NAIC National Association of Insurance Commissioners

Date: 7/12/19

Conference Call

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Wednesday, July 17, 2019
1:00 p.m. ET / 12:00 noon CT / 11:00 a.m. MT / 10:00 a.m. PT
9:00 a.m. Alaska / 7:00 a.m. Hawaii

ROLL CALL

Patrick McNaughton, Chair	Washington	Kristi Bohn	Minnesota
Steve Ostlund	Alabama	Rhonda Ahrens	Nebraska
Rolf Kaumann	Colorado	Annette James	Nevada
Wanchin Chou	Connecticut	Christine Gralton	New York
Carolyn Morgan/Kyle Collins	Florida	Kimberly Rankin	Pennsylvania
Tish Becker	Kansas	Mike Boerner/Aaron Hodges	Texas

NAIC Support Staff: Crystal Brown/Eva Yeung

AGENDA

1. Consider Adoption of its June 24 and May 13 Minutes—*Patrick McNaughton (WA)* — Attachment A
2. Discuss 2018 Health RBC Statistics—*Patrick McNaughton (WA)* — Attachment B
3. Consider Adoption of the 2019 Health RBC Newsletter—*Patrick McNaughton (WA)* — Attachment C
4. Discuss Instructions for Health Care Receivable Proposal (2019-04-H)—*Patrick McNaughton (WA)* — Attachment D
5. Discuss Managed Care Credit—*Patrick H. McNaughton (WA)*
6. Hear an Update on Health Test Ad Hoc Group—*Patrick McNaughton (WA)*
7. Discuss Any Other Matters Brought Before the Working Group—*Patrick McNaughton (WA)*
8. Adjournment

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Draft: 7/9/19

Health Risk-Based Capital (E) Working Group
Conference Call
June 24, 2019

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call June 24, 2019. The following Working Group members participated: Patrick McNaughton, Chair, David Hippen and Steve Drutz (WA); Yada Horace (AL); Sydney Sloan (CO); Wanchin Chou (CT); Carolyn Morgan and David Roberts (FL); Tish Becker (KS); Kristi Bohn (MN); Lindsay Crawford (NE); Christine Gralton (NY); and Chuck Sha (TX).

1. Discussed LTC HMO Guaranty Fund Memo

Mr. McNaughton said the Working Group had hoped to finalize the Long-Term Care (LTC) Health Maintenance Organization (HMO) Guaranty Fund Memo to send to the Capital Adequacy (E) Task Force. However, based on recent discussions with other state insurance regulators, he recommended that the Working Group hold the referral letter for some additional analysis and review. He said there were some other potential impacts that need to be considered, and he recommended that NAIC staff investigate this further.

Hearing no objections, the Working Group agreed to hold the letter, and it requested that NAIC staff complete additional analysis.

2. Exposed the Proposed Changes to the Bonds Structure

Mr. McNaughton summarized the proposed structural changes to the bond designation breakout, including the recommended bond factors from the American Academy of Actuaries (Academy). The following pages will be impacted: 1) XR006 – Off-Balance Sheet Security Lending Collateral will reflect the 20 separate bond designations; 2) XR007 – Bonds & Miscellaneous Assets will be broken into two pages, XR007.1 and XR007.2. Page XR007.1 will be the 20 bond designations, including electronic-only tables used to the calculate the bonds by category; and Page XR007.2 will include the Miscellaneous Assets; 3) in XR009 – Equity Asset, the hybrid security lines will be removed; 4) in XR011 – Asset Concentration, the 20 separate bond designations will be added; and 5) XR024 – Calculation of Total Risk-Based Capital After Covariance will include the new page and line references. Mr. McNaughton said the Working Group still plans to recommend that the bond portfolio adjustment factor be incorporated into the bond factors, rather than a separate bond portfolio adjustment as previously recommended in the referral letter to the Investment Risk-Based Capital (E) Working Group.

