Date: 7/1/21

Virtual Meeting
(in lieu of meeting at the 2021 Summer National Meeting)

HEALTH RISKED-BASED CAPITAL (E) WORKING GROUP
Monday, July 12, 2021
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

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

NAIC Support Staff: Crystal Brown

AGENDA

1. Consider Adoption of its June 8, May 25, and April 23 Minutes—*Steve Drutz (WA)* — Attachment A
2. Consider Adoption of the 2021 Health Risk-Based Capital (RBC) Newsletter —*Steve Drutz (WA)* — Attachment B
3. Discuss the 2021 Health RBC Statistics—*Steve Drutz (WA)* — Attachment C
4. Receive a Response from the American Academy of Actuaries (Academy) on the Review of the H2 – Underwriting Risk Component—*Steve Drutz (WA)* — Attachment D
5. Discuss Bond Factors—*Steve Drutz (WA)*
6. Discuss Developing Benchmarking Guidelines for the Investment Income Adjustment in the Underwriting Risk Factors—*Steve Drutz (WA)*
7. Discuss Any Other Matters Brought Before the Working Group—*Steve Drutz (WA)*
8. Adjournment

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Draft: 6/15/21

Health Risk-Based Capital (E) Working Group
Virtual Meeting
June 8, 2021

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 8, 2021. The following Working Group members participated: Steve Drutz, Chair (WA); Jennifer Li (AL); Wanchin Chou (CT); Kyle Collins, Lilyan Zhang and Benjamin Ben (FL); Tish Becker (KS); Rhonda Ahrens (NE); Tom Dudek (NY); Kimberly Rankin (PA); and Aaron Hodges and Sean Fulton (TX).

1. Referred the Request Letter to the Academy to Review the Underwriting Risk – H2 Component

Mr. Drutz said the letter to the American Academy of Actuaries (Academy) to request its assistance in reviewing the Underwriting Risk – H2 component was exposed for a short time, during which no comments were received. He suggested that the July 30 response date be modified to July 10 due to working groups meeting in advance of the Summer National Meeting scheduled for August. Derek Skoog (Academy) indicated that the Academy could provide a response by July 10.

Mr. Chou made a motion, seconded by Mr. Dudek, to refer the request letter to the Academy to review the Underwriting Risk – H2 component with a modification to change the response date to July 10. The motion passed unanimously.

2. Adopted Updates to the 2021 Health RBC Working Agenda

Mr. Drutz said item 21 on the health risk-based capital (RBC) working agenda has been modified to include the following: 1) develop a process to review the investment income adjustment; 2) determine the frequency for updates to the adjustment; and 3) determine if other lines of business should include an investment income adjustment.

Ms. Rankin made a motion, seconded by Mr. Chou, to adopt the revised 2021 health RBC working agenda. The motion passed unanimously.

3. Discussed Developing a Process and the Other Lines of Business to be Considered for Investment Income in the Underwriting Risk Factors

Mr. Drutz said the Working Group previously agreed to begin developing a process for reviewing the investment income in the underwriting risk factors, and one way to do this would be to develop a set of benchmarks for the updates. He said one possible benchmark could be a six-month treasury, rounded up for the nearest 0.5%, and it could then be reviewed annually until the Academy's review of the H2 component is completed. He said the suggestion to round up to the nearest 0.5% was based on interested party comments to use a higher investment yield and a longer holding assumption of five years for assets. He said based on the Working Group's decision to use the 0.5% investment yield in the comprehensive medical, Medicare supplement, and dental and vision factors, it seems that a five-year benchmark should not be used; however, if Working Group members feel a need to revisit this possibility, they can pursue it.

Mr. Drutz said the Working Group also agreed to look at incorporating investment income into the other lines of business, and one approach may be to incorporate this into the Underwriting Risk – H2 component review; however, this may depend on the timeline for completion of that review. He said if the Working Group feels that the other lines of business need to be reviewed sooner, they can reach out to the Academy on the feasibility of this. He suggested that the Working Group revisit this once a response from the Academy has been received regarding the Underwriting Risk – H2 component review.

Mr. Drutz said the Working Group will continue to discuss this topic on future calls.

