Virtual Meeting

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Thursday, July 25, 2024
12:00 – 1:00 p.m. ET / 11:00 a.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Steve Drutz, Chair Washington Danielle Smith/ Debbie Doggett Missouri
Matthew Richard, Vice Chair Texas Debbie Doggett Missouri
Wanchin Chou Connecticut Margaret Garrison Nebraska
Kyle Collins Florida Michel Laverdiere New York
Tish Becker Kansas Diana Sherman Pennsylvania

NAIC Support Staff: Maggie Chang

AGENDA

1. Consider Adoption of its June 24, June 6, and April 16 Minutes —*Steve Drutz (WA)*
   Attachment 1
   Attachment 2
   Attachment 3

2. Consider Adoption of the 2024 Health Risk-Based Capital (RBC) Newsletter —*Steve Drutz (WA)*
   Attachment 4

3. Consider Adoption of the 2023 Health RBC Statistics —*Steve Drutz (WA)*
   Attachment 5

4. Receive an Update from the American Academy of Actuaries (Academy)
   A. H-2 Underwriting Review —*Steve Guzski (Academy)*

5. Consider Forwarding a Referral Letter on Pandemic Risk to the Risk-Focused Surveillance (E) Working Group —*Steve Drutz (WA)*
   Attachment 6

6. Consider Adoption of its Working Agenda —*Steve Drutz (WA)*
   Attachment 7

7. Discuss Any Other Matters Brought Before the Working Group —*Steve Drutz (WA)*

8. Adjournment
Health Risk-Based Capital (E) Working Group
E-Vote
June 24, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote that concluded June 24, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou (CT); Kyle Colins (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); Margaret Garrison (NE), Michel Laverdiere (NY); and Diana Sherman (PA).

1. **Adopted Proposal 2024-12-H Modified**

The Working Group conducted an e-vote to consider adoption of proposal 2024-12-H modified. A majority of the members voted in favor of adopting the proposal (Attachment XX). The motion passed.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.
The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 6, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Sarah Mu (CT); Casey Koon (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); and Margaret Garrison (NE). Also participating was: Tom Botsko (OH).

1. **Discussed Proposal 2024-12-H and Exposed Proposal 2024-12-H Modified**

Drutz said the first item to consider was the adoption of proposal 2024-12-H (Attachment XX). This proposal was developed to adjust the health care receivable factors in XR021 to include a tiered factor mechanism. The proposal was exposed for a 30-day public comment period that ended May 16, during which the Working Group received one comment letter from America’s Health Insurance Plans (AHIP) (Attachment XX). Ray Nelson (AHIP) spoke on the comment letter, which focused on aggregating non-pharmaceutical health care receivables. Nelson said the current factor for the non-pharmaceutical health care receivables was developed by aggregating the data to achieve a sufficient volume of data. To remain consistent with the aggregation methodology, AHIP suggested applying tiered factors toward the $10 million tier at the aggregate level. Nelson said the American Academy of Actuaries (Academy) presented during an April meeting on the use of aggregation methodology, noting no significant change from the results of the original proposal. Nelson said he was under the impression that the reason the original proposal did not use the aggregation method was to avoid a structural change to the blanks. He said there should be a way to implement the aggregation methodology with or without structural change.

Drutz asked whether AHIP has a specific idea of how the aggregation methodology should be applied in practice. Drutz said the modified proposal used a waterfall approach but acknowledged there could be alternative approaches, such as allocating aggregated charges based on the weighted significance of the respective non-pharmaceutical health care receivable amounts. Nelson said he was indifferent between the two approaches mentioned. Drutz asked if there was any concern that the modified proposal compromised the transparency of the calculation, as the aggregation and allocation are all embedded in the formula. Nelson said he did not believe so and that the instruction is clear enough about what the formula is trying to accomplish.