James Braue (UnitedHealth Group—UHG) summarized UHG's comments to the Investment Risk-Based Capital (E) Working Group as a follow-up to its Oct. 4, 2018, letter regarding modeling completed by the Academy that did not include investment income. He said there were reasons cited in the modeling for the life business as to why it would not be appropriate to include the investment income, but those reasons did not seem to apply generally to health business. He said UHG suggested that there be some recognition of investment income earned at the same time as investment losses occurred, and this could be used as an offset. He said the comment letter was sent to clarify that only investment income that is contemporaneous with the losses themselves would be used and could, therefore, be used at that time to offset the losses. He said it was understood that adjusting the Academy's model to reflect this may be difficult, and he proposed a simplified bottom line adjustment that would be conservative but still, to some degree, appropriately reflect investment income in the calculation. He said this could easily be applied to get approximately the same results if investment income was reflected. He said some of the factors, including investment income, could be a significant proportional reduction to the factor as originally proposed. He said not making the adjustment could result in significant conservatism to those factors. Mr. McNaughton said the Working Group will continue to include investment income in future discussions of the bond structure and factors.

Bill Weller (America's Health Insurance Plans—AHIP) said he has previously asked the Academy to use a market risk factor in calculating the speculative grade bond factors. However, the application to the speculative grade bonds in the bond portfolio adjustment is based upon the testing done of the binomial theorem in terms of the size of the portfolio, where the issue is a small default rate, and the smaller the number of bonds, the greater the variation. Mr. Weller said that makes sense when applying a factor to a default model, but when you move to the market risk, it does not make sense to apply the same portfolio adjustment. He asked that the Working Group request that the Academy look at this further.

Hearing no objections, the Working Group agreed to expose the draft of the proposed changes to the bond structure for a 30-day public comment period ending July 24.

3. Exposed the Excessive Growth Charge Referral Letter

Mr. McNaughton said the Working Group received the Excessive Growth Charge referral letter from the Operational Risk (E) Subgroup, and it established an ad hoc group to evaluate the proposed recommendations at the Spring National Meeting. The four main recommendations are: 1) given the current array of company types that now file health risk-based capital (RBC), the variables used in the application of the 10% threshold should be reversed; i.e., the charge is assessed if risk revenue is increasing faster than RBC; 2) determine if a 10% threshold is still reasonable; 3) the normal growth risk calculation (existing or as adjusted) should apply to start-up companies. If not, adjustments should be applied to the calculation for start-ups; and 4) the health RBC growth risk methodology (existing or as adjusted) should be adopted into the life RBC formula for companies that write a material amount (e.g., > X%) of their premiums in health business, where such business would be subject to the growth risk calculation in the health RBC formula.

Mr. McNaughton recommended that prior to the ad hoc group meeting, the Working Group expose the referral letter to request feedback and comments on the four recommendations included in the referral letter. He said the ad hoc group could then use these comments as a starting point of discussion.

Hearing no objections, the Working Group exposed the Excessive Growth Charge referral letter for a 30-day public comment period ending July 24.

4. Discussed Other Matters

Mr. McNaughton said the Working Group will meet on July 17, and it will not meet at the Summer National Meeting.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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Draft: 7/9/19

Health Risk-Based Capital (E) Working Group
Conference Call
May 13, 2019

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call May 13, 2019. The following Working Group members participated: Patrick McNaughton, Chair, and Steve Drutz (WA); Steve Ostlund (AL); Rolf Kaumann and Sydney Sloan (CO); Andrew Greenhalgh and Wanchin Chou (CT); Carolyn Morgan, David Roberts and Kyle Collins (FL); Tish Becker (KS); Kristi Bohn (MN); Annette James (NV); Christine Gralton and Stephen Wiest (NY); and Aaron Hodges (TX).

1. Adopted it Spring National Meeting Minutes

The Working Group met at the Spring National Meeting and took the following action: 1) adopted its March 6, 2019, Feb. 1, 2019, and Dec. 3, 2018, minutes; 2) received the Excessive Growth Charge memo from the Operational Risk (E) Subgroup; 3) exposed proposal 2019-04-H for a 30-day public comment period; 4) adopted updates to its 2019 working agenda; and 5) received an update from the Annual Statement Health Test Ad Hoc Group.

Mr. Ostlund made a motion, seconded by Mr. Chou, to adopt the Working Group's April 7 minutes (*see NAIC Proceedings – Spring 2019, Capital Adequacy (E) Task Force, Attachment Four*). The motion passed unanimously.

