



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 5/12/21

Virtual Meeting

HEALTH-RISKED BASED CAPITAL (E) WORKING GROUP

Tuesday, May 25, 2021

3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT

ROLL CALL

Steve Drutz, Chair	Washington	Rhonda Ahrens/	Nebraska
Steve Ostlund/Jennifer Li	Alabama	Michael Muldoon	
Wanchin Chou	Connecticut	Tom Dudek	New York
Carolyn Morgan/Kyle Collins	Florida	Kimberly Rankin	Pennsylvania
Tish Becker	Kansas	Mike Boerner/Aaron Hodges	Texas

NAIC Support Staff: Crystal Brown

AGENDA

1. Discuss Proposal 2021-09-H (Bond Factors)— *Steve Drutz (WA)* Attachment A
2. Discuss Proposal 2021-04-CA (Investment Income Adjustment to the Underwriting Risk Factors)—*Steve Drutz (WA)* Attachment B
 UnitedHealth Group Comment Letter—*Jim Braue* Attachment B1
3. Discuss the Request Letter to the American Academy of Actuaries (Academy) to Review the Underwriting Risk – H2 Component—*Steve Drutz (WA)* Attachment C
4. Discuss Any Other Matters Brought Before the Working Group—*Steve Drutz (WA)*
5. Adjournment

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Capital Adequacy (E) Task Force**RBC Proposal Form**

- Capital Adequacy (E) Task Force 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: <u>04/23/2021</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Crystal Brown</u>	Agenda Item # <u>2021-09-H</u>
TELEPHONE: <u>816-783-8146</u>	Year <u>2021</u>
EMAIL ADDRESS: <u>cbrown@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>Health RBC (E) Working Group</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Steve Drutz</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chief Financial Analyst/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>5000 Capitol Blvd SE</u>	<input checked="" type="checkbox"/> EXPOSED <u>May 17, 2021</u>
<u>Tumwater, WA 98501</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- Health RBC Blanks Health RBC Instructions Other _____
 Life and Fraternal RBC Blanks Life and Fraternal RBC Instructions
 Property/Casualty RBC Blanks Property/Casualty RBC Instructions

DESCRIPTION OF CHANGE(S)

Incorporate the factors for the 20 NAIC Designation Category Bonds based on a five-year time horizon for page XR006, XR007 and XR012. Modify the instructions to incorporate references for the bonds.

REASON OR JUSTIFICATION FOR CHANGE **

The reason for the change is to incorporate the new bond factors for the 20 NAIC Designation Categories for a five-year time horizon in both the blank and instructions. The factor includes the bond portfolio adjustment.

Additional Staff Comments:

4-23-21 cgb The Working Group agreed to expose the proposal with the 5-year time horizon bond factors for a 20-day comment period ending on May 17, 2021.

** This section must be completed on all forms.

Revised 11-2013

OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS XR006

Security lending programs are required to maintain collateral. Some entities post the collateral supporting security lending programs on their financial statements and incur the related risk charges on those assets. Other entities have collateral that is not recorded on their financial statements. While not recorded on the financial statements of the company, such collateral has risks that are not otherwise captured in the RBC formula.

The collateral in these accounts is maintained by a third party (typically a bank or other agent). The collateral agent maintains on behalf of the company detail asset listings of the collateral assets, and this data is the source for preparation of this schedule. The company should maintain such asset listings, at a minimum CUSIP, market value, book/adjusted carrying value, and maturity date.

The asset risk charges are derived from existing RBC factors for bonds, preferred and common stocks, other invested assets, and invested assets not otherwise classified (aggregate write-ins).

Specific Instructions for Application of the Formula

Column (2) – Schedule DL, Part 1 Book/Adjusted Carrying Value comes from Annual Statement Schedule DL, Part 1, Column (6) Securities Lending Collateral Assets reported On-Balance Sheet (Assets Page, Line 10).

Off-balance sheet collateral included in General Interrogatories Part 1, Lines 24.05 and 24.06 of the annual statement should agree with Line (40), Column (1).

Lines (1) through (27) – Bonds – Bond factors described on page XR007 – Fixed Income Assets.

Line (28) through (34) – Preferred Stock – Preferred stock factors described on page XR010 – Equity Assets.