Kevin Russell (Academy) said the Academy’s initial attempt to develop the tiers was to apply the tiered factors (40% on the first $10 million and 5% on anything in excess) separately to each of the five types of non-pharmaceutical health care receivables. Next, the Academy applied the tiered factors developed to the five types of non-pharmaceutical health care receivables in aggregate and noted no appreciable difference. As such, Russell said he had no preference between the two approaches (standalone versus aggregate application). Russell said he also had no preference between the waterfall approach and the proportional allocation approach, as discussed by Nelson, based on the fact that both approaches ultimately yield the same total charges. Drutz described a scenario where a company has none of the non-pharmaceutical health care receivable types that exceed the $10 million threshold individually but, in the aggregate, well exceed $10 million. He asked Russell whether that company would benefit from the aggregate methodology so much that the range of reasonable outcomes the Academy targeted can no longer be achieved. Russell acknowledged the potential benefit but reassured the Working Group that the difference would be insignificant.

Drutz agreed and stated that the NAIC staff ran a query across 2018–2022 and noted that less than 10% of the health insurance companies filing health risk-based capital (RBC) blanks had non-pharmaceutical health care
receivables aggregated to more than $10 million. For 2022 alone, should the companies apply the modified proposed methodology, the risk charge on non-pharmaceutical health care receivables would be reduced by $119 million compared to the original proposal.

Doggett said she is in favor of not making structural changes and that she is fine with the waterfall approach in the modified proposal. Garrison concurred. Doggett added that the door is still open for future structural change should the Working Group desire. Garrison thought the waterfall approach was clearer than the structural change approach.

Drutz said that in order to have a year-end 2024 effective date, the modified proposal needs to go through a shorter public comment period. He recommended a 14-day public comment period ending June 20. He said the Working Group may consider adoption via e-vote should there be no significant comments or discussions. There was no objection.

The Working Group agreed to re-expose proposal 2024-12-H (modified) for a 14-day public comment period ending June 20.


Drutz said that during its Feb. 22 meeting, the Working Group directed NAIC staff to draft a referral to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to inquire about whether pandemic risk should be addressed in the financial analysis and/or financial examination process, if it has not already been adequately addressed. The Working Group met April 16 and directed NAIC staff to expose the draft referral letter (Attachment XX) for a 30-day public comment period ending May 16. No comments were received.

Hearing no further questions or objections, the Working Group directed NAIC staff to forward the referral letter to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group.

3. **Discussed the Excessive Growth Charge**

Drutz said the Working Group met April 16 and received a report on the work performed by the Health Risk-Based Capital Excessive Growth Charge Ad Hoc Group. The report stated that the Ad Hoc Group reached a consensus after extensively exploring various alternatives, including member-month (MM) growth greater than 10%, disaggregation by lines of business, and Operational Risk Subgroup methodology. No specific alternative obviously outperformed the current excessive growth charge methodology. During that meeting, an interested party requested that the Working Group consider refining the methodology or removing large companies (companies with over 1 million MM) from the test. The Working Group directed NAIC staff to work with industry representatives to determine if there are other nuances to be introduced to the test to improve its predictive power for large companies. After meeting with UnitedHealth Group (UHG) April 26, an alternative was proposed to implement a safe harbor threshold of 20% (instead of 10% in the current methodology) for large companies only.

Analysis was performed using the 20% safe harbor for the period of 2013–2021 (Attachment XX). Drutz said the number of large companies that triggered the excessive growth charge and had a subsequent underwriting loss declined under the proposed methodology. For example, in 2021, only three large companies (instead of 10) triggered the excessive growth charge and had an underwriting loss subsequently. However, the proposed methodology does not consistently outperform the existing methodology. For insurance, during the period of
2013–2015, underperformance was recorded, and there were also years when the improvement was marginal or close to none, such as in 2016 and 2018.

Drutz said the current excessive growth charge accounts for no more than one-half of 1% of total RBC before covariance. Neither of the possible refinements explored in the past years suggests there is a better alternative to the current methodology. Raising the safe harbor threshold to 20% has mixed results and decreases the number of companies triggering the charge. During the April meeting, at least one Working Group member voiced hesitancy about completely eliminating the charge for large companies. Given all these observations, Drutz asked the Working Group for ideas on how to move the project forward.

Doggett said that without any conclusive results, she would recommend keeping the current excessive growth charge methodology as is. Drutz said he appreciated the recommendation and suggested removing the excessive growth charge topic (X6) from the Working Group’s working agenda.

Hearing no further questions or objections, the Working Group consented to removing X6 from its working agenda.

