

Draft: 3/22/21

Health Risk-Based Capital (E) Working Group  
Virtual Meeting (*in lieu of meeting at the 2021 Spring National Meeting*)  
March 17, 2021

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Mar. 17, 2021. The following Working Group members participated: Steve Drutz, Chair (WA); Jennifer Li (AL); Wanchin Chou (CT); Carolyn Morgan (FL); Tish Becker (KS); Rhonda Ahrens (NE); Tom Dudek (NY); Kimberly Rankin (PA); and Aaron Hodges (TX).

1. Adopted its Feb. 10, 2021; Jan. 22, 2021; and Dec. 18, 2020 Minutes

The Working Group met Feb. 10, 2021; Jan. 22, 2021; and Dec. 18, 2020. During these meetings, the Working Group took the following action: 1) received, exposed and discussed the American Academy of Actuaries (Academy) report on the inclusion of investment income in the underwriting risk component and impact analysis; 2) discussed its March 5 regulator-to-regulator meeting; 3) referred the health care receivable proposal to the Blanks (E) Working Group for consideration in 2021 reporting; 4) exposed proposal 2021-02-CA (Managed Care Credit – Incentives); 4) received an update on the bond factor analysis; and 5) received a summary of the Blanks (E) Working Group’s proposal related to health business reporting and discussed next steps for the Health Test Ad Hoc Group.

Mr. Chou made a motion, seconded by Mr. Dudek, to adopt the Working Group’s Feb. 10, 2021; Jan. 22, 2021; and Dec. 18, 2020 minutes (Attachment **Two-A**). The motion passed unanimously.

2. Adopted its 2021 Working Agenda

Mr. Drutz summarized the changes to the 2021 health risk-based capital (RBC) working agenda, which included the following substantial changes: 1) the addition to review the managed care credit across the formulas; 2) the deletion of the MAX function as the proposal was adopted for 2021 reporting; and 3) moving the investment income and bond factor items from the New Items section to the Carry Over Items section.

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

3. Referred Proposal 2021-02-CA to the Capital Adequacy (E) Task Force for Exposure

Mr. Drutz said that the Working Group exposed proposal 2021-02-CA for a 30-day comment period ending March 12, and no comments were received. He said that the purpose of the proposal is to provide clarifying language for the inclusion of incentives in the managed care credit instructions and blank.

Hearing no objections, the Working Group referred proposal 2021-02-CA to the Capital Adequacy (E) Task Force for exposure on all lines of business.

4. Heard an Update from the Academy on Investment Income in the Underwriting Risk Component and Exposed Proposal 2021-04-CA

Mr. Drutz said the Working Group requested the Academy’s assistance in developing adjusted factors to include investment income for Columns 1–4 on the Experience Fluctuation Risk page. The Academy provided the adjusted factors in its letter dated Feb. 22, 2021 (Attachment \_\_). Derek Skoog (Academy) said that the Academy used the same methodology used in its previous letter where the Academy had deconstructed the current factors assuming that they currently have no investment income attributed to them based on its understanding of how they were developed. Then using a combination of the Academy’s knowledge of industry completion factors by product as well as industry loss ratios, the Academy developed a range of potential output risk factors that would correspond to do those assumptions. Mr. Skoog said when it comes to determining the investment return rate, there are a number of factors worthy of consideration, and the Academy has included a range of potential results within its letter.

Mr. Drutz said that a summary (Attachment \_\_) of the number of companies whose RBC ratio changed by both the percentage change and point change for the 0.5%, 1%, 1.5% and 2% investment returns was included in the impact analysis. He said that

a majority of companies had a 0% to 1.5% percent change with the 0.5% investment return, while a majority of companies had about a 0% to 2.5% change in the 1% investment return, a 0% to 3% change with the 1.5% investment return, and 0% to 3.5% change with the 2% investment return.

Mr. Drutz said that the Working Group will need to determine the frequency in which the factors will need to be reviewed and if a benchmark should be established in updating the factors, such as Treasury bonds. He said the five-year Treasury Bond yield for 2021 has ranged from 0.36 to 0.84%, and five years would seem to be the longest time frame to consider based on his understanding of the health portfolios with an average maturity around five years. Mr. Drutz said that proposal 2021-04-CA includes the 0.5% and 1% investment return adjustment to the underwriting risk factors as Option 1 and Option 2.

Hearing no objections, the Working Group agreed to expose proposal 2021-04-CA for a 30-day public comment period ending April 16. The exposure will include both the 0.5% and 1% investment return factors and the Academy's Feb. 22 letter. Following the initial exposure, the proposal will then be referred to the Capital Adequacy (E) Task Force for a subsequent exposure for all lines of business.

#### 5. Received an Update on the Bond Factor Impact Analysis

Mr. Drutz said NAIC staff are working on the impact analysis for the 20 designation bond factors based on year-end 2020 reporting. He said the Working Group expects to meet in early April to discuss the results for both the two- and five-year time horizon factors. He said the Working Group will need to determine which factors to move forward with and expose by no later than April 30.

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

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