Line (35) – Common Stock – Common stock factors described on page XR010 – Equity Assets.

Line (36) – Real Estate and Property and Equipment Assets – Real Estate and Property and Equipment Assets factors described on page XR011 – Property & Equipment Assets.

Line (37) – Other Invested Assets – Other invested assets factor described on page XR008 – Fixed Income Assets.

Line (38) – Mortgage Loans on Real Estate – Mortgage Loans on Real Estate factors described on page XR008 – Fixed Income Assets.

Line (39) – Cash, Cash Equivalents and Short-Term Investments – Cash, Cash Equivalents and Short-Term Investments factors described on page XR008 – Fixed Income Assets.

FIXED INCOME ASSETS XR007 AND XR008

The RBC requirement for fixed income assets is largely driven by the default risk on those assets. There are two major subcategories: Bonds and Miscellaneous. Bonds include item that meet the definition of a bond, regardless if the bond is long-term (reported on Schedule D-1), short-term (reported on schedule DA) or a cash equivalent

(reported on Schedule E-2.) Miscellaneous fixed income assets include non-bond items reported on the cash equivalent and short-term schedules, derivatives, mortgage loans, collateral loans, and other items reported on Schedule BA: Other Long-Term Invested Assets.

Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation Category (1.A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by NAIC Designation Category and that year’s economic environment. The default probabilities were based on historical data intended to reflect a complete business cycle of favorable and unfavorable credit environments. The risk of default was measured over a five-year time horizon, based on the duration of assets held for health companies.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC designation category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

While the life and property/casualty formulas have a separate calculation for the bond size factor (based on the number of issuers in the RBC filer's portfolio), the health formula does not include a separate calculation, instead a bond size component was incorporated into the bond factors. A representative portfolio of 382 issuers was used in calculating the bond risk factors.

There is no RBC requirement for bonds guaranteed by the full faith and credit of the United States, Other U.S. Government Obligations, and securities on the NAIC U.S. Government Money Market Fund List because it is assumed that there is no default risk associated with U.S. Government issued securities.

The book/adjusted carrying value of all bonds should be reported in Columns (1), (2) or (3). The bonds are split into twenty-one different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the Purposes and Procedures Manual of the NAIC Investment Analysis Office. The subtotal of Columns (1), (2) and (3) will be calculated in Colum (4). The RBC requirement will be automatically calculated in Column (5).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021, and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company’s cash position is negative.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3 percent factor is equal to the factor for cash. The amount reported in Line (35) reflects the total from Schedule DA: Short-Term Investments (Line 33), less the short-term bonds (Line 34). (The short-term bonds reported in Line (34) should equal Schedule DA, Part 1, Column 7, Line 8399999.)

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20 percent factor (Line (43)).

- Collateral Loans reported on Line (40) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (41) and (42), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.
- Low income housing tax credit investments are reported in Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.
 - Federal Guaranteed Low-Income Housing Tax Credit (LIHTC) investments are to be included in Line (44). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.
 - Federal Non-Guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (45):
 - a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.
 - b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.
 - State Guaranteed LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (46).
 - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (47).
 - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (44) through (47) would be reported on Line (48).

EQUITY ASSETS

XR010

Unaffiliated Preferred Stocks

Experience data to develop preferred stock factors is not readily available; however, it is believed that preferred stocks are somewhat more likely to default than bonds. The loss on default would be somewhat higher than that experienced on bonds; however, formula factors are equal to bond factors.

The RBC requirements for unaffiliated preferred stocks are based on the NAIC designation. Column (1) amounts are from Schedule D, Part 2, Section 1 not including affiliated preferred stock. The preferred stocks must be broken out by asset designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines. The total amount of unaffiliated preferred stock reported should equal annual statement Page 2, Column 3, Line 2.1, less any affiliated preferred stock in Schedule D Summary by Country, Column 1, Line 18.

Unaffiliated Common Stock

Federal Home Loan Bank Stock has characteristics more like a fixed income instrument rather than common stock. A 2.3 percent factor was chosen. The factor for other unaffiliated common stock is based on studies which indicate that a 10 percent to 12 percent factor is needed to provide capital to cover approximately 95 percent of the greatest losses in common stock over a one-year future period. The higher factor of 15 percent contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time of loss in market value.