2. Discussed Comments Received on Proposal 2019-04-H

Mr. McNaughton said the health care receivable proposal was exposed for comment until May 7 at the Spring National Meeting, during which time one comment letter was received from UnitedHealth Group (UHG). The purpose of the proposal was to change the credit risk portion of the risk-based capital (RBC) formula to apply an additional charge when the reported recovery against the prior year accrual was zero or low and seeks to avoid charging substantial amounts for those companies that are reporting recoveries in line with prior accruals. The hope is that the changes to the formula (which adds to RBC when recoveries are not reported) will prompt companies to improve their reporting of recoveries on the accrued health care receivables. The proposal recommends implementing on an informational-only basis for 2020 reporting for two years; after this two-year period, the change would be implemented with the charge to RBC.

James Braue (UHG) provided a summary of UHG's comment letter (Attachment 2__) that included five main points: 1) the mathematical structure of the formula; 2) asymmetry; 3) the exclusion of remaining receivables; 4) the lack of proportionality; and 5) the limitation to one year of history. He said the proposal does not provide a credit for those companies that have good collection experience. He said in addition to using the actual collections from Exhibit 3A, the remaining receivables from Exhibit 3A should also be taken into account, in recognizing that those receivables are subject to the normal rules of being written off and subject to audit and examination. He said in light of UHG's comments, it suggests that an alternative calculation be used as noted in its comment letter.

Kevin Russell (American Academy of Actuaries—Academy) said on the issue of asymmetry, the Academy is looking for a factor that would be less than the current 5% for pharmaceutical rebates and based on analysis of recent data; if those companies that did not report collections were taken against their pharmaceutical rebates and a factor was developed based on those who had a substantial reported, the resulting factor would be less than 5%. Similarly, for the other factors, the hope is that it would be a factor lower than 19%. He said on the issue of multiple years of data is more complex; however, this should be information that companies can find. He said the issue that the proposal is trying to remedy is that companies are not reporting collections that are being made. He said that the Academy could look to see if receivables of a certain type reported year after year for a company result in a risk charge that is out of proportion to the current charge. He asked how complex the Working Group wanted to make the calculation. He said the Academy will look into factors for the proposed calculation during 2019 for the 2020 and 2021 information-only implementation periods.

Mr. Russell said the proportionality of the factor was not originally addressed in the proposal, but the Academy could look to see what differences there are. Mr. Ostlund said the three years seem to address the percentage of the receivable that is paid off, whereas using one year leads to fluctuation and using three years would lead to an average recoverability. However, it would be more complex and questioned the value in the increased complexity. Mr. McNaughton said there does seem to be some link between the proportionality and the multiple year question. Mr. Braue said they could be addressed separately, but

there is a connection between the two. Ideally the risk charge will be based on absolute terms on the current year receivable, and it should be proportional. Therefore, the question is whether that one-year experience should be used or something on average terms.

Bill Weller (America's Health Insurance Plans—AHIP) said he has worked with the Academy on this project, and it is more frequent that more companies consistently report zero against the prior year receivable versus another set of companies that reports a significant payment against them. The question is whether those companies who report zero should be removed when calculating the factor. The Academy did not feel that this was appropriate, and this is a proposal to encourage companies to report payments. The problem with three years, is that it will include 2019, and there will be a lot of companies that reported zero; and if companies report correctly, the change will be insignificant. Mr. Weller said AHIP would be supportive of UHG's proposal of asymmetry.

Mr. Ostlund said he feels more comfortable using the one year rather than three years, and he feels that it would be less complex. Mr. McNaughton said after several years of an information-only basis, a factor can be developed that is truly reflective of what is happening. He said the Working Group will continue to work on this proposal during future conference calls.

3. Discussed Comments Received on Proposal 2018-17-CA

Mr. McNaughton said the capitations to providers and intermediaries credit risk exemption worksheet proposal was exposed for comment until May 7 by the Capital Adequacy (E) Task Force at the Spring National Meeting, during which time one comment letter was received from UHG. The purpose of the proposal is to make the existing capitations to providers and intermediaries credit risk exemption worksheet table included in the forecasting spreadsheets captured electronically.

Mr. Braue provided a summary of UHG's comment letter (Attachment 2__). He said the purpose of the worksheets is to determine the amount that can be received to reduce the risk charge because of a security from the capitated providers that would mitigate the risk. Companies only need to complete the worksheets if in fact they are taking credit for those capitations.

