

Interpretation of the Emerging Accounting Issues Working Group

INT 01-01: Application of SSAP No. 6 Paragraph 9.a. to de minimus Receivable Balances of Group Accident and Health Policies

ISSUE NULLIFIED BY SSAP NO. 6

INT 01-01 Dates Discussed

December 4, 2000; March 26, 2001

INT 01-01 References

SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers (SSAP No. 6)

INT 01-01 Issue

1. The following guidance is contained in paragraph 9.a. of SSAP No. 6:
 9. Nonadmitted amounts are determined as follows:
 - a. Uncollected Premium—To the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted;
2. The last sentence of this paragraph is a new NAIC accounting principle for group accident and health contracts and appears to overlook the situation where the substantial preponderance of an installment has been paid. This can have an unduly punitive effect in the case of companies engaged in group accident and health business. In this case, insured groups are typically billed on a monthly installment basis. The amount of the bill is based on the insurer's records of the customers' membership. It is not unusual that a customer will subsequently remit its payment based on its own membership records which, due to frequent changes in the customer's employee base, may vary from that of the insurer. Such variances are normal in this type of business and are typically resolved through a reconciliation process in the normal course of business. Such reconciliation process is generally the result of:
 - a. The addition or deletion of members within the group (i.e., hiring and termination activities of the group policyholder) including collection of information necessary to complete a certificate record (e.g. SSN, HIPAA prior eligibility status, etc.);
 - b. Status changes by enrollees due to life events (i.e., marriage, divorce, birth of child, etc.);
 - c. Apportionment of remittances related to affiliated multiple legal entities (i.e., large national accounts);
 - d. Inadequate documentation from a group policyholder; and
 - e. Open enrollment documentation not provided by a group on a timely basis.

3. This reconciliation process is performed by the insurer and, once agreement is reached, a correcting bill (or credit memorandum) is issued to adjust or clear the residual balance. In certain circumstances, especially for larger groups or for groups with complicated membership records, the reconciliation of membership records will not be completed before the residual balance has aged more than ninety days from the due date of the original billing. When that is the case, a strict interpretation of SSAP No. 6, paragraph 9.a. requires that the customer's entire current balance be nonadmitted because of the existence of the *de minimus* balance.

4. This result is particularly punitive when, as is often the case, the customer routinely remits payment on a timely basis but where minor residual balances remain on the account aging pending agreement between the insurer and customer in relation to membership reconciliation issues. It should also be noted that, because billing is typically on a monthly basis in group accident and health business, it is unlikely that there will be a significant unearned premium balance to be applied to the more current receivable balance, thereby increasing the magnitude of the effect described above.

5. The accounting issue is whether it is appropriate that the existence of a *de minimus* over ninety-day balance on a group accident and health contract should cause the entire balance of the recorded future installments to be deemed nonadmitted.

INT 01-01 Discussion

6. The working group reached a consensus that the existence of a nonadmitted *de minimus* over ninety-day balance would not cause future installments that have been recorded on that policy to also be nonadmitted. The scope of this interpretation is limited to group accident and health contracts as described in the accounting issue. For purposes of this interpretation, installment premiums include monthly billed premiums on group accident and health policies. The working group also noted that the *de minimus* over ninety day balance itself would still be treated as nonadmitted as it is over ninety days old and that pursuant to SSAP No. 6 paragraph 10, the entire current balance is subject to a collectability analysis.

INT 01-01 Status

7. No further discussion is planned.