ASSET CONCENTRATION XR012

The purpose of the asset concentration calculation is to reflect the additional risk of high concentrations of certain types of assets in single exposures, termed “issuers.” An issuer is a single entity, such as IBM or the Ford Motor Company. When the reporting entity has a large portion of its asset portfolio concentrated in only a few issuers, there is a heightened risk of insolvency if one of those issuers should default. An issuer may be represented in the reporting entity’s investment portfolio by a single security designation, such as a large block of NAIC Designation Category 2.A bonds, or a combination of various securities, such as common stocks, preferred stocks, and bonds. The additional RBC for asset concentration is applied to the ten largest issuers.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the ten largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds, unaffiliated preferred stock; affiliated common stock; affiliated preferred stock; property and equipment; U.S. government full faith and credit, other U.S. government obligations, and NAIC U.S. government money market fund list securities; NAIC 01 bonds and unaffiliated preferred stock; any other asset categories with risk-based capital factors less than 1 percent, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting entity is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the federal Investment Company Act and providing this information upon request of the Commissioner, Director or Superintendent of the Department of Insurance. The reporting entity is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the Commissioner, Director or Superintendent upon request.

The assets that **ARE INCLUDED** in the calculation when determining the 10 largest issuers are as follows:

- NAIC Designation Category 2.A – 2.C Bonds
- NAIC Designation Category 3.A – 3.C Bonds
- NAIC Designation Category 4.A – 4.C Bonds
- NAIC Designation Category 5.A – 5.C Bonds
- Collateral Loans
- Mortgage Loans
- NAIC 02 Unaffiliated Preferred Stock
- NAIC 03 Unaffiliated Preferred Stock
- NAIC 04 Unaffiliated Preferred Stock
- NAIC 05 Unaffiliated Preferred Stock
- Other Long-Term Assets
- NAIC 02 Working Capital Finance Investments
- Federal Guaranteed Low Income Housing Tax Credits
- Federal Non-Guaranteed Low Income Housing Tax Credits
- State Guaranteed Low Income Housing Tax Credits
- State Non-Guaranteed Low Income Housing Tax Credits

All Other Low Income Housing Tax Credits
Unaffiliated Common Stock

The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) for assets held in the 10 largest issuers. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in Column (2), Lines (1) through (26). Aggregate all similar asset types before entering the amount in Column (2). To determine the 10 largest issuers, first pool all of the assets subject to the concentration factor. From this pool, aggregate the various securities by issuer. The aggregate book/adjusted carrying values for the assets are computed, and the 10 largest are subject to the concentration factor. For example, an organization might own \$6,000,000 in NAIC Designation Category 2.A bonds of IBM, plus \$4,000,000 in NAIC Designation Category 2.C plus \$5,000,000 of common stock. The total investment in that issuer is \$15,000,000. If that is the largest issuer, then the identifier ("IBM Corporation") would be entered in the space allowed for the first Issuer Name, and the \$6,000,000 would be entered under the book/adjusted carrying value column for Line (1) (NAIC Designation Category 2.A Bonds) \$4,000,000 would be entered on Line (3) (NAIC Designation Category 2.C Bonds) and the \$5,000,000 would be entered on Line (22) (Unaffiliated Common Stock).