The Working Group agreed to revise the last sentence of the instructions for page XR019, Line 19 and 22 with a friendly amendment to the following: "The worksheet to calculate the exemption is shown following these instructions (and is to be filed electronically if any data is included)."

Mr. Ostlund made a motion, seconded by Mr. Chou to refer proposal 2018-17-CA to the Capital Adequacy (E) Task Force for consideration, with the friendly amendment to the last sentence of the instructions for Line 19 and 22 on page XR019. The friendly amendment would be incorporated into the life and property/casualty (P/C) RBC instructions as needed.

4. Exposed the LTC HMO Guaranty Fund Memo

Mr. McNaughton said he Working Group received a request from the Capital Adequacy (E) Task Force to review the referral letter regarding adopted amendments to the *Life and Health Insurance Guaranty Association Model Act* (#520) and determine if changes were warranted to the health RBC formula. The referral outlined significant amendments to Model #520, including: 1) broadening the assessment base for long-term care insurance (LTCI) insolvencies to include both life and health insurers and splitting the assessment 50/50 between the life and health insurers; 2) clarifying the guaranty associations' coverage of LTCI; and 3) including health maintenance organizations (HMOs) as members of the guaranty association, similar to other health insurers.

Mr. McNaughton said a response letter was drafted to the Capital Adequacy (E) Task Force regarding the items noted in the referral letter. A review of the current health RBC formula shows that there is a guaranty fund assessment risk charge under the H4-Business Risk component of 5% that is applied to direct earned premiums (as reported in Schedule T) in any state in which the reporting entity is subject to guaranty fund assessments. Based on the current instructions and reporting, no modifications need to be made to the health RBC formula as a result of this change at this time.

Hearing no objections, the Working Group exposed the response letter for a 15-day public comment period ending May 28.

5. Discussed Other Matters

Mr. McNaughton said the Annual Statement Health Test Ad Hoc Group continues to make progress towards revising the annual statement health test language. He said the Working Group is in the process of setting up the Excessive Growth Charge Ad Hoc Group.

Mr. Weller asked if the Working Group will continue to look at the managed care credit calculation. Mr. McNaughton said it was added to the working agenda, and it will be discussed during future conference calls.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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Aggregated Health Risk-Based Capital Data
2018 Data as of 6/10/2019

