



Joint Colloquium of the IACA, PBSS and IAAHS Sections of the International Actuarial Association

Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

HM4: The Missing Link: Framework for Research On Actuarial Valuation of Public Healthcare programs Around the Globe

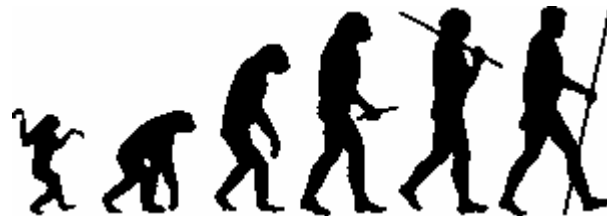
Claude Ferguson, FSA, FCIA

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The Missing Link

- What are the best practices that enhance public plan's funding performance?
 - Do actuaries add value by providing long-term projections and valuation?
 - At what point does it become clear that a PAYG should start being managed with a longer term perspective?
 - Why isn't Medicare looked at more seriously?



The Quest For Fire

- A case for an international study
- Comparisons are difficult
- When managing behind closed doors becomes a performance issue?

Framework for Research On Actuarial Valuation of Public Healthcare

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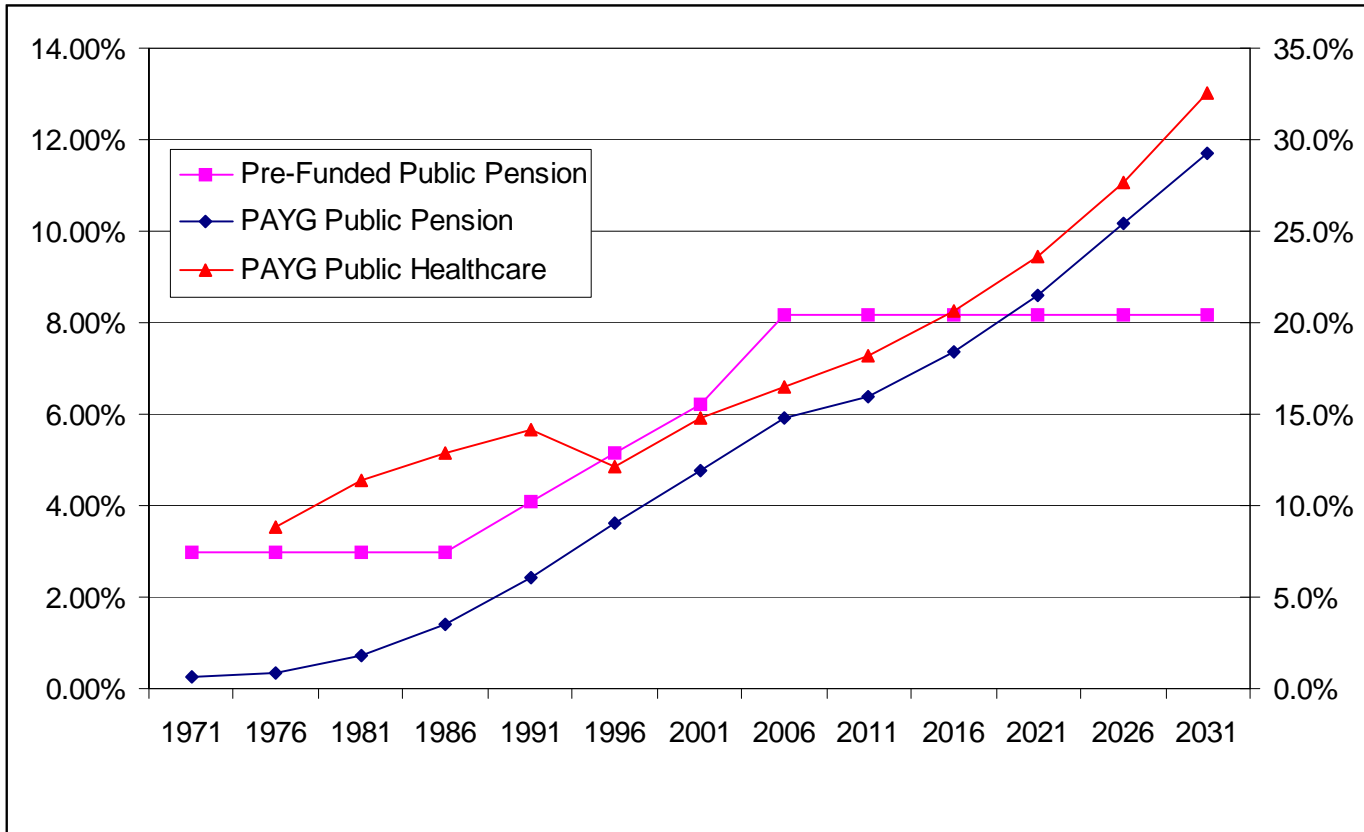
Likely List of Best Practices

