Financial Stability

Below are articles related to achieving financial stability for various entities in the health care system:

Alphonso O'Neil-White Raised HealthNow to Financial Stability
By Jeff Adams March 4, 2013

Congratulations go out to Alphonso O'Neil-White who announced his intent to retire as CEO of HealthNow. Alphonso had almost 17 years of experience at HealthNow, 10 of which were as CEO. Alphonso is held in high regard by most who worked with him and has been credited with turning around HealthNow's financials and lifting HealthNow's surplus levels to that required by the State of New York. Having worked with Alphonso for almost five years in the early 2000s I note that the articles about Alphonso have missed a couple key points. Alphonso took over as CEO in 2003 at a time when his calm, good nature was a blessing for the company. These types of traits in leadership are often passed on to the lower levels and I would like to think it had some effect on me. Alphonso is also well known for his charity work including his role as President of "Say Yes to Buffalo", a charity that is very important to the Buffalo community as it gives youngsters a chance for education that they may not otherwise get. Good luck in all your future endeavors Alphonso!

In conjunction with Alphonso's retirement I thought I would write this article on the role of an actuary in helping to attain financial goals. If an actuary does his or her job well, the results can be substantially improved but, as my high school cross-country coach used to say, a chain is as weak as its weakest link, if an actuary does even an average job it can take years or decades to recover even if the rest of the team does a great job.

The actuary is responsible for development of a myriad of health care cost estimates and rates. These estimates and rates should be consistent with each other or, if not, precise differences should be noted. For example, if different trends are used in pricing versus the estimation of the Incurred but not Paid then this should be noted and the differences explained. Unforetunetely, I have seen many situations where the various areas within the Actuarial Department work in silos and may use different assumptions and different non-compatible data categorization. This may mean that if the monthly financial statement comes in different than expected then it may be impossible to determine the root cause.

In most situations the actuary is faced with the problem of having the impossible task of coming up with the "correct" answer by those who do not understand actuarial science. Similar to the weatherman, the actuary need only worry about coming as close as possible. For example, estimating annual incurred claims for a two billion dollar entity cannot be estimated exactly by the actuary. An estimate within 2% or forty million dollars should be considered acceptable, if a future period is being estimated, as long as reasons for the differences are determined. A key point in the actuarial world is that you must keep learning. Health care is constantly changing and actuarial models need to be improved constantly in order to keep up with these changes. If there is a period with relatively fewer changes then modifying the actuarial models should improve results. Never use models that you do not understand even if they use high level methodologies or statistical methods. These

can create erroneous results with the user having no idea that something is wrong with the model or why an error may be occurring.

The actuary also needs to understand the environment in which his estimates are made. For example, an insurance company actuary should have frequent meetings with key persons from other areas to understand any changes in claims processing, utilization management, provider relation issues, marketing, membership and billing, or any other area which could affect trends, claims payment patterns, incurred claims, premium levels, or administrative costs. Even apparent subtle changes could lead to substantial changes in estimates over a period of time.

The actuary needs to be creative, objective, stubborn, and thick-skinned at times. Developing and dispersing objective information can make life very difficult for persons if estimates change significantly due to this information. This can, and often does, include making life difficult for the actuary. Everyone is better off in the long run if the underlying issues causing changes in estimates are dealt with in a prompt and effective manner. There are occasions when situations are minor and can be dealt with behind the scenes but often trying to do this will result in future issues with much more substantial magnitudes.

Evaluating changes is an extremely important part of achieving financial goals. An actuary's job is not to approve changes but the actuary needs to be in a position to calculate the financial impact of any change. For example, provider relations may be given a budget of an acceptable increase in costs due to provider arrangements. Variance in actual contracts versus the budget is a known difference between the budget and actual financial statement. Likewise changes in utilization management need to be reviewed, not so the actuary can give approval but so that appropriate adjustments can be made to financial projections and trends.

There is a reason that most actuaries, including me, are considered to be conservative in their estimates. It is much better to overstate incurred claims by 3% than to understate by 1%, although it is obviously best to be exact. Understating incurred claims estimates will lead to understated trends and rates and cause financial losses in the future, often taking years to recover. With the unknowns of health care reform changes to be effective in 2014 it is safe to assume that actuaries will be conservative in their estimates. I am also assuming that in the end this conservativeness may not be enough to cover all the unknown issues that end up increasing costs but, after all, I am an actuary and that is how we think.