Attachment B

	2018 Health RBC Excluding ACA Fees	2018 Health RBC	2017 Health RBC Excluding ACA Fees	2017 Health RBC	2016 Health RBC Excluding ACA Fees	2016 Health RBC	2015 Health RBC Excluding ACA Fees	2015 Health RBC	2014 Health RBC Excluding ACA Fees
Companies that have an RBC loaded on the database	965	965	937	937	925	925	897	897	867
Companies with action levels:	18	18	42	21	29	29	52	30	53
Percentage of total RBC's loaded	1.87%	1.87%	4.48%	2.24%	3.14%	3.14%	5.80%	3.34%	6.11%
Company Action Level - Trend Test	13	13	23	12	21	21	21	18	18
Company Action Level	4	4	24	10	11	11	29	11	33
Regulatory Action Level	5	5	10	5	7	7	9	6	9
Authorized Control Level	2	2	0	0	2	2	4	3	1
Mandatory Control Level	7	7	8	6	9	9	10	10	10
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	4,487,634,571	4,487,634,571	4,332,880,131	4,332,880,131	4,493,219,396	4,493,219,396	3,893,459,131	3,893,459,131	3,622,960,937
Total H1 (H1 - Asset Risk - Other)	8,589,245,210	8,589,245,210	8,315,790,867	8,315,790,867	7,921,892,268	7,921,892,268	7,659,382,219	7,659,382,219	7,552,881,145
Total H2 (H2 - Underwriting Risk)	40,572,604,055	40,572,604,055	38,787,031,590	38,787,031,590	37,373,980,544	37,373,980,544	34,616,912,503	34,616,912,503	30,557,385,330
Total H3 (H3 - Credit Risk)	3,408,034,022	3,408,034,022	3,143,155,975	3,143,155,975	2,984,343,101	2,984,343,101	2,405,183,866	2,405,183,866	2,030,261,889
Total H4 (H4 - Business Risk)	6,468,297,728	6,468,297,728	5,739,438,653	5,739,438,653	5,944,456,839	5,944,456,839	5,570,359,394	5,570,359,394	5,245,138,671
Total RBC Before Covariance	63,525,815,586	63,525,815,586	60,318,297,216	60,318,297,216	58,717,892,148	58,717,892,148	54,145,297,113	54,145,297,113	49,008,627,972
Total Adjusted Capital	156,735,204,883	156,738,377,038	132,169,821,412	142,062,265,048	127,791,918,125	127,791,918,125	107,189,575,241	118,319,242,178	107,189,575,241
ACA Fees	3,172,155		9,892,443,636				7,884,953,055		7,732,400,497
Authorized Control Level RBC *	25,020,328,688	25,020,329,600	23,228,424,178	23,228,428,544	22,627,572,566	22,627,572,566	20,833,262,872	20,833,262,872	18,677,238,326
Aggregate RBC %	626%	626%	526%	612%	565%	565%	477%	568%	533%
Median RBC %	668%	668%	609%	640%	586%	586%	563%	599%	568%
# of Companies with an RBC Ratio of > 10,000%	134	134	112	112	98	98	85	86	76
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	223	224	213	213	197	197	180	193	189
# of Companies with an RBC Ratio of < 1,000% & > 500%	267	267	251	251	238	238	225	243	233
# of Companies with an RBC Ratio of < 500% & > 300%	256	255	268	268	283	283	257	274	227
# of Companies with an RBC Ratio of < 300% & > 200%	67	67	71	71	80	80	98	71	89
# of Companies with an RBC Ratio of < 200%	18	18	21	21	29	29	52	30	53
# of Companies with an RBC Ratio of Zero	0	0	1	1	0	0	0	0	0
Total Companies with RBC	965	965	937	937	925	925	897	897	867
Total Revenue	689,327,716,795	689,327,716,795	643,856,047,265	643,856,047,265	618,070,205,766	618,070,205,766	571,270,929,596	571,270,929,596	510,982,594,474
Underwriting Deductions	668,918,380,940	668,918,380,940	625,985,270,784	625,985,270,784	608,695,405,288	608,695,405,288	565,028,111,041	565,028,111,041	503,992,572,847
Aggregate Premium	271,400,290,484	271,400,290,484	262,662,393,744	262,662,393,744	255,794,480,149	255,794,480,149	246,526,839,565	246,526,839,565	239,105,864,078
Aggregate Net Incurred Claims	639,855,407,114	639,855,407,114	511,376,831,853	511,376,831,853	491,142,322,597	491,142,322,597	452,381,560,907	452,381,560,907	401,918,682,815

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Source: NAIC Financial Data Repository

2014 Health RBC	2013 Health RBC Excluding ACA Fees	2013 Health RBC
867	853	853
28	20	14
3.23%	2.34%	1.64%
18	19	11
13	10	7
6	4	1
2	3	3
7	3	3
3,622,960,937	4,611,973,449	4,611,973,449
7,552,881,145	7,431,066,922	7,431,066,922
30,557,385,330	26,207,312,324	26,207,312,324
2,030,261,889	1,657,141,288	1,657,141,288
5,245,138,671	4,306,986,793	4,306,986,793
49,008,627,972	44,214,480,776	44,214,480,776
114,921,975,738	117,066,725,839	117,066,725,839
	4,077,086,741	
18,677,245,006	16,932,423,585	16,932,423,585
615%	667%	691%
612%	624%	646%
76	106	106
199	197	201
255	203	220
241	231	231
68	96	81
28	20	14
0	0	0
867	853	853
510,982,594,474	439,315,748,530	439,315,748,530
503,992,572,847	429,741,068,510	429,741,068,510
239,105,864,078	219,147,545,373	219,147,545,373
401,918,682,815	345,667,002,792	345,667,002,792

Source: NAIC Financial Data Repository

NAIC Health Risk-Based Capital Newsletter

August 2019
Volume 21.1

What RBC Pages Should Be Submitted?

For the year-end 2019 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR026** to any state that requests a hard copy in addition to the electronic filing. Beginning with year-end 2007, a hard copy of the RBC filings was not required to be submitted to the NAIC. Other pages, such as the capitations worksheet, do not need to be submitted. Those pages would need to be retained by the company as documentation.

Operational Risk

The Capital Adequacy (E) Task Force adopted proposal 2019-01-O to remove the Operational Risk Informational Only Excessive Growth Risk page from the health RBC formula at the 2019 Spring National Meeting.

