

Draft Pending Adoption

Attachment **Two**
Capital Adequacy (E) Task Force
__/__/22

Draft: 7/25/22

Health Risk-Based Capital (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2022 Summer National Meeting*)
July 21, 2022

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met July 21, 2022. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard and Aaron Hodges, Co-Vice Chairs (TX) Wanchin Chou (CT); Tish Becker (KS); Michael Muldoon (NE); and Tom Dudek and Frank Horn (NY).

1. Adopted is May 11, May 4, and April 20 Minutes

The Working Group met May 11, May 4, and April 20. During these meetings, the Working Group took the following action: 1) heard a presentation from the American Academy of Actuaries (Academy) on the methodologies considered in the H2 – Underwriting Risk review; 2) exposed the affiliated investment instructions and blanks; 3) received an update on the Health Test Ad Hoc Group and Excessive Growth Charge Ad Hoc Group; 4) heard a presentation from AM Best on Best’s Capital Adequacy Ratio (BCAR); and 5) adopted its Spring National Meeting minutes.

Mr. Chou made a motion, seconded by Mr. Dudek, to adopt the Working Group’s May 11 (Attachment **Two-A**), May 4 (Attachment **Two-B**), and April 20 (Attachment **Two-C**) minutes. The motion passed unanimously.

2. Adopted its Revised 2022 Working Agenda

Mr. Drutz said the working agenda was revised to add the “review of the affiliated investment” as a new item. This item was given a priority status of 1 and an expected completion date of year-end 2023.

Mr. Chou made a motion, seconded by Mr. Muldoon, to adopt the revised 2022 working agenda. The motion passed unanimously.

3. Adopted its 2022 Newsletter

Mr. Drutz said the 2022 health risk-based capital (RBC) newsletter reflects the adopted proposal and editorial changes for year-end 2022. He said the newsletter appears different from past years; the purpose of the adoption is to consider the content of the newsletter as the format will later be revised. He said that when the formatting of the newsletter is complete, it will be posted to the Working Group’s web page.

Mr. Dudek made a motion, seconded by Mr. Muldoon, to adopt the 2022 health RBC newsletter (**Attachment Two-D**). The motion passed unanimously.

4. Adopted the 2021 Health RBC Statistics

Mr. Drutz said the 2021 health statistics were run on July 1. He said there were 1,095 health RBC filings loaded onto the NAIC database, up from 1,067 in 2020. Mr. Drutz said there were 12 companies that triggered an action level in 2021: five were in a company action level; two were in a regulatory action level; two were in an authorized

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control level (ACL); and three were in a mandatory control level. Mr. Drutz said there were 15 companies that triggered the trend test, and the ACL and total adjusted capital (TAC) amounts increased from 2020 to 2021.

Mr. Drutz said there were revisions to the statistics report to create consistency across life, property/casualty (P/C) and health statistical reports. He noted that the column for "Excluding ACA Fee" was removed due to the removal of the federal Affordable Care Act (ACA) fee sensitivity test from the health RBC formula in 2021. He said two new categories were added to the statistics: 1) "# of Companies with and RBC Ratio of <300% and >250%"; and 2) "# of companies with an RBC ratio of <250% and >200%." These categories will replace the category "# of companies with an RBC ratio of <300% & > 200%."

Mr. Muldoon made a motion, seconded by Mr. Chou, to adopt the 2021 health RBC statistics report (**Attachment Two-E**). The motion passed unanimously.

5. Referred the Health Affiliated Investments Instructions and Blank to the Capital Adequacy (E) Task Force

Mr. Drutz said that during its May 4 meeting, the Working Group exposed the affiliated investment instructions and blanks changes for a 61-day comment period. There were no comments received.

Mr. Hodges made a motion, seconded by Mr. Dudek, to refer the health affiliated instructions and blanks to the Capital Adequacy (E) Task Force for discussion. The motion passed unanimously.

6. Exposed the Academy's Response on the H2 - Underwriting Risk Review

Mr. Drutz said the Working Group heard presentations from AM Best and the Academy on the different methodologies considered in the Academy's report of the H2 - Underwriting Risk review. He said that because of those presentations, the Working Group requested the Academy provide its recommended approach and timeline for moving forward with the project. Matthew Williams (Academy) gave a summary of the letter (**Attachment Two-F**) and said that he would take any questions or comments back to the Academy Health Solvency Subcommittee. He said the estimated time frame to complete the work was 18 weeks given the complexity of the project. Mr. Drutz asked if the Academy would be able to use the Analysis of Operations page given the adopted changes to break out comprehensive medical into group and individual, which will be effective for year-end 2023. Mr. Drutz also asked if the other underwriting business and limited benefit plans would be able to be incorporated or later reviewed if the Academy were to have the data needed for this business. Mr. Williams agreed to bring these questions back to the Academy to discuss.

Hearing no objections, the Working Group agreed to expose the Academy letter for a 30-day comment period ending Aug. 22.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/