

Date: 10/26/21

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

**HEALTH RISK-BASED CAPITAL (E) WORKING GROUP**

Thursday, November 4, 2021

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

**ROLL CALL**

Steve Drutz, Chair	Washington	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 Exposure of Proposal 2021-18-H (Benchmarking Guidelines Investment Income Adjustment in Underwriting Risk Factors) for Public Comment—*Steve Drutz (WA)* Attachment A
2. Consider Adoption of its Working Agenda—*Steve Drutz (WA)* Attachment B
3. Hear an Update on the H2 – Underwriting Risk Review from the American Academy of Actuaries (Academy)—*Derek Skoog (Academy)*
4. Receive an Update on the Status of the Excessive Growth Charge and Health Test Ad Hoc Groups—*Steve Drutz (WA)*
5. Discuss Incorporating a Pandemic Risk Component into the Health Risk-Based Capital (RBC) Formula—*Steve Drutz (WA)*
6. Discuss Any Other Matters Brought Before the Task Force —*Steve Drutz (WA)*
7. 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

<b>DATE:</b> <u>10/25/2021</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b> <u>Crystal Brown</u>	Agenda Item # <u>2021-18-H</u>
<b>TELEPHONE:</b> <u>816-783-8146</u>	Year <u>2022</u>
<b>EMAIL ADDRESS:</b> <u>cbrown@naic.org</u>	<b><u>DISPOSITION</u></b>
<b>ON BEHALF OF:</b> <u>Health RBC (E) Working Group</u>	<input type="checkbox"/> ADOPTED _____
<b>NAME:</b> <u>Steve Drutz</u>	<input type="checkbox"/> REJECTED _____
<b>TITLE:</b> <u>Chief Financial Analyst/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
<b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
<b>ADDRESS:</b> <u>5000 Capitol Blvd SE</u>	<input type="checkbox"/> EXPOSED _____
<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 benchmarking guidelines for the Working Group to follow in updating the investment income adjustment in the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision.

**REASON OR JUSTIFICATION FOR CHANGE \*\***

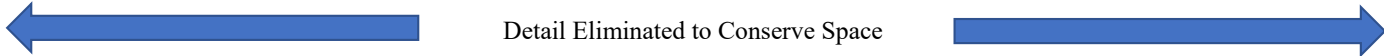
The reason for the change is to clearly identify the frequency and parameters to use in adjusting the underwriting risk factors for investment income in the Comprehensive Medical, Medicare Supplement and Dental & Vision lines.

**Additional Staff Comments:**

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

Revised 11-2013

**UNDERWRITING RISK - L(1) THROUGH L(21)**  
XR013



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.

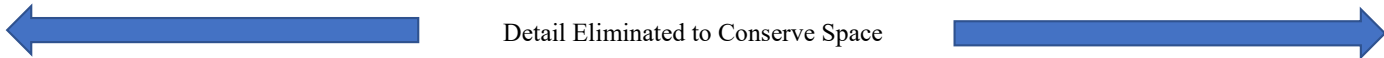
Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 0.5%.

	\$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

The investment income yield was incorporated into the Comprehensive Medical & Hospital, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. The Working Group will evaluate the yield of the 6-month Treasury bond as of January 1<sup>st</sup> each year and determine if further modifications to the 0.5% adjustment are needed. Any adjustments will be rounded up to the nearest 0.5%.

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Line (14) Base Underwriting Risk RBC. Line (6) x Line (12) x Line (13).



2021 #	Owner	2021 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
<b>Ongoing Items – Health RBC</b>							
19	Health RBC WG	Yearly	Yearly	Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification to the 0.5% adjustment to the Comprehensive Medical, Medicare Supplement and Dental and Vision underwriting risk factors is required. Any adjustments will be rounded up to the nearest 0.5%.	HRBCWG		11/4/2021
20	Health RBC WG	3	Year-end 2022 RBC or later	Evaluate the impact of Federal Health Care Law on the Health RBC Formulas	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes to the health formula as a result of ongoing federal discussions and legislation.	
21	Health RBC WG	3	Year-end 2022 RBC or later	Discuss and monitor the development of federal level programs and actions and the potential impact of these changes to the HRBC formula: - Development of the state reinsurance programs; - Association Health Plans; - Cross-border sales	HRBCWG	Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
<b>Carry-Over Items Currently being Addressed – Health RBC</b>							
22	Health RBC WG	3	Year-End 2023 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA	
23	Health RBC WG	2	Year-end 2023 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.	HRBC WG	Adopted 2016-06-H Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group	
24	Health RBC WG	1	Year-end 2022 or later	Establish an Ad Hoc Group to review the Health Test and annual statement changes for reporting health business in the Life and P/C Blanks	HRBCWG	Evaluate the applicability of the current Health Test in the Annual Statement instructions in today's health insurance market. Discuss ways to gather additional information for health business reported in other blanks.	8/4/2018
25	Health RBC WG	1	Year-end 2022 RBC or later	Review the Managed Care Credit calculation in the Health RBC formula - specifically Category 2a and 2b.  Review Managed Care Credit across formulas.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	12/3/2018

**CAPITAL ADEQUACY (E) TASK FORCE  
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2021**

2021 #	Owner	2021 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
26	Health RBC WG	1	Year-end 2022 or later	Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.	HRBCWG	Review if changes are required to the Health RBC Formula	4/7/2019
27	Health RBC WG	1	Year-End 2022 or later	Consider impact of COVID-19 and pandemic risk in the Health RBC formula.	HRBCWG		7/30/2020
28	Health RBC WG	1	Year-End 2021 or later	Work with the Academy to evaluate incorporating and including investment income in the Underwriting Risk component of the Health RBC formula. * Develop a process for reviewing investment income in the underwriting risk factors. * Determine the frequency for which the adjustment should be updated. * Determine if other lines of business should include investment income.	HRBCWG	Referral Letter was sent to the Academy on Sept 21. - Adopted 5/25/21 by the WG	8/18/2020
30	Health RBC WG	1	Year-End 2022 or later	Work with the Academy to perform a comprehensive review of the H2 - Underwriting Risk component of the Health RBC formula including the Managed Care Credit review (Item 18 above)	HRBCWG		4/23/2021
29	Health RBC WG	1	2021	Discuss and determine the bond factors for the 20 designations.	Referral from Investment RBC July/2020	Working Group will use two- and five-year time horizon factors in 2020 impact analysis. Proposal 2021-09-H - Adopted 5/25/21 by the WG	9/11/2020
<b>New Items – Health RBC</b>							

**Carry-Over Items Currently being Addressed – Task Force**

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