is as a consumer. From that vantage point, the complicated mix of access, financing/insurance, and provider economic issues within the US system seem daunting, bearing very little relationship to the life insurance and asset management businesses with which I am familiar.

Without getting into the political minefield around the ACA, I think it is also relevant to point out that, from my perspective, it is inexplicable that, in a large and prosperous country like the US, with an otherwise well-developed healthcare system, a meaningful segment of the population had, pre-ACA, limited access to that system. Given that, it seems clear that something like the ACA was sorely needed, and the daunting complexity should make it unsurprising that the first iteration didn't work perfectly. The efforts of the RWJF and many others to look for ways to improve on those imperfections in the next iteration are to be applauded and encouraged, and it is in that spirit that I submit the thoughts outlined below.

Team DC proposal

1. Proposed solution. There are three elements to my proposed solution, the first two closely related to one another and aimed directly at problems that emerged in the ACA-revamped

individual market, and the third aimed at group market and provider economic effects that also bear directly on the individual market.

Element A: Compelling the young and healthy to participate

Recognizing the layman's perspective noted above, it seems well accepted that the lack of individual market participation by "young and healthy" lives (used as shorthand for what I understand is a more complicated market segmentation characterization) has resulted in a slowly developing cost/anti-selection spiral, with the inevitable exit of insurers unable to make the economics work. This is another point where the political dynamics seem to me to intersect with the economics in complicated ways, but the well publicized and pervasive instances of parties with an interest in the failure of the ACA being vocal in advising the young and healthy to pay the penalty rather than participate seems highly problematic, but fixable – setting aside the complex politics, the penalties could be made dramatically more punitive, thus truly compelling young and healthy participation, and getting the near universal participation needed to make a non-underwritten population work.

Element B: Extension/rationalization of taxpayer funded risk adjustments/reimbursements

I understand that the ACA included a mechanism to insulate insurers from the risks/unknowns noted above, but only for a limited period – I'm not sure of the details, but understand that the duration/and or dimensions of that support have not been enough to maintain broad insurer participation as the ACA individual market has developed more fully. I think it goes without saying that there are deep/fundamental and complex public policy issues in play here, and I'm not in a position to understand/propose fully developed solutions. At a high level, however, it seems to me that there are analogous public policy considerations in the flood, earthquake, and severe windstorm markets, and that US policymakers, regulators, and their constituents have accepted taxpayer funded backstops in those cases. It would seem that such a mechanism could be included in the next/improved version of the ACA individual market risk adjustment framework.

Element C: Group market Cadillac plan penalties

It seems well accepted that plans meeting the Cadillac plan definition are a meaningful part of the overall problem with the US system. I'm not in a position to deeply discuss and analyze the specifics, but, at a high level, the two key issues are the embedded/large tax subsidy created by favorable employer and employee tax treatment of very high premiums, and the perverse economic incentives in the provider/consumer market when the consumer pays very little of his/her health care costs out of pocket. The adverse effects on the overall healthcare market seem, again, well understood and accepted by almost all, and the ACA penalties took on the problem quite directly, with the intention of both improving overall market dynamics by discouraging Cadillac plans, and providing an ACA funding source through penalty revenues. The political dynamics have delayed/diluted those intended benefits. Restoring, at least, and, ideally, expanding those penalties seems like a straightforward, if politically complicated, way of improving the effectiveness of the ACA.

2. Consumer impact
   - By directly attacking the two most fundamental problems in the ACA individual market, elements A and B should, by stabilizing that market and allowing for more insurers to

participate on economically reasonable terms, increase access and, for many/most individuals, cost. The fact that the young and healthy can be argued to, as a group, be paying more than their share is a fair point, but that sort of imperfect equity is a fact of life for any important public policy initiative.

- Element C would likely cause a meaningful segment of Cadillac plan participants to lose the embedded excess subsidies they currently receive, but that seems entirely appropriate given the benefits to the healthcare market as a whole.
- Finally, the Medicaid market should be unaffected relative to the reconfiguration of that market embedded in the ACA – the complex state-level political dynamics would continue to be complex.

3. Insurance impact
   - Elements A and B, by stabilizing and rationalizing the individual market, should improve marketplace economics/viability for health insurers, bring more insurers, more competition, and a generally more vital individual market.
   - Although element C would not have a direct impact on the individual market, the 2nd order beneficial effects of rationalizing overall consumer/insurer/provider economic relationships should enhance the individual market.
   - The viability of plan offerings and pricing should follow the benefits noted above. The regulatory burden should be unchanged.

4. Healthcare provider impact
   - By providing for a more stable and viable individual insurance market, elements A, B and C will have clear, but secondary, impacts on providers.
   - Element C will cause some deterioration in provider economics for those taking advantage of the perverse economics created by Cadillac plans currently, but the overall provider market will be well served by reversing those perverse incentives.

5. Government responsibilities
   - Element A should have no meaningful additional government role beyond effecting and enforcing stiffer penalties for not those not obtaining coverage in some form.
   - Element B will clearly call for additional government/taxpayer funding of the tail risk coverage. This would most likely be at the federal level, but could also be at the state level.
   - Element C would require additional governmental resources, likely federal, to effect and enforce broader/fuller Cadillac plan penalties. However, to the extent that structure leads to a more economically rational overall healthcare marketplace, that additional burden should be justified. Further, by incenting movement away from Cadillac plans, there should be a meaningful improvement in federal tax revenues as the overly generous tax subsidies decline.

Final note

Thank you to the RWJF, Milliman, and the Academy for sponsoring the AC. I appreciate the opportunity to participate.