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS

Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	(4) Factor	RBC Requirement
<u>Fixed Income Assets</u>						
<u>Bonds</u>						
(1) NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	Company Records	0	0	0	0.000	0
(2) NAIC Designation Category 1.A Bonds	Company Records	0	0	0	0.003	0
(3) NAIC Designation Category 1.B Bonds	Company Records	0	0	0	0.005	0
(4) NAIC Designation Category 1.C Bonds	Company Records	0	0	0	0.008	0
(5) NAIC Designation Category 1.D Bonds	Company Records	0	0	0	0.011	0
(6) NAIC Designation Category 1.E Bonds	Company Records	0	0	0	0.014	0
(7) NAIC Designation Category 1.F Bonds	Company Records	0	0	0	0.016	0
(8) NAIC Designation Category 1.G Bonds	Company Records	0	0	0	0.019	0
(9) Total NAIC 01 Bonds	Sum of Lines (1) through (8)	0	0	0		0
(10) NAIC Designation Category 2.A Bonds	Company Records	0	0	0	0.022	0
(11) NAIC Designation Category 2.B Bonds	Company Records	0	0	0	0.025	0
(12) NAIC Designation Category 2.C Bonds	Company Records	0	0	0	0.031	0
(13) Total NAIC 02 Bonds	Sum of Lines (10) through (12)	0	0	0		0
(14) NAIC Designation Category 3.A Bonds	Company Records	0	0	0	0.069	0
(15) NAIC Designation Category 3.B Bonds	Company Records	0	0	0	0.076	0
(16) NAIC Designation Category 3.C Bonds	Company Records	0	0	0	0.083	0
(17) Total NAIC 03 Bonds	Sum of Lines (14) through (16)	0	0	0		0
(18) NAIC Designation Category 4.A Bonds	Company Records	0	0	0	0.089	0
(19) NAIC Designation Category 4.B Bonds	Company Records	0	0	0	0.097	0
(20) NAIC Designation Category 4.C Bonds	Company Records	0	0	0	0.110	0
(21) Total NAIC 04 Bonds	Sum of Lines (18) through (20)	0	0	0		0
(22) NAIC Designation Category 5.A Bonds	Company Records	0	0	0	0.123	0
(23) NAIC Designation Category 5.B Bonds	Company Records	0	0	0	0.137	0
(24) NAIC Designation Category 5.C Bonds	Company Records	0	0	0	0.151	0
(25) Total NAIC 05 Bonds	Sum of Lines (22) through (24)	0	0	0		0
(26) Total NAIC 06 Bonds	Company Records	0	0	0	0.300	0
(27) Total Bonds	Lines (9) + (13) + (17) + (21) + (25) + (26)	0	0	0		0
<u>Equity Assets</u>						
<u>Preferred Stock - Unaffiliated</u>						
(28) NAIC 01 Unaffiliated Preferred Stock	Company Records			0	0.003	0
(29) NAIC 02 Unaffiliated Preferred Stock	Company Records			0	0.010	0
(30) NAIC 03 Unaffiliated Preferred Stock	Company Records			0	0.020	0
(31) NAIC 04 Unaffiliated Preferred Stock	Company Records			0	0.045	0
(32) NAIC 05 Unaffiliated Preferred Stock	Company Records			0	0.100	0
(33) NAIC 06 Unaffiliated Preferred Stock	Company Records			0	0.300	0
(34) Total Unaffiliated Preferred Stock	Sum of Lines (28) through (33)	0	0	0		0
(35) Unaffiliated Common Stock	Company Records			0	0.150	0
(36) Real Estate and Property & Equipment Assets	Company Records			0	0.100	0
(37) Other Invested Assets	Company Records			0	0.200	0
(38) Mortgage Loans on Real Estate	Company Records			0	0.050	0
(39) Cash, Cash Equivalents and Short-Term Investments (Not reported on Bonds above)	Company Records			0	0.003	0
(40) Total	Lines (27) + (34) + (35) + (36) + (37) + (38) + (39)	0	0	0		0