Label for H0 Asset Risk

As a result of the adoption of proposal 2018-05-CA by the Capital Adequacy (E) Task Force during its June 28, 2018, conference call, the label for the H0 component was modified to be more accurate and to prevent confusion and misunderstanding.

Stop Loss Interrogatories

As a result of the adoption of proposal 2018-14-CA by the Capital Adequacy (E) Task Force at the 2019 Spring National Meeting, the electronic only stop loss table 2 was split out between specific stop loss and aggregate stop loss.

Asset Concentration Bonds and Preferred Stock

As a result of the adoption of proposal 2018-12-H by the Capital Adequacy (E) Task Force at the 2019 Spring National Meeting, the blank and instructions for page XR011 were modified for bonds and preferred stock. The term "unaffiliated" was removed from the bond description in the blank and instructions, and the term "unaffiliated" was added to the blank for the preferred stock lines.

In This Issue:

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Editorial Changes

1. The year reference was updated to "2018" in the example for page XR017 instructions.
2. The page numbers were updated on pages XR023–XR026 as a result of the adoption of proposal 2019-01-O.
3. The H-0 description provided in proposal 2018-05-CA was listed as "Insurance Affiliates and Misc. Other" in the instructions and was listed as "H0 - Affiliates W/RBC and Misc. Other Amounts" on the blank. For consistency between the blank and instructions, use "Insurance Affiliates and Misc. Other" for all references.
4. Line number references were corrected in the instructions for page XR007.
5. The year reference was updated to "2018" and "2019" in the stop loss interrogatory electronic table instructions on page XR014.
6. Line number references were corrected in the instructions for page XR021.

RBC Forecasting and Instructions

The NAIC *2019 Health Risk-Based Capital Forecasting & Instructions* is available for purchase through the NAIC Publications Department. Customers who purchase this publication can download the forecasting spreadsheet from the NAIC Account Manager. This publication is available for purchase on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

WARNING: The RBC Forecasting Spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

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Direct correspondence to: Crystal Brown, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: (816) 783-8146. Email: cbrown@naic.org.

Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: (816) 783-8300. Email: prodserv@naic.org.

Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force	[x] Health RBC (E) Working Group	[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] SMI RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] Stress Testing (E) Subgroup

DATE: 3-6-19

CONTACT PERSON: Crystal Brown

TELEPHONE: 816-783-8146

EMAIL ADDRESS: cbrown@naic.org

ON BEHALF OF: Health RBC (E) Working Group

NAME: Patrick McNaughton

TITLE: Chief Financial Examiner/Chair

AFFILIATION: WA Office of Insurance Commissioner

ADDRESS: PO Box 40255

Olympia, WA 98504-0255

FOR NAIC USE ONLY

Agenda Item # 2019-04-H

Year 2020

DISPOSITION

[ ] ADOPTED _____

[ ] REJECTED _____

[ ] DEFERRED TO _____

[ ] REFERRED TO OTHER NAIC GROUP

[x] EXPOSED May 7, 2019

[ ] OTHER (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[x] Health RBC Blanks	[ ] Property/Casualty RBC Blanks	[ ] Life RBC Instructions
[ ] Fraternal RBC Blanks	[x] Health RBC Instructions	[ ] Property/Casualty RBC Instructions
[ ]Life RBC Blanks	[ ] Fraternal RBC Instructions	[ ] OTHER _____

DESCRIPTION OF CHANGE(S)

Add a break out for health care receivables accrued vs. recovered from the CY and PY.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the proposal is to apply an additional charge for receivable amounts that were accrued in the PY but not recovered in the CY.

Additional Staff Comments:

The proposal is being exposed would be on an informational only basis for 2020 & 2021 reporting with full implementation to the formula in 2022. The factors and instructions will be discussed in more detail on future calls and will exposed around the Summer National Meeting.

The proposed calculations include the current 5% and 19% factors for the health care receivables, additional consideration to change the factors will be addressed by the Working Group after 2020 data has been received.

4-7-19 cgb The WG exposed the proposal along with a copy of the numeric examples for a 30-day comment period ending on 5-7-19.

5-7-19 cgb Comment letter received from UnitedHealth Group.