- Long Term Financial Projections
- Publicly Accountable Valuation Process
 - Limited political interference
- Regular Review
- Capitalization
 - Public vs Private
 - Strategic Investments
- Cost & Risk Management

Likely List of Benefits

- Lower Long-Term Cost
 - Qualitative requirements
- More Stability in Funding Level
- Special Considerations
 - Pension: Increase savings
 - WCB: Better risk control
 - Medicare: Freedom to Choose

To Ride Or Not To Ride The PAYG Curve



To Ride Or Not To Ride The PAYG Curve

- Pros
 - Front-ending spending
 - The future may still hold unforeseen development
 - How do we measure and deliver gains?

To Ride Or Not To Ride The Age Curve

- **Cons**
 - Inter-generational transfers
 - Borders won't stop young workers

Public Pension Funding

Country	Program(s)	Contribution Rate	NRA	Adjusted Contrib. Rate
Canada	OAS + CPP	9.6%	65	18.1%
USA	SS + SSI	6.2%	65	10.1%
UK	BSP + S2P	23.8%	65	47.6%
France	Régime Général	24.6%	60	34.4%
Germany	GRV	20.0%	65	20.0%
Japan	NP + EPI	15.0%	60	17.4%
Italy	FPLD	32.7%	60	28.6%

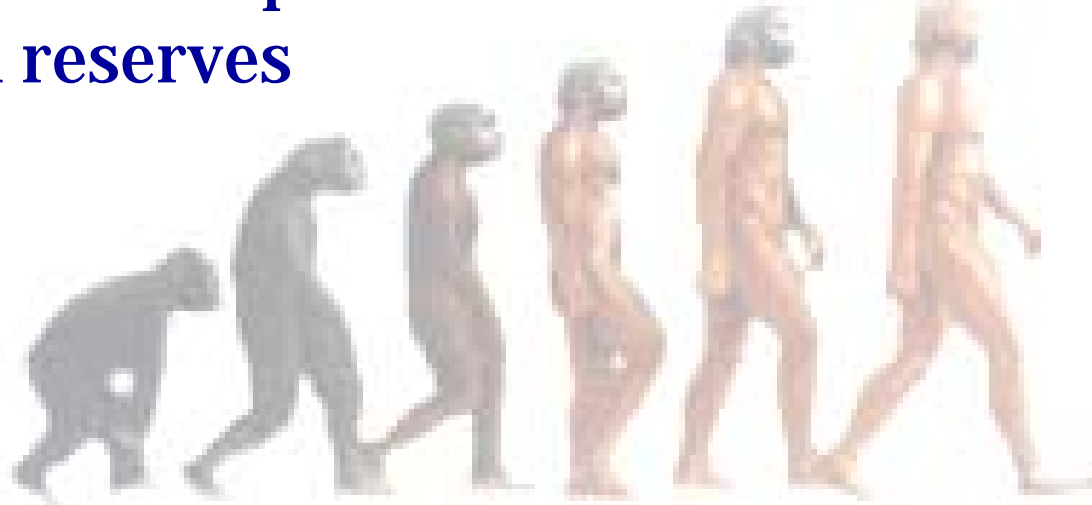
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Sound risk management: The case of Workers' Comp programs