4. Received an Update on the Health Test and Health RBC Excessive Growth Charge Ad Hoc Groups

Mr. Drutz said the Health Test Ad Hoc Group met June 2 and discussed the current health test language, most specifically the "Passing the Test" section. He said the ad hoc group discussed whether there is a need to update the language at this time, given the recent updates to the annual statement by the Blanks (E) Working Group. He said the ad hoc group plans to perform additional analysis to see how many companies would move if the "licensed in 5 states or less…" and "writing 75% of premium in the domiciliary state…" were removed and the 95% premium and reserve ratio were left as is. The ad hoc group also

discussed whether the premium and reserve ratio should be modified. The ad hoc group is currently scheduled to meet again July 14.

Mr. Drutz said the Excessive Growth Charge Ad Hoc Group met June 2 and took the following action: 1) discussed how to continue moving the project forward, including the review of the property/casualty (P/C) excessive growth charge; and 2) continued analysis, including a case study. The ad hoc group is scheduled to meet again in July to continue its work on this project.

5. Discussed Other Matters

Mr. Drutz said the Working Group previously exposed proposal 2021-09-H – Bond Factors, with no comments received, and adopted it on its May 25 call. He noted that the bond portfolio adjustment was included within the Academy's Bond Factor Model, as discussed and approved by the Working Group. Therefore, as a result, the portfolio adjustment is included within the health bond factors on page XR006 – Off-Balance Sheet Security Lending Collateral and Schedule DL, Part 1 Assets. Mr. Drutz said this is being brought to the Working Group's attention because the life and property RBC formulas do not reflect a bond portfolio adjustment on the Off-Balance Sheet Security Lending Collateral and Schedule DL, Part 1 Assets page, whereas the health bond factors on page XR006 will include the bond portfolio adjustment. He said the impact analysis did include these factors, and the one company that moved to the trend test did not have any off-balance sheet collateral items. He said there are only 42 out of 952 companies that report off-balance sheet collateral items, and the overall industry change to authorized control level (ACL) RBC is approximately $5.7 million

Mr. Drutz said based on the lack of materiality on the inclusion of the bond portfolio adjustment in the off-balance sheet collateral charges, he does not see a reason to revisit the bond factor proposal previously adopted for 2021 reporting. He noted that if the Working Group feels that further consideration is needed, they can discuss this issue further to determine if a change is necessary for 2022 reporting.

Mr. Chou said the health bond factors were based on the original Academy life bond factor model and the 2017 study. He said the Life Risk-Based Capital (E) Working Group is continuing to study the life bond factors, and he suggested that the Health Risk-Based Capital (E) Working Group review the bond factors again after the Life Risk-Based Capital (E) Working Group has adopted its factors to consider any changes in methodology and updated data.

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

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Draft: 6/24/21

Health Risk-Based Capital (E) Working Group
Virtual Meeting
May 25, 2021

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 25, 2021. The following Working Group members participated: Steve Drutz, Chair (WA); Blase Abreo and Jennifer Li (AL); Wanchin Chou and Andrew Greenhalgh (CT); Hui Tao and Lilyan Zhang (FL); Tish Becker (KS); Rhonda Ahrens, Lindsay Crawford and Michael Muldoon (NE); Tom Dudek (NY); Kimberly Rankin (PA); and Aaron Hodges (TX).

1. Adopted Proposal 2021-09-H (Bond Factors)

Mr. Drutz said proposal 2021-09-H was exposed with the five-year time horizon bond factors for a 20-day comment period, and no comments were received. Mr. Chou suggested that the Working Group consider a future review of the factors for two reasons: 1) potential changes in the life bond factors since the health factors were based on the 2017 version and different from what life used; and 2) the relationship between life, health and property/casualty (P/C) are quite similar, and methodology changes to the life formula may need to be considered for health. He said he agrees with moving the current proposal forward and re-evaluating the factors in the future after life has made their final adoption.

Mr. Chou made a motion, seconded by Mr. Muldoon, to adopt proposal 2021-09-H (Bond Factors). The motion passed unanimously.

2. Referred Proposal 2021-04-CA to the Capital Adequacy (E) Task Force for Consideration

Mr. Drutz said proposal 2021-04-CA was exposed by the Capital Adequacy (E) Task Force for all lines of business until May 21, and one comment letter was received from UnitedHealth Group (UHG).