Denotes items that must be manually entered on the filing software

**FIXED INCOME ASSETS
BONDS**

		(1)	(2)	(3)	(4)	(5)
	Annual Statement Source	Long-Term Bonds Schedule D, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch D Pt1F	Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch DA Pt1F	Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L2 thr 26 = Sch E Pt2F	Subtotal C(1) + C(2) + C(3)	Factor RBC Requirement
(1)	NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1)=Sch D, Pt 1, C11 L0599999 C(2)=Sch DA, Pt 1, C7 L0599999 C(3)=Sch E, Pt 2, C7 L0599999 + L8599999				
(2)	NAIC Designation Category 1.A	Footnote Amt 1 L000001A				
(3)	NAIC Designation Category 1.B	Footnote Amt 2 L000001A				
(4)	NAIC Designation Category 1.C	Footnote Amt 3 L000001A				
(5)	NAIC Designation Category 1.D	Footnote Amt 4 L000001A				
(6)	NAIC Designation Category 1.E	Footnote Amt 5 L000001A				
(7)	NAIC Designation Category 1.F	Footnote Amt 6 L000001A				
(8)	NAIC Designation Category 1.G	Footnote Amt 7 L000001A				
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)				
(10)	NAIC Designation Category 2.A	Footnote Amt 1 L000001B				
(11)	NAIC Designation Category 2.B	Footnote Amt 2 L000001B				
(12)	NAIC Designation Category 2.C	Footnote Amt 3 L000001B				
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)				
(14)	NAIC Designation Category 3.A	Footnote Amt 1 L000001C				
(15)	NAIC Designation Category 3.B	Footnote Amt 2 L000001C				
(16)	NAIC Designation Category 3.C	Footnote Amt 3 L000001C				
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)				
(18)	NAIC Designation Category 4.A	Footnote Amt 1 L000001D				
(19)	NAIC Designation Category 4.B	Footnote Amt 2 L000001D				
(20)	NAIC Designation Category 4.C	Footnote Amt 3 L000001D				
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)				
(22)	NAIC Designation Category 5.A	Footnote Amt 1 L000001E				
(23)	NAIC Designation Category 5.B	Footnote Amt 2 L000001E				
(24)	NAIC Designation Category 5.C	Footnote Amt 3 L000001E				
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)				
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F				
(27)	Total Bonds RBC	L(9) + L(13) + L(17) + L(21) + L(25) + L(26)				

 Denotes items that must be vendor linked.

ASSET CONCENTRATION

		(1)		
Issuer Name				
Issuer		(2)	Factor	(3)
		<u>Bk/Adj Carrying Value</u>		<u>Additional RBC</u>
01	(1) NAIC Designation Category 2.A Bonds		0.0220	\$0
01	(2) NAIC Designation Category 2.B Bonds		0.0250	\$0
01	(3) NAIC Designation Category 2.C Bonds		0.0310	\$0
01	(4) NAIC Designation Category 3.A Bonds		0.0690	\$0
01	(5) NAIC Designation Category 3.B Bonds		0.0760	\$0
01	(6) NAIC Designation Category 3.C Bonds		0.0830	\$0
01	(7) NAIC Designation Category 4.A Bonds		0.0890	\$0
01	(8) NAIC Designation Category 4.B Bonds		0.0970	\$0
01	(9) NAIC Designation Category 4.C Bonds		0.1100	\$0
01	(10) NAIC Designation Category 5.A Bonds		0.1230	\$0
01	(11) NAIC Designation Category 5.B Bonds		0.1370	\$0
01	(12) NAIC Designation Category 5.C Bonds		0.1490	\$0
01	(13) Collateral Loans		0.0500	\$0
01	(14) Mortgages		0.0500	\$0
01	(15) NAIC 02 Unaffiliated Preferred Stock		0.0100	\$0
01	(16) NAIC 03 Unaffiliated Preferred Stock		0.0200	\$0
01	(17) NAIC 04 Unaffiliated Preferred Stock		0.0450	\$0
01	(18) NAIC 05 Unaffiliated Preferred Stock		0.1000	\$0
01	(19) Other Long-Term Invested Assets		0.1000	\$0
01	(20) NAIC 02 Working Capital Finance Investments		0.0125	\$0
01	(21) Federal Guaranteed Low Income Housing Tax Credits		0.0014	\$0
01	(22) Federal Non-Guaranteed Low Income Housing Tax Credits		0.0260	\$0
01	(23) State Guaranteed Low Income Housing Tax Credits		0.0014	\$0
01	(24) State Non-Guaranteed Low Income Housing Tax Credits		0.0260	\$0
01	(25) All Other Low Income Housing Tax Credits		0.1500	\$0
01	(26) Unaffiliated Common Stock		0.1500	\$0
01	(27) Total of Issuer = Lines (1) through (26)	\$0		\$0

 Denotes items that must be manually entered on filing software.

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|---|--|
| <input checked="" type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | |

DATE: <u>3-17-21</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Crystal Brown</u>	Agenda Item # <u>2021-04-CA</u>
TELEPHONE: <u>816-783-8146</u>	Year <u>2021</u>
EMAIL ADDRESS: <u>cbrown@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>Health RBC (E) Working Group</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Steve Drutz</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chief Financial Analyst/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>PO Box 40255</u>	<input checked="" type="checkbox"/> EXPOSED <u>4-16-21, 5/21/21</u>
<u>Olympia, WA 98504-0255</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- | | | |
|---|--|---|
| <input checked="" type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input checked="" type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION OF CHANGE(S)

Incorporate investment income into the Underwriting Risk – Experience Fluctuation Risk factors for columns 1-3. The base underwriting factors would be adjusted for Comprehensive Medical, Medicare Supplement and Dental and Vision.