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Natural Evolution

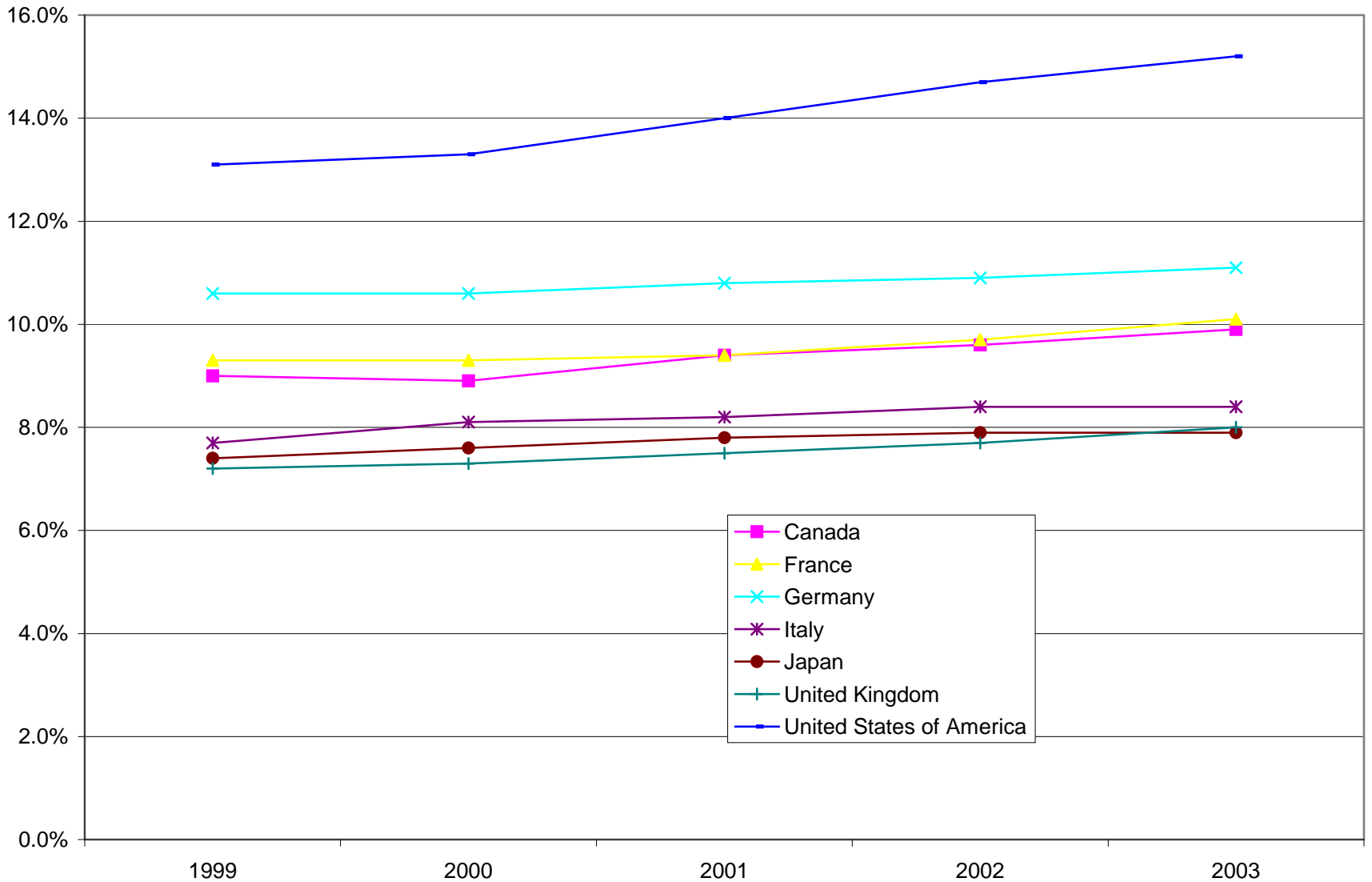
- From PAYG to Level Long-Term Funding
 - Need to control costs
 - Need to maintain adequate financial incentives to act in a sound economic way
 - Need to setup effective investments to back reserves