Jim Braue (UHG) summarized UHG's comment letter and suggested that additional consideration be given to the appropriate investment income rate to be used in the future; however, for the present and in the interest of timeliness, UHG supports the current proposal, as it stands for year-end 2021 reporting.

Mr. Muldoon said he is open to hearing additional discussion to determine if the Working Group should consider looking at the short-term liabilities or the five-year bond investment rate for the entire bond portfolio of a company. He said there could be a disconnect in having a large bond portfolio that is two to three times larger than the same reserve liability, and somewhere within this bond portfolio, there is not a specific set of bonds to cover the claim reserves. He said the Working Group must still have a range of short-term to long-term bonds that are used to cover much more than just the investment returns on the claim reserves. He said it does not seem as simple as just splitting it apart and going with a five-year bond portfolio rate. He said Colorado has a regulation that requires health insurers in their rate filings to account for the investment income that is being made on the unpaid claim liability reserves and the incurred but not reported (IBNR) losses and accounted for in the profit margins. He said many companies would say they had very short-term liabilities and made very little investment income, thus they would build in zero for their investment income because they did not want to have to account for it as part of their retention. He said UHG's comment letter indicated that state insurance regulators cannot just go by if a plan terminates. He said it is not just if a plan terminates all their health business, it can affect companies writing federal Affordable Care Act (ACA) business. Because there are new companies coming in all the time and should one of those companies lose 30% of their volume in a year and then lose premium in the next year, they would still have to cover all the run out of claims in the next year. Now the company must cover those very short-term claims run outs, and by using the five-year adjustment, it would assume that all the company invested in were five-year bonds, which would be unlikely. Reviewing a company's bond list shows a wide range of varying maturity dates. Mr. Muldoon said he does not believe that a simple argument can be made to disconnect the short-term duration of the claim reserve liabilities from the overall bond portfolio, which is much larger and covers other kinds of risk. Mr. Muldoon reiterated that he is open to hearing more discussion on this because the American Academy of Actuaries' (Academy's) recommendation reflected that the investment rate was based on these being very short-term liabilities or a one-year business, which makes sense in an ACA world where things can change significantly from year to year.

Mr. Drutz suggested that the Working Group refer the proposal back to the Capital Adequacy (E) Task Force for consideration on its June 30 call using the 0.5% investment income return for year-end 2021 reporting. He said the Working Group will

update the working agenda to continue its work on developing a process for reviewing the assumed rate of investment return in future years and the frequency for which the adjustment should be reviewed.

Hearing no objections, proposal 2021-04-CA was referred to the Capital Adequacy (E) Task Force for consideration on all lines of business on its June 30 call.

3. Exposed the Letter to the Academy to Review the H2 – Underwriting Risk Component

Mr. Drutz said the Working Group agreed to request the Academy's assistance in performing a comprehensive review of the H2 – Underwriting Risk component that includes a review of the lines of business, methodology and factors. He suggested that the Working Group expose the letter for a 10-day public comment period ending June 3.

Hearing no objections, the request letter was exposed for a 10-day public comment period ending June 3.

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

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Draft: 6/17/21

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 23, 2021

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 23, 2021. The following Working Group members participated: Steve Drutz, Chair (WA); Steve Ostlund and Jennifer Li (AL); Wanchin Chou, (CT); Carolyn Morgan and Kyle Collins (FL); Tish Becker (KS); Michael Muldoon (NE); Tom Dudek (NY); Kimberly Rankin (PA); and Matthew Richard and Aaron Hodges (TX).

1. Adopted it March 17 Minutes

The Working Group met March 17, 2021, and took the following action: 1) adopted its Feb. 10, 2021; Jan. 22, 2021; and Dec. 18, 2020, minutes; 2) adopted its 2021 working agenda; 3) referred proposal 2021-02-CA to the Capital Adequacy (E) Task Force for exposure; 4) received an update from the American Academy of Actuaries (Academy) on incorporating investment income into the Underwriting Risk – H2 component and exposed proposal 2021-04-CA; and 5) received an update on the bond factor impact analysis.

