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August 31, 2011

Doug Porter
Administrator
Washington Health Care Authority
676 Woodland Square Loop SE
Lacey, WA 98503

Subject: Improving the performance of the Milliman Seattle Health Practice

Dear Doug:

As you know, I have been a senior actuarial consultant for the Seattle Health Practice of Milliman, Inc. In the last year I led the Milliman team in helping the Health Care Authority (HCA) assess the potential market impact of establishing a Health Benefit Exchange in the State¹, and recently I led the Milliman team helping HCA redesign the health benefits system for Washington K-12 employees.

You may also know that this week I resigned from Milliman. This letter brings to your attention three main reasons why I resigned, because they directly affect HCA and the State of Washington:

- **Low quality.** Based on over thirty years of actuarial consulting practice, with several consulting firms, I found the quality of work produced by the Seattle Health Practice to be extremely low. Work is not adequately checked or peer reviewed; nor are there adequate formal processes in place for such checking or peer review. As a result, the Seattle Health Practice consistently produces work that is poorly communicated, and that often has serious flaws. During my employment with Milliman, I repeatedly brought this problem to the attention of the three equity principals of the Seattle Health Practice, and suggested many concrete ways to improve the situation. But my comments were ignored, and no improvements were made.

Suggested HCA actions: Because HCA does so much work with Milliman, I suggest that you take the following actions to encourage the Seattle Health Practice to improve the quality of its work:

- **Audit work products.** Periodically, engage an independent third party to audit Milliman's work. You might start with Milliman's recent calculation of the approximately \$6 million pay-for-performance reimbursement that HCA paid the Community Health Plan of Washington, for its administration of the Disability Lifeline program. The actuarial methodology underlying the calculation appears to be flawed.

¹ Results of this work, in particular the Market Impact Analysis report, may be found at www.hca.wa.gov/hcr/exchange.html

- **Specify quality assurance processes.** In your contracts and work orders with Milliman, specify the quality assurance processes that must be followed, and require documentation, including quality assurance metrics, that the processes were followed. Do not rely on verbal assurances that quality processes were followed.

- **Inflated costs.** The fees that Milliman Seattle Health Practice charges are inflated, by design. Milliman could introduce several ways to streamline work processes and reduce fees – and I suggested several – but it elects to operate in ways that maximize its income, enriching its equity principals at the expense of the State. For instance, I suggested introducing new technology that would make the analytic work of the Seattle Health Practice more efficient, and was told that the suggestion was a bad idea, because it would reduce the firm’s income.
Suggested HCA actions: To break up the near monopoly that Milliman has over HCA projects, I suggest introducing other firms that will provide competition and thus help reduce consulting costs.

- **Low professional integrity.** The Milliman Seattle Health Practice places its profit ahead of doing the right thing. For example: Until this week I led the Milliman team to help HCA redesign the health benefit system for K-12 employees. As you know, a State budget proviso directed HCA to carry out this project and provided \$1.2 million to fund it.

Last week I informed Tim Barclay, one of the Seattle Health Practice equity principals, that I would have to excuse myself from the project, for the following reasons: It appeared to me that John Williams, the HCA project director, was planning to base his recommendations for a redesigned system on inadequate data, in effect relying on vague impressions instead of facts. I told John several times that I strongly objected to such an approach, and felt that it would likely produce biased results. John responded by telling me not to mention my concerns again and threatening to dismiss Milliman from the project. Consequently, I informed Tim Barclay that, according to the actuarial code of professional conduct, I would have to excuse myself from the project. And I drafted a letter to John, giving reasons why I must excuse myself. As a courtesy, I showed the draft letter to Tim. Although Tim could point out nothing specifically inappropriate with the substance or the tone of the letter, he strongly objected to sending it. He said that the livelihoods of several people in the Seattle Health Practice (including his) depend on income from the State, and that the letter might anger John and disrupt the income. (Incidentally, I should mention that in over thirty years of working as a consultant, with hundreds of clients, I have never made another such decision about working with a client. I should also mention that no one within Milliman disagreed with my assessment of John’s handling of the K-12 project.)

Suggested HCA actions: Because I understand that John Williams was recently removed from the HCA position of Director of the Division of Public Employees Benefits – due to similarly aggressive and unreasoned behavior – I suggest that you reconsider the decision for him to lead the K-12 redesign project. I further suggest that you encourage the Milliman Seattle Health Practice to place its professional duty to HCA and the State ahead of its desire for profit.

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My hope is that this letter will help to improve the performance of the Milliman Seattle Health Practice, and to improve the services it provides HCA and the State.

My comments only apply to the Milliman Seattle Health Practice, and, of course, only to the parts of that practice that I have experienced. There may be pockets of high quality, reasonable cost, and high professional integrity within the practice that I never saw. Also, my comments do not apply to other Seattle practice areas, or to other Milliman offices. As you know, Milliman practice areas and offices are largely independent from one another.

If you have questions or comments about this letter, please feel welcome to contact me.

Respectfully,



Alan Mills, FSA MAAA ND

Copy:

John Williams – HCA

Tim Barclay – Milliman

Will Fox – Milliman

Kathi Patterson – Milliman

Lance Hunsinger – Community Health Plan of Washington

Richard Onizuka – HCA

Karen Keiser – Washington State Senate

Eileen Cody – Washing State House of Representatives

Mary Lindquist – Washington Education Association

Pat Grannan – Milliman