COURSE 8: Fall 2004 - 1 - GO TO NEXT PAGE Health, Group Life amp. MANAGED CARE MORNING SESSION 1. (4 points) You are an actuary for a reinsurance company. A business school professor at a local university has invited you to be a guest lecturer on the topic, "Reinsurance Program Management." Outline and describe the contents of your presentation, with respect to: i. information a reinsurance company should seek in order to decide whether to offer reinsurance to a customer ii. practices a reinsurer should follow to maintain a profitable reinsurance portfolio. 2. (5 points) You have been asked by your local Chamber of Commerce to speak on the topic of patient-directed healthcare benefit programs (PDHBs). (a) Describe key features of the principal types of PDHBs. (b) Contrast variations between types of PDHBs with respect to: i. extent to which consumers perceive money spent as their own when making healthcare cost and value judgments, ii. consumer flexibility in directing the use of employer-provided and personal healthcare funds, iii. extent of employer involvement in plan design and administration. (c) Identify possible changes in the U.S. tax rules that could encourage the use of PDHBs. COURSE 8: Fall 2004 - 2 - GO TO NEXT PAGE Health, Group Life amp. Managed Care Morning Session Questions 3 6 pertain to the Case Study 4. (6 points) You are an underwriter for Wonderful Life preparing a proposal for Bailey

Industries to replace their current dental plan with a managed dental care plan. Bailey Industries goals are as follows:

#61472. #8226. #61472. avoid adverse Oselection

#61472. #8226. #61472. maintain current employer contributions and plan design (a) Describe the features for each of the general types of dental benefit delivery systems. (b) Develop a chart ranking the plan types along the following parameters: premium, patient access, benefit richness, cost management, utilization, quality assurance, and fraud potential. (c) Evaluate the possible delivery systems based on Bailey Industries goals and make a recommendation as to a delivery system. Justify your response.

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7. (7 points) You are the health actuary reviewing the pricing assumptions and the first three years of experience for a given product. The following information is given: Classical Pricing Assumptions Product Duration: 5 Years interest rates: 0.0% annual lapse rate: 20.0% target loss ratio: 60.0% tabular claims cost

Duration	Tabular Claims Cost	Selection Adjustment
0	10.0	0.05
1	11.0	1.1
2	12.0	1.1
3	13.0	1.1
4	14.0	1.1

Experience Data

Duration	Mbrs	Actual Claims
0	1,000	6,000
1	770	10,000
2	650	11,000
3	500	-
4	350	-

Cumulative AntiOselection Theory Assumptions $K1 = -$ $K2 = 4$ u 0.10

(a) (1 point) Describe how CAST differs from classical (Oselect and ultimate) theory. (b) (2 points) Calculate the gross premium using the classical pricing assumptions. Show your work (c) (4 points) Calculate the gross premium using CAST assumptions. Show your work.

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