Mr. Drutz said the Working Group met March 31 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to review the company specific impact analysis on the two- and five-year time horizon bond factors.

Mr. Chou made a motion, seconded by Mr. Dudek, to adopt the Working Group's March 17 minutes. The motion passed unanimously.

2. Discussed 20 Bond Designation Bond Factors

Mr. Drutz said the Working Group has continued to work with the Academy on the 20 new bond designations and factors as well as Johnson Luk (New York Department of Financial Services) and Eva Yeung (NAIC) to develop the impact analysis for the proposed health bond factors.

Mr. Drutz summarized the results of the health bond factor impact analysis (Attachment XX). He said the base factors and BSF table reflects the current and proposed two- and five-year-time horizon factors, as well as the difference between the current factors and proposed factors. The two-year time horizon factors for NAIC 01 bonds are, for the most part, equal to or less than the current factors except for the NAIC 1F and 1G. The five-year factors for NAIC 01 bonds are equal to or greater than the current factors. Because the NAIC 3A–6 factors were calculated on a different basis than the NAIC 1A–2C factors, the only difference in the two- and five-year time horizon factors are for NAIC 1A–2C. The two- and five-year time horizon factors include the bond portfolio adjustment rather than having a separate charge or calculation. Currently, the health formula does not include a portfolio adjustment.

Mr. Drutz said the Results page provides a summary of the overall impact of the proposed two- and five-year time horizon factors. Table One shows the percent change in the H1 component by company size, as well as the percent change in Authorized Control Level (ACL). The change in the H1 component is relatively small, while the largest average change in the ACL for the five-year factors was 2.345%. Table Two shows the comparison of action level for the change in factors. There is no change in an action level for the two-year factors, while one company moved from no action to the trend test level with the five-year factors. The company that moved to the trend test was due to the significant amount in the company's H1 component compared to the H2 component, and a large majority of the bonds are held in NAIC 1E–2C bonds. Table Three shows the distribution of the percent change in the H1 charges by company size. Table Four shows the percent change in ACL by company size. Most companies in both the two- and five-year time horizon factors had only a 5% change in their ACL. Mr. Drutz said four companies showed an improvement on their risk-based capital (RBC) with the five-year factors; however, given that the five-year factors are equal to or greater than the current factors, the RBC ratio should have been lower. NAIC staff have reviewed these four companies and found that the book/adjusted carrying value (BACV) of the NAIC 01 bonds in Column 1A and Column 1 was not reported consistently, and the companies were contacted to identify the reason for the inconsistencies. Table Five shows the distribution of the percent change in RBC ratios by company size, with most companies having only about a 5% change in their RBC ratio under both the two- and five-year time horizon factors.

Mr. Chou said the Life Risk-Based Capital (E) Working Group is looking at the bond factors and potential changes based on the Moody's report. He said the NAIC 3A–3C factors in health seem significantly higher than life, and he suggested that further consideration be given to these factors. Crystal Brown (NAIC) said for health companies, NAIC 1 and 2 bonds (investment grade) are reported at amortized cost, while NAIC 3–6 (non-investment grade) are reported at amortized cost or fair value, and this is one reason for the difference in the NAIC 3–5 bond factors between life and health.

Mr. Drutz said the Academy's original report indicated that a time horizon greater than two years could be considered, and the duration of assets for health insurers is about 5.2 years, which is longer than the duration of liabilities. He said a two-year time horizon makes it harder for regulatory framework to support an amortized cost basis rather than a market value-based valuation, whereas using a five-year time horizon would be more consistent with the property/casualty (P/C) formula and the asset duration for health is five years.

Hearing no objections, proposal 2021-09-H was exposed with the five-year time horizon factors for a 25-day public comment period ending May 21.

3. Received Comments on an Investment Income Adjustment to the Underwriting Risk Factors (Proposal 2021-04-CA)

Mr. Drutz said the Working Group worked with the Academy to incorporate investment income into the underwriting risk factors for Columns 1–4 on the Experience Fluctuation Risk page, and it previously exposed both the 0.5% and 1% adjusted factors. Two comment letters were received during the comment period (Attachment XX).