REASON OR JUSTIFICATION FOR CHANGE **

Incorporated investment income into Columns 1-3 on the Underwriting Risk – Experience Fluctuation Risk page. The American Academy of Actuaries provided recommended factors to the Working Group. The Academy found that due to no claims lag in Stand-Alone Medicare Part D coverage, the investment income adjustment would be negligible and the RBC factors would not be impacted.

The Working Group will continue to work with the Academy to look at the potential to incorporate an investment income adjustment to the factors for the other health lines of business for 2022 or later.

Additional Staff Comments:

These changes will also need to be incorporated into the Life and P/C formula.

3-17-21 cgb The Working Group exposed the proposal for 30-days with comments due back on April 16, 2021.

4-23-21 cgb Two comment letters were received during the comment period from UHG and AHIP/BCBSA. The WG discussed the comments and agreed to refer the proposal to the Capital Adequacy (E) Task Force with the 0.5% investment yield for exposure for all lines of business.

04-27-21 cgb The American Academy of Actuaries provided an updated letter that included the factors to two-digit rounding for each tier. A copy of the letter is included in the proposal.

4-29-21 cgb The TF exposed the proposal until 5/21/21.

**** This section must be completed on all forms.**

Revised 2-2019

HEALTH**UNDERWRITING RISK - L(1) THROUGH L(21)
XR012****DETAIL ELIMINATED TO CONSERVE SPACE**

Line (12) Underwriting Risk Claims Ratio. For Columns (1) through (5), Line (11) / Line (6). If either Line (6) or Line (11) is zero or negative, Line (12) is zero.

Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income yield of 0.5%.

	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive Medical & Hospital	0.1493	0.1493	0.0893
Medicare Supplement	0.1043	0.0663	0.0663
Dental & Vision	0.1195	0.0755	0.0755
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

DETAIL ELIMINATED TO CONSERVE SPACE**PROPERTY & CASUALTY**

PR020 - Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental and Vision

DETAIL ELIMINATED TO CONSERVE SPACE

Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income yield of 0.5%.



	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.1493	0.1493	0.0893
Medicare Supplement	0.1043	0.0663	0.0663
Dental & Vision	0.1195	0.0755	0.0755
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

DETAIL ELIMINATED TO CONSERVE SPACE

LIFE

Underwriting Risk – Experience Fluctuation Risk

LR020

DETAIL ELIMINATED TO CONSERVE SPACE

Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	\$0 - \$3 Million	\$3 - \$25 Million	Over \$25 Million
Comprehensive Medical	0.1493	0.1493	0.0893
Medicare Supplement	0.1043	0.0663	0.0663
Dental	0.1195	0.0755	0.0755
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

DETAIL ELIMINATED TO CONSERVE SPACE

UNDERWRITING RISK

0.5% Investment Return

Experience Fluctuation Risk

		(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX {Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non-Health
\$0 - \$3 Million	0.1493	0.1043	0.1195	0.251	0.130	0.130
\$3 - \$25 Million	0.1493	0.0663	0.0755	0.251	0.130	0.130
Over \$25 Million	0.0893	0.0663	0.0755	0.151	0.130	0.130

ALTERNATE RISK CHARGE**						
** The Line (15) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR013.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

Property & Casualty and Life RBC Formulas

The factors used in the Underwriting Risk - Experience Fluctuation Risk page of the Property & Casualty RBC Formula and the Life RBC Formula are not displayed in the Blank. The factors are shown in the instructions. The factor change would be reflected in the formula of the Forecasting Spreadsheet for these two formulas.

UNITEDHEALTH GROUP

Corporate Finance – Actuarial Services Division
185 Asylum Street, CityPlace I • Hartford, CT 06103

May 21, 2021

Mr. Thomas Botsko, Chair
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via electronic mail to Crystal Brown.

Re: Proposal 2021-04-CA.