**** This section must be completed on all forms.** **Revised 11-2013**

Page XR020A - For Informational Purposes Only

		Annual Statement Source	(1) Amount	Factor	(2) RBC Requirement
	Other Receivables (excluding Health Care Receivables)				
(25)	Investment Income Receivable	Page 2, Col. 3, Line 14		0.010	
(26)	Accounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Col. 3, Line 17		0.050	
(27)	Amounts Due from Parents, Subs, and Affiliates	Page 2, Col. 3, Line 23		0.050	
(28)	Aggregate Write-Ins For Other Than Invested Assets	Page 2, Col. 3, Line 25		0.050	
(29)	**Sub-Total Other Receivables RBC**	**Sum L(25) through L(28)**			
	Health Care Receivables				
(30.1)	**Pharmaceutical Rebate Receivables – Current Year**	**Exhibit 3, Col. 7, Line 0199999 (CY)**		**0.050**	
(30.2)	**Pharmaceutical Rebate Receivables – Prior Year**	**Exhibit 3, Col. 7, Line 0199999 (PY)**			
(30.3)	**Pharmaceutical Rebates – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 1 ???**		**#**	
(31.1)	**Claim Overpayment Receivables – Current Year**	**Exhibit 3, Col. 7, Line 0299999 (CY)**		**0.190**	
(31.2)	**Claim Overpayment Receivables – Prior Year**	**Exhibit 3, Col. 7, Line 0299999 (PY)**			
(31.3)	**Claim Overpayment Rebates – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 2 ???**		*****	
(32.1)	**Loan and Advances to Providers – Current Year**	**Exhibit 3, Col. 7, Line 0399999 (CY)**		**0.190**	
(32.2)	**Loan and Advances to Providers – Prior Year**	**Exhibit 3, Col. 7, Line 0399999 (PY)**			
(32.3)	**Loan and Advances to Providers – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 3 ???**		*****	
(33.1)	**Capitation Arrangement Receivables – Current Year**	**Exhibit 3, Col. 7, Line 0499999 (CY)**		**0.190**	
(33.2)	**Capitation Arrangement Receivables – Prior Year**	**Exhibit 3, Col. 7, Line 0499999 (PY)**			
(33.3)	**Capitation Arrangement – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 4 ???**		*****	
(34.1)	**Risk Sharing Receivables – Current Year**	**Exhibit 3, Col. 7, Line 0599999 (CY)**		**0.190**	
(34.2)	**Risk Sharing Receivables – Prior Year**	**Exhibit 3, Col. 7, Line 0599999 (PY)**			
(34.3)	**Risk Sharing Receivables – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 5 ???**		*****	
(35.1)	**Other Health Care Receivables – Current Year**	**Exhibit 3, Col. 7, Line 0699999 (CY)**		**0.190**	
(35.2)	**Other Health Care Receivables – Prior Year**	**Exhibit 3, Col. 7, Line 0699999 (PY)**			
(35.3)	**Other Health Care Rebates – Prior Year Collected in the Current Year**	**Exhibit 3A, Col. 1, Line 6 ???**		*****	
(36)	**Sub-Total Health Care Receivables**	**Sum of Line (30.1) through Line (35.3)**			
(37)	**Total Other Receivables RBC**	**Line (29) + Line (36)**			
(38)	**Adjusted Informational Credit RBC**	**Line (17) + Line (29) + Line (37)**			

Denotes items that must be manually entered on filing software

 # For Pharmaceutical Rebates: [Greater of 0 or L(30.2) minus (1 + .05) times Line (30.3)] times (1 - .05)
*** For Claim Overpayment, Loan and Advances to Providers, Capitation Arrangements, Risk Sharing, and Other Health Care Receivables: [Greater of 0 or L(3_.2) minus (1 + .19) times L(3_.3)] times (1 - .19)**