Jim Braue (UnitedHealth Group—UHG) said UHG supports the changes, and it is appropriate to include investment income in the health RBC formula. He said the key item of its comment letter relates to the rate of investment return, and it suggested that the Working Group establish the rationale for what rate should be used to support the change, as well as provide a path for updating the factors as necessary in the future. He said UHG believes there are four key considerations in determining the rationale for the rate to be used. The first is what the average maturity of the investments is to assume. Mr. Braue said UHG strongly believes the rate should be tied to the average maturity for the bond factors themselves, because it is all the same portfolio of bonds. He said to be consistent with the five-year bond factors that were exposed, and if those factors are adopted, UHG would recommend that a five-year maturity be considered for the rate of investment return as well. The second consideration is the average quality, because there have been concerns raised in the past about using a quality that is tied to an insurer's actual portfolio, as it could provide inappropriate incentives to move to lower quality investments. Mr. Braue said UHG believes it would be appropriate to use something similar or like a U.S. Department of the Treasury (Treasury Department) rate, which is considered risk free or at least a very high-quality bond rate, to avoid any improper incentives. The third consideration is the historical time period, UHG believes historical rates and not projected rates should be used in order to give a firmer foundation. Mr. Braue said UHG does not believe it would be appropriate to look at current rates because that is not generally representative of what portfolios are actually earning at any given time. He suggested two possible ways to look at this: 1) as a time period that is fairly consistent with the maturity assumption; and 2) rounding. He said maturity assumption is not a perfect proxy for when investments in the portfolio would have been purchased, but it seems like a reasonable approximation for this purpose. He said if going with a five-year maturity, it may be appropriate to take a five-year average rate to pick the rate of investment return. He added that if a five-year average is used, it could potentially change significantly every two to three years and possibly update the factors more frequently. He said if the Working Group wants factors in place for a longer period and that requires less frequent updating, a longer period could be used and considered as a long-term average, which would be appropriate for long-term solvency regulation. Mr. Braue said the factors should be rounded to a sufficient degree of precision, so that significant changes are not skewed; however, they should not be rounded to a precision so that they have to be re-evaluated every time the rate changes by one basis point. UHG suggested using between a quarter and half of a percentage point; however, a quarter of a point will still make a meaningful change in the underwriting risk factors. Based on those considerations, a table of rates resulting from the various combinations was included in the comment letter. Mr. Braue noted that the high tier factors in the Academy's letter were rounded to one-tenth of a percent, whereas the lower tiered factors were rounded to two-tenths of a percent, and he suggested that the two-tenths of a percent be used in both the high tier and low tier factors for greater precision. Steve Guzski (Academy) said the Academy would provide the Working Group with revised factors to include the rounding to two-tenths of a percent in the high tier factors.

Mr. Drutz said in the Academy letter, it discussed how the investment income tied to the underwriting risk factors would relate primarily to the run-off of claims, and the average for comprehensive medical is 1.5 months. He asked Mr. Braue if he disagreed with that concept. Mr. Braue said it is wrong to think of the 1.5 months as being the runoff of the reserves and therefore the runoff of the assets. He said the underwriting risk factors have nothing to do with the runoff of reserves. He said they look at the potential for underwriting losses over a period of time; i.e., two to three years. He said when modeling out over two years,

premiums come in regularly and claims are paid out regularly, and the investments represent the timing difference between the premium and claims. Therefore, the 1.5 month difference is not the difference between 0 and 1.5, but instead more like the difference between two years and two years and 1.5 months. The maturity of the assets that are being looked at should not be thought of as 1.5 month assets, but instead thought of as two year and 1.5 month assets or three year and 1.5 month assets. Mr. Braue said the case could be made that it should be tied back to the modeling period, but the Working Group has already made the decision with respect to the bond factors to think of it in terms of asset maturity rather than the liability maturity; therefore, to be consistent, asset maturity should be considered here. Mr. Drutz said when writing this business, more assets must be kept liquid, such that those claims payments can continue to roll over and then more premiums are received but still need to keep that liquidity.