Dear Mr. Botsko:

I am writing on behalf of UnitedHealth Group in regard to Proposal 2021-04-CA, as exposed for comment on April 30, 2021. We support the changes that are recommended in Proposal 2021-04-CA. We concur that adjustments would be appropriate to the factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision, and that consideration of other products can be deferred.

We consider it important that investment income be properly reflected in the Health Risk-Based Capital formula (and in the Health components of the Life and Property/Casualty formulas). Just as the risks associated with fixed-income investments are recognized in the formula, so the income arising from those investments should be recognized as well. We note that the Property/Casualty formula has always incorporated an investment income adjustment to its underwriting risk factors, and that the principles underlying that adjustment are similarly relevant to the Health products mentioned above.

We do note, for future consideration, that the assumed investment return rate of 0.5% seems highly conservative. There will need to be a process for periodically reviewing that assumption, and updating it as necessary. For that purpose, the interest rate should be based on market rates for five-year bonds, consistent with the five-year maturity assumed in the proposed bond risk factors. The same investment portfolio is generating both the default and market-value risks and the investment income; therefore, consistent assumptions should be used for both. In our April 16, 2021 letter to the Health Risk-Based Capital (E) Working Group, we offered a framework for determining an appropriate interest rate of investment return for purposes of the investment income adjustment. Based on that framework, an assumed rate of 1.5% or higher would currently be justified. (We understand that the adjustment in the Property/Casualty formula

assumes a 5.0% rate of return; however, that rate has not been updated in many years, and will be subject to review in the near future.)

Concerns have been raised that a five-year maturity is much longer than the average run-out period of claim reserves for the types of Health products under discussion. However, the reserve run-out period is not really relevant for this purpose, because generally speaking as reserves run off they are replaced by reserves for newer claims. The level of invested assets will vary over time based on the volume of business being written, not the run-out period for the reserves as of a particular valuation date. In most cases it would not be rational to assume that all of a company's business was going to terminate immediately, and therefore it would be justifiable to invest to a maturity quite a bit longer than the reserve run-out period. We note, in this regard, that the existing underwriting risk factors for these products assume a level volume of business over five years. We also note that there are some liabilities, such as rate credit reserves, that may have a considerably longer run-out period than the claim reserves; and that funds backing the company's surplus may also be invested for a relatively long term. Accordingly, we do not believe that the assumption of a five-year investment maturity would indicate a troubling mismatch of assets and liabilities.

In conclusion, we support the adoption of Proposal 2021-04-CA as currently exposed in the interest of timeliness, while recommending that the assumed rate of investment return be given further consideration in the future.

We would be happy to discuss these comments with you and the Task Force.



James R. Braue
Director, Actuarial Services
UnitedHealth Group

cc: Crystal Brown, NAIC
Steven Drutz, Chair, Health Risk-Based Capital (E) Working Group
Randi Reichel, UnitedHealth Group

TO: Derek Skoog, Chair of the Health Solvency Subcommittee of the American Academy of Actuaries

FROM: Steve Drutz, Chair of the Health Risk-Based Capital (E) Working Group

Date: May 25, 2021

RE: Request for Comprehensive Review of the H2 – Underwriting Risk Component and Managed Care Credit in the Health Risk-Based Capital Formula

On April 23, 2021, the Health Risk-Based Capital (E) Working Group agreed to request assistance from the Health Solvency Subcommittee of the American Academy of Actuaries (Academy) to perform a comprehensive review of the H2 – Underwriting Risk component and managed care credit calculation within the health risk-based capital formula. While there have been modifications to certain pieces of the H2 – Underwriting risk component, there has not been a comprehensive review of the component and the managed care credit performed since the inception of the formula in 1998.

Because of the evolving and changing health market in the last 23 years, the Working Group feels a review of the lines of business, methodology and factors for the Underwriting Risk component is warranted at this time.

The Health Risk-Based Capital (E) Working Group requests the assistance of the Health Solvency Subcommittee to perform a comprehensive review of the H2 – Underwriting Risk component and the managed care credit calculation in the health risk-based capital formula. Please notify the Working Group by July 30, 2021 if the Academy willing to accept and work on this project.

Please any questions or comments to Crystal Brown via email cbrown@naic.org.

cc: Matthew Williams, Staff Support- Health Solvency Subcommittee of the American Academy of Actuaries