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H3 - CREDIT RISK			
(28)	Total Reinsurance RBC	XR019, Credit Risk Page, L(17)	
(29)	Intermediaries Credit Risk RBC	XR019, Credit Risk Page, L(24)	
(30)	Total Other Receivables RBC	XR020, Credit Risk Page, L(30)	
(31)	Total H3	Sum L(28) through L(30)	
H3A - CREDIT RISK - (Informational Purposes Only)			
(28A)	Total Reinsurance RBC	XR019, Credit Risk Page, L(17)	
(29A)	Intermediaries Credit Risk RBC	XR019, Credit Risk Page, L(24)	
(30A)	Total Other Receivables RBC	**XR020A, Credit Risk Page, L(37)**	
(31A)	**Total H3A (For Informational Purposes Only)**	**Sum L(28A) through L(30A)**	
H4 - BUSINESS RISK			
(32)	Administrative Expense RBC	XR021, Business Risk Page, L(7)	
(33)	Non-Underwritten and Limited Risk Business RBC	XR021, Business Risk Page, L(11)	
(34)	Premiums Subject to Guaranty Fund Assessments	XR021, Business Risk Page, L(12)	
(35)	Excessive Growth RBC	XR021, Business Risk Page, L(19)	
(36)	Total H4	Sum L(32) through L(35)	
(37)	RBC after Covariance Before Basic Operational Risk	H0 + Square Root of $(H1^2+H2^2+H3^2+H4^2)$	
(38)	Basic Operational Risk	0.030 x L(37)	
(39)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(40)	Net Basic Operational Risk	Line (38) - Line (39) (not less than zero)	
(41)	RBC After Covariance Including Basic Operational Risk	L(37) + L(40)	
(42)	Authorized Control Level RBC	.50 x L(41)	
For Informational Purposes Only			
(37A)	**RBC after Covariance Before Basic Operational Risk**	**H0 + Square Root of $(H1^2+H2^2+H3A^2+H4^2)$**	
(38A)	**Basic Operational Risk**	**0.030 x L(37A)**	
(39A)	**C-4a of U.S. Life Insurance Subsidiaries**	**Company Records**	
(40A)	**Net Basic Operational Risk**	**Line (38A) - Line (39A) (not less than zero)**	
(41A)	**RBC After Covariance Including Basic Operational Risk**	**L(37A) + L(40A)**	
(42A)	**Authorized Control Level RBC**	**.50 x L(41A)**	

Denotes items that must be manually entered on filing software.

XR020 - Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for pharmaceutical rebates and amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets and an RBC requirement of 19 percent of the annual statement amount for all other health care receivables reported in Lines (26.2) through (26.6). Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999**.**

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999**.**

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999**.**

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6)**.** Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.

XR020-A Other Receivables for Informational Purposes Only

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for amounts receivable relating to uninsured accident and health plans, amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets.

An additional charge will be applied to health care receivables amounts reported in Lines (30) through (35) that were accrued in the prior year but not recovered in the current year.

An example of the calculation is included below:

Example 1:

Claim overpayment receivable as of 12/31/2020 with substantial recoveries (but still a little less than the accrual)

a. Claim overpayment receivable as of 12/31/2020 of $1,000,000
b. Claim overpayment receivable as of 12/31/2019 of $900,000
c. Claim overpayment recoveries of $800,000 reported achieved in 2020 against accruals at 12/31/2019
d. Current formula amount: $1,000,000 x 0.19 = $190,000
e. Informational formula amount =
   = $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $800,000)
   = $190,000 + 0.81 x max(0, $900,000 - $952,000)
   = $190,000 + 0.81 x max(0, -$52,000)
   = $190,000

Example 2:

Claim overpayment receivable as of 12/31/2020, but with no recoveries:

a. Claim overpayment receivable as of 12/31/2020 of $1,000,000
b. Claim overpayment receivable as of 12/31/2019 of $900,000
c. Claim overpayment recoveries of $0 reported achieved in 2020 against accruals at 12/31/2019
d. Current formula amount: $1,000,000 x 0.19 = $190,000
e. Informational formula amount =
   = $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $0)
   = $190,000 + 0.81 x max (0, $900,000)
   = $190,000 + 0.81 x $900,000
   = $190,000 + $729,000
   = $919,000

Example 3:

Claim overpayment receivable as of 12/31/2020, but with recoveries of half the amount of the accrual:

a. Claim overpayment receivable as of 12/31/2020 of $1,000,000
b. Claim overpayment receivable as of 12/31/2019 of $900,000
c. Claim overpayment recoveries of $450,000 reported achieved in 2020 against accruals at 12/31/2019
d. Current formula amount: $1,000,000 x 0.19 = $190,000
e. Informational formula amount =

= $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $450,000)
= $190,000 + 0.81 x max(0, $900,000 - $535,500)
= $190,000 + 0.81 x $364,500
= $190,000 + $295,245
= $485,245