Carl Labus (Blue Cross Blue Shield Association—BCBSA) summarized its comment letter and noted that the investment income is warranted. He said the maturity dates in its health portfolios are longer than those highlighted in the Academy's letter for a claim payment pattern. He suggested that the Working Group consider a longer horizon because there is a claim payment pattern, where there are constant cash flows coming that support payment of claims, but non-profit health plans have to build up surplus, and the assets that support surplus have longer maturities and generate investment to support growth and capital as well as changes the health care industry is experiencing. He said that the BCSBSA supports the 1% option over the 0.5% option. He also suggested a transparent process for updating these factors in the future.

Mr. Drutz said he is leaning towards the 0.5% assumption after looking at the six-month and one-year Treasury Department yields. The six-month Treasury Department yield has ranged from a high 0.2% to 0.04% currently, and the one-year Treasury Department ranged from 0.2% to 0.07% currently. Mr. Muldoon agreed with moving forward with the 0.5%.

Hearing no objections, proposal 2021-04-CA was referred to the Capital Adequacy (E) Task Force for an exposure for all lines of business, with any comments to come back to the Working Group.

4. Discussed a Comprehensive Review of the H2 – Underwriting Risk Component and Adopted the Revised Working Agenda

Mr. Drutz said the Underwriting Risk - H2 component has not had a comprehensive review since its inception in 1998. There have been portions, such as stop loss, stand-alone Medicare Part D, and other health and non-health, that have been looked at on an individual basis. He asked the Working Group if it believes it would be beneficial to ask the Academy to do a comprehensive review of the H2 component, along with a review of the Managed Care Credit based on recent discussions related to the managed care credit and the investment income. He said he did reach out to the Academy to see if this is something it would be willing to look at, and it agreed that it would. Mr. Muldoon said Nebraska is in favor of a comprehensive review of the Underwriting Risk – H2 component. Mr. Drutz added that the working agenda was revised to include the underwriting risk review.

Hearing no objections, the Working Group agreed to move forward with the request to seek the Academy's assistance in performing a comprehensive review of the Underwriting Risk – H2 component, and it requested that NAIC staff draft the request letter to be discussed on its next call.

Mr. Muldoon made a motion, seconded by Mr. Chou, to adopt the revised working agenda to incorporate the Underwriting Risk – H2 component review. The motion passed unanimously.

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

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Health
Risk-Based Capital / Newsletter

NAIC

July 2021 / Volume 23.1

What RBC Pages Should Be Submitted?

For the year-end 2021 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR027** 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, outside of pages XR001 through XR027, do not need to be submitted. Those pages would need to be retained by the company as documentation.

ACA Sensitivity Test

The Capital Adequacy (E) Task Force adopted proposal 2020-02-CA to delete the Affordable Care Act (ACA) Fee Sensitivity Test from the health RBC formula during its Nov. 19, 2020, meeting.

Max Function—Line 17 RBC Growth Safe Harbor

The Capital Adequacy (E) Task Force adopted proposal 2020-04-H to add the Max function to the calculation of Line 17—RBC Growth Safe Harbor on the Business Risk page (XR022) during its Nov. 19, 2020, meeting.

Page Split—Bonds and Miscellaneous Assets

The Capital Adequacy (E) Task Force adopted proposal 2020-07-H to break out the bonds and miscellaneous fixed assets into separate pages (XR007 and XR008) during its Nov. 19, 2020, meeting. The break out of these pages resulted in the renumbering of all subsequent pages. The instructions and blanks were revised to reflect the changes in the page numbers.

Bond Designation Structure

The Capital Adequacy (E) Task Force adopted proposal 2020-10-CA to modify: 1) bond structure for the 20 designation categories for the bonds; 2) reclassified hybrid securities; and 3) the instructions for the incorporation of bond references and hybrid securities reclassification in the health RBC formula during its March 23, 2021, meeting. The structure for the 20 bond designation categories was modified for the Off-Balance Sheet Security Lending Collateral and Schedule DL, Part 1 Assets page (XR006), Fixed IncomeAssets page (XR007), and Asset Concentration page (XR012).

Incentives—Managed Care Credit

As a result of the adoption of proposal 2021-02-CA by the Capital Adequacy (E) Task Force during its April 29, 2021, meeting, the term "incentives" was incorporated into the managed care instructions and blanks as "Bonuses/Incentives."

