

Draft: 11/5/21

Health Risk-Based Capital (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)
November 4, 2021

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Nov. 4, 2021. The following Working Group members participated: Steve Drutz, Chair (WA); Jennifer Li (AL); Wanchin Chou (CT); Carolyn Morgan and Kyle Collins (FL); Michael Muldoon (NE); Tom Dudek (NY); Kimberly Rankin (PA); and Aaron Hodges (TX).

1. Exposed Proposal 2021-18-H

Mr. Drutz said the Working Group adopted adjusted underwriting factors to include investment income for year-end 2021; during these discussions, the Working Group agreed to develop benchmarking guidelines to review the adjustment based on the current market environment. These discussions ranged from a five-year holding period to coincide with the five-year time horizon used in the development of the bond factors to a shorter holding period, such as the six-month treasury due to companies not recognizing investment income in their rate filings with the states. A 0.5% investment yield was incorporated into the factors for year-end 2021. Mr. Drutz said the proposed language states that the benchmarking parameters would be based on a six-month Treasury bond as of Jan. 1 of each year.

Hearing no objections, the Working Group agreed to expose proposal 2021-18-H (Benchmarking Guidelines for Investment Income Adjustment in the Underwriting Risk Factors) for a 30-day public comment period ending Dec. 3.

2. Adopted its 2021 Revised Working Agenda

Mr. Drutz said the working agenda was revised to include an agenda item for reviewing the investment income adjustment on Jan. 1 of each year. The six-month Treasury bond was used as the basis since this is what was used in the 2021 adjustment. Mr. Drutz said further modifications or changes can be incorporated based on the final benchmarking guidelines adopted.

Mr. Drutz said an additional item that the Working Group may consider is related to the bond factors for the 20 designations; for year-end 2021, the health bond factors were adopted based on the American Academy of Actuaries (Academy) report and recommendations, while the life bond factors were adopted based on the Moody's Analytics report. He said the asset risk component is typically not a material component of the health risk-based capital (RBC) formula; therefore, he recommended revising Item 29 on the working agenda to a Priority 3, and he expects a completion date of year-end 2023 or later. He said this will allow the Working Group to further evaluate the differences between the two methodologies and gather at least one year of data to analyze the new factors and overall impact of the bonds on the health formula. Mr. Chou asked what the plan would be if the expected completion date is 2023 and when the Working Group would begin discussing this. Mr. Drutz said the Working Group would need to get through at least the middle of 2022 to get the data and then coordinate these discussions with the Property and Casualty Risk-Based Capital (E) Working Group. Mr. Chou agreed with this approach to move forward.

Mr. Chou made a motion, seconded by Mr. Dudek, to adopt the working agenda with the friendly amendment to revise Item 29 to a Priority 3 and an expected completion date of year-end 2023 or later. The motion passed unanimously.

3. Received an Update from the Academy on H2 – Underwriting Risk Component Review

Steve Guzski (Academy) said the Health Solvency Subcommittee of the Academy is operating on multiple workstreams and meeting continually over the last few months to review the H2 – Underwriting Risk component. He said the Subcommittee is on track to deliver its initial report to the Working Group by year-end. Crystal Brown (NAIC) asked if the Working Group plans to propose changes to the factors or structure. Mr. Guzski said he does not have that information at this time, but with the multiple workstreams, there is one group assessing the formula and another group assessing the new risk factor development. He said the Subcommittee plans to convene to determine if there are any proposed changes that would be included in the initial report.

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

Mr. Drutz said the Excessive Growth Charge Ad Hoc Group continued to meet and work on its analysis. He said the focus of the analysis has been to identify the factors that may be correlated and affected by excessive growth. The ad hoc group will continue its review and plans to meet later this month.

Mr. Drutz said the Health Test Ad Hoc Group met Nov. 3 and discussed the summary of the 2020 results and analysis. The ad hoc group discussed the continued inclusion of the reserve ratio in the test and whether that ratio should be adjusted. Mr. Drutz said a draft proposal has been developed and would remove the writing in five states or less and 75% of the writing in the domiciliary state requirements. The ad hoc group also discussed asset adequacy testing and the expectation of continuing to provide this in the actuarial opinion if a company were to move from the life blank to the health blank. The ad hoc group plans to meet again in early December.

5. Discussed Incorporating a Pandemic Risk Component into the Health RBC Formula

Mr. Drutz said the Working Group previously added a working agenda to consider the impact of pandemic risk and COVID-19 on the health RBC formula. The Working Group agreed to place a hold on reviewing this item until the world had moved further through the pandemic, as the full effects of the pandemic were not yet realized. Mr. Drutz asked the Working Group if it believes this item should remain on hold or if the Working Group should begin discussing it. The Working Group agreed to continue to table this discussion until next year.

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

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