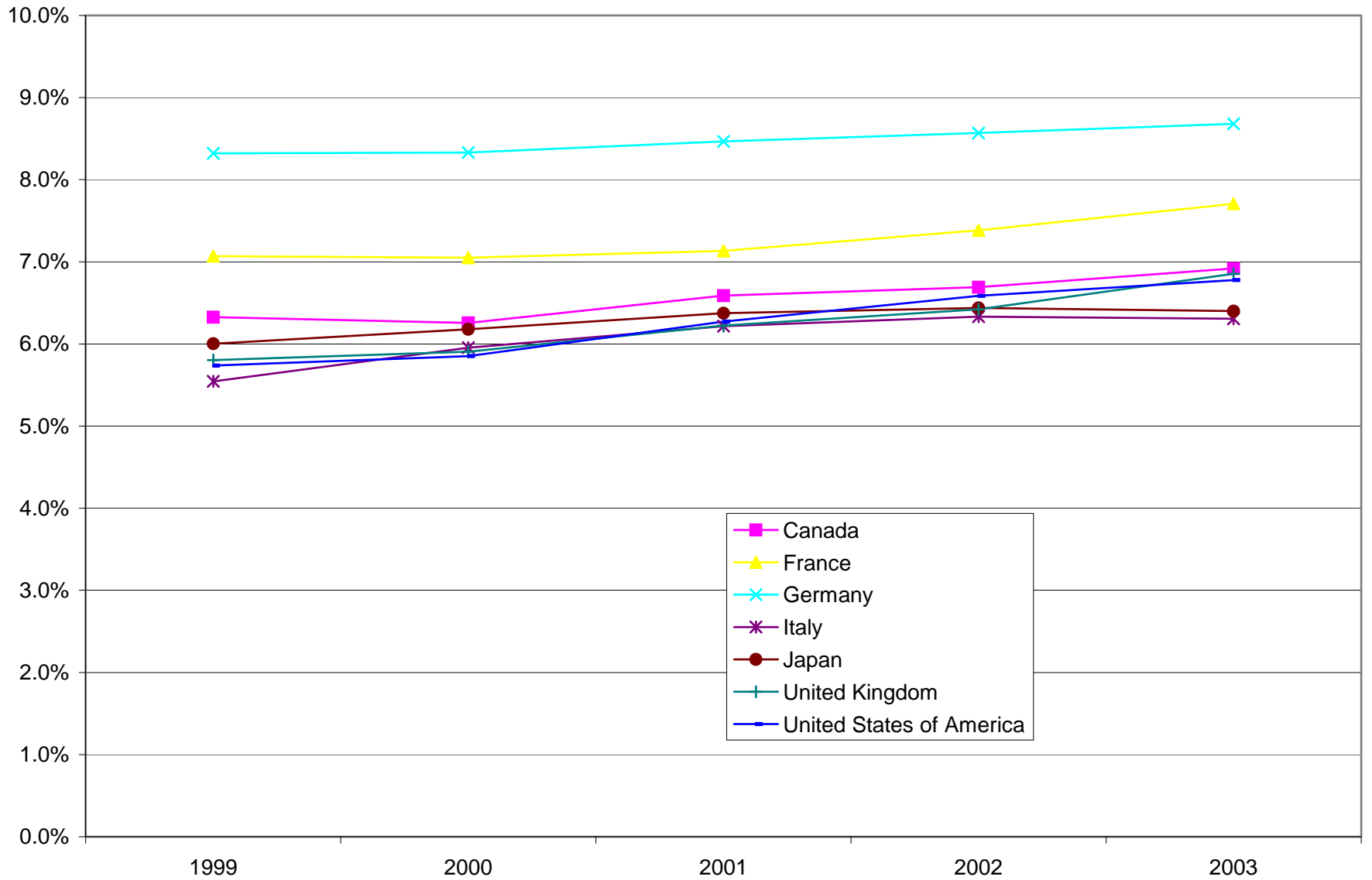
Public Healthcare

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Total Expenditure on Health as % of GDP (WHO)



Public Expenditure on Health as % of GDP (WHO)



Special Considerations

- Encompass both long-term & risk management elements
- Control through funding vs. regulated market

Opportunities

- **Steep cost trends and budget cuts**
 - Avoid arbitrary cuts
- **Sound economic behaviour**
 - Invest now to save more later
- **Generate reserves to support strategic investments**

Building From Global Know-How

- Building a business case from past experience
- Understand the consequences of poor planning

What Next?

- **Develop the research project & team**
- **Run survey interviews**
- **International Report**