In This Issue:

Receivable for Securities Factor

As a result of the adoption of proposal 2021-07-CA by the Capital Adequacy (E) Task Force during its June 30 meeting, the factor for the Receivables for Securities (Line (38), Page XR008) was updated from 0.0250 to 0.0240.

Investment Income Adjustment to Underwriting Risk Factors

As a result of the adoption of proposal 2021-04-CA by the Capital Adequacy (E) Task Force during its June 30, 2021, meeting, a 0.5% investment income adjustment was incorporated into the Underwriting Risk factors for comprehensive medical, Medicare Supplement, and dental and vision. The revised factors are:

	$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

Bond Factors

During its June 30, 2021 meeting, the Capital Adequacy (E) Task Force adopted proposal 2021-09-H that: 1) revised factors for the 20 bond designation categories with the incorporation of a bond portfolio adjustment (based on an average of 382 issuers); and 2) modified instructions for the revised bond factors.

The factors for the 20 bond designation categories were incorporated on the Off-Balance Sheet Security Lending Collateral and Schedule DL, Part 1 Assets page (XR006), Fixed Income Assets page (XR007), and Asset Concentration page (XR012).

1.A	0.003	2.A	0.022	3.A	0.069	4.A	0.089	5.A	0.123
1.B	0.005	2.B	0.025	3.B	0.076	4.B	0.097	5.B	0.137
1.C	0.008	2.C	0.031	3.C	0.083	4.C	0.110	5.C	0.151
1.D	0.011								
1.E	0.014								
1.F	0.016								
1.G	0.019								

Editorial Changes

1. Editorial changes were made to the Health RBC Blank and Forecasting files for consistent referencing to the Annual Statement Source columns, column headings, and footnotes (e.g., Column, Line, Schedule, etc.).

2. An editorial change was made to Columns (1), (2) and (3) headings on page XR007 to change "L2 thru 26" to "L3 thru 26."

3. An editorial change was made to the Annual Statement Source column on page XR007 to reference the following:"(1)=Footnote Amt 1 L000001A - L(1); C(2)=Footnote Amt 1 L000001A - L(1); C(3)=Footnote Amt 1 L000001A- SCE, Pt2, C7 L0599999."

RBC Forecasting and Instructions

The Health RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2021 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies*, and it is available to download from the NAIC Account Manager. The *2021 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies* publication is available for purchase in an electronic format through the NAIC Publica-tions Department. 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.

2021 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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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.

Aggregated Health Risk-Based Capital Data
2020 Data as of 6/30/2021

Attachment C

	2020 Health RBC Excluding ACA Fees	2020 Health RBC	2019 Health RBC Excluding ACA Fees	2019 Health RBC	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
Companies that have an RBC loaded on the database	1067	1067	1,012	1,012	965	965	937	937	925	925
Companies with action levels:	15	15	31	15	18	18	42	21	29	29
Percentage of total RBC's loaded	1.41%	1.41%	3.06%	1.48%	1.87%	1.87%	4.48%	2.24%	3.14%	3.14%
Company Action Level - Trend Test	12	12	27	14	13	13	23	12	21	21
Company Action Level	4	4	14	3	4	4	24	10	11	11
Regulatory Action Level	3	3	5	3	5	5	10	5	7	7
Authorized Control Level	2	2	3	2	2	2	0	0	2	2
Mandatory Control Level	6	6	9	7	7	7	8	6	9	9
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	5,192,392,682	5,192,392,682	4,782,424,393	4,782,424,393	4,487,634,571	4,487,634,571	4,332,880,131	4,332,880,131	4,493,219,396	4,493,219,396
Total H1 (H1 - Asset Risk - Other)	11,292,103,225	11,292,103,225	9,743,938,557	9,743,938,557	8,589,245,210	8,589,245,210	8,315,790,867	8,315,790,867	7,921,892,268	7,921,892,268
Total H2 (H2 - Underwriting Risk)	45,819,164,666	45,819,164,666	44,037,638,071	44,037,638,071	40,572,604,055	40,572,604,055	38,787,031,590	38,787,031,590	37,373,980,544	37,373,980,544
Total H3 (H3 - Credit Risk)	4,199,732,859	4,199,732,859	3,626,933,231	3,626,933,231	3,408,034,022	3,408,034,022	3,143,155,975	3,143,155,975	2,984,343,101	2,984,343,101
Total H4 (H4 - Business Risk)	7,481,764,896	7,481,764,896	6,571,143,274	6,571,143,274	6,468,297,728	6,468,297,728	5,739,438,653	5,739,438,653	5,944,456,839	5,944,456,839
Total RBC Before Covariance	73,985,158,328	73,985,158,328	68,762,077,526	68,762,077,526	63,525,815,586	63,525,815,586	60,318,297,216	60,318,297,216	58,717,892,148	58,717,892,148
Total Adjusted Capital	193,852,790,008	193,859,548,232	160,266,143,771	171,305,834,767	156,735,204,883	156,738,377,038	132,169,821,412	142,062,265,048	127,791,918,125	127,791,918,125
ACA Fees	6,758,224		11,039,690,995		3,172,155		9,892,443,636			
Authorized Control Level RBC *	28,853,148,695	28,853,148,695	27,216,649,996	27,216,654,287	25,020,328,688	25,020,329,600	23,228,424,178	23,228,428,544	22,627,572,566	22,627,572,566
Aggregate RBC %	672%	672%	548%	629%	626%	626%	526%	612%	565%	565%
Median RBC %	706%	707%	640%	672%	668%	668%	609%	640%	586%	586%
# of Companies with an RBC Ratio of > 10,000%	143	143	156	156	134	134	112	112	98	98
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	259	259	202	215	223	224	201	213	197	197
# of Companies with an RBC Ratio of < 1,000% & > 500%	320	320	257	282	267	267	237	251	238	238
# of Companies with an RBC Ratio of < 500% & > 300%	278	278	267	285	256	255	247	268	283	283
# of Companies with an RBC Ratio of < 300% & > 200%	52	52	99	59	67	67	97	71	80	80
# of Companies with an RBC Ratio of < 200%	14	14	31	15	18	18	42	21	29	29
# of Companies with an RBC Ratio of Zero	1	1	0	0	0	0	1	1	0	0
Total Companies with RBC	1,067	1,067	1,012	1,012	965	965	937	937	925	925
Total Revenue	806,712,759,846	806,712,759,846	731,800,228,651	731,800,228,651	689,327,716,795	689,327,716,795	643,856,047,265	643,856,047,265	618,070,205,766	618,070,205,766
Underwriting Deductions	774,563,533,665	774,563,533,665	715,077,656,883	715,077,656,883	668,918,380,940	668,918,380,940	625,985,270,784	625,985,270,784	608,695,405,288	608,695,405,288
Aggregate Premium	277,819,028,596	277,819,028,596	268,818,431,635	268,818,431,635	271,400,290,484	271,400,290,484	262,662,393,744	262,662,393,744	255,794,480,149	255,794,480,149
Aggregate Net Incurred Claims	622,491,724,778	622,491,724,778	585,439,850,066	585,439,850,066	541,009,426,163	541,009,426,163	511,376,831,853	511,376,831,853	491,142,322,597	491,142,322,597

* 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

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July 8, 2021

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

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

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries[1] Health Solvency Subcommittee, I am pleased to provide this response letter to the National Association of Insurance Commissioners (NAIC) Health Risk-Based Capital (HRBC) (E) Working Group. This letter is in response to the request from the working group to provide analysis to perform a comprehensive review of the H2—Underwriting Risk component and the managed care credit calculation in the health risk-based capital (RBC) formula.

The subcommittee is willing to agree to this request and, as such, would like to discuss and establish the following with the working group:

- Scope and phases of work
- Desired output/perspective requested by the NAIC from the Academy
- General time frame and any key dates/deadlines

Our suggested approach would be to initially survey methods of evaluating risk and in particular underwriting risk taken by other risk quantification formulas (e.g., health, life and P&C RBC formulas, credit rating agencies) and summarize their respective merit for health underwriting risk. This initial phase would be discussed with the HRBC Working Group to determine the best approach before beginning detailed analysis and factor development.

We look forward to working with the HRBC Working Group on this worthwhile endeavor.

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson
Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown
Senior Insurance Reporting Analyst
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