4. Discussed Other Matters

Drutz said the Working Group plans to meet virtually in lieu of the Summer National Meeting, likely sometime in July.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.
The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 16, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, and Aaron Hodges (TX); Wanchin Chou and Sarah Mu (CT); Kyle Collins and Casey Koon (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); Margaret Garrison (NE); and Diana Sherman (PA). Also participating was: Tom Botsko (OH).

1. **Adopted its Feb. 22 Minutes**

Drutz said the Working Group met Feb. 22. During this meeting, the Working Group took the following action: 1) adopted its Nov. 8, 2023, minutes; 2) exposed proposal 2024-09-CA for the Underwriting Risk Factors—Investment Income Adjustment for a 32-day public comment period ending March 25; 3) discussed comments received from UnitedHealth Group (UHG) on the American Academy of Actuaries’ (Academy’s) health care receivables presentation; 4) discussed pandemic risk and agreed to send a referral to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; 5) adopted its 2024 working agenda; and 6) heard an update from the Academy on the H2 – Underwriting Review project.

Sherman made a motion, seconded by Chou, to adopt the Working Group’s Feb. 22 (Attachment xx) minutes. The motion passed unanimously.

2. **Referred Proposal 2024-09-CA to the Capital Adequacy (E) Task Force**

Drutz said the purpose of proposal 2024-09-CA (UW Risk Factors – Investment Income Adjustment) is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision lines of business. The proposal was originally exposed for a 32-day public comment period that ended March 25, and no comments were received.

Drutz said the proposal will affect all three lines of business and will need to be referred to the Capital Adequacy (E) Task Force for exposure. Botsko requested to obtain via email the impact of the factor changes for the three lines of business from NAIC staff.

Hearing no further question or objection, the Working Group referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force for exposure during its late April call.

3. **Heard an Update from the Academy on the Health Care Receivables presentation.**

David Quinn (Academy) gave a presentation titled “Health Care Receivables Current and Proposed H3 Factors (Alternate)” (Attachment xx) to the Working Group. He said several changes were made in this presentation compared to the original presentation given in November 2023. Key modifications were detailed in slide three. One modification was removing life blank data in the updated presentation (Modification 1). Quinn said overall, the distribution of health care receivable types (pharmacy rebates vs. non-pharmacy rebates) by dollar does not change much with or without life blank data. Removal of life blank data only impacts 2022 company counts, as 2022 was the first year Exhibit 3a was in effect for life companies. Very little movement in the average collection ratio is noted due to similar collection ratios observed among life companies and health companies. Another modification made in the updated presentation is the aggregation of the five non-pharmacy rebates receivables...
to apply to the tiered factors, with a tier cutoff point of $10 million, as originally proposed (Modification 2). Quinn said that the reason a very minimal difference is observed with or without aggregation is because only very few companies have over $10 million of aggregated non-pharmacy rebates receivables. Quinn said that after incorporating Modifications 1 and 2, the originally proposed factors and the tier cutoff still appear effective in achieving the goal summarized on slide 18. Quinn called out one number (-15%) in slide 24. He said he believed there was a miskey in the prior presentation that caused this -15% difference. He also cautioned the users that the dollar amount difference identified on slides 26 and 28 is not too meaningful because the change could be attributable to Modification 1, Modification 2, or both, and it is not easy to delineate which modifications contribute to what amount of dollar differences. Quinn concluded that the impact of adopting Modifications 1 and 2 is inconsequential. Drutz inquired whether it is reasonable to believe that only a small number of companies have non-pharmacy rebates receivables aggregated potentially over $10 million. Quinn agreed. Jim Braue (UHG) asked how to interpret the $137 million difference on slide 28. Quinn reiterated that the -$137 million difference is attributable to Modifications 1 and 2, but he cannot quantify the impact made by each modification.

Quinn said the Academy received public feedback to deliberate the need to calibrate the health care receivable factors based on the relative weight of the health care receivable. Such a recommendation is grounded on the hypothesis that companies with health care receivables representing a higher percentage of capital and surplus should be more motivated to collect, thereby increasing the collection ratio (Hypothesis). The Academy used health care receivables as a percentage of claims as a proxy since claims data was more readily available. Quinn said that after performing the weighting analysis on slide 32, the Academy proposed not to calibrate factors by weight of health care receivable, as the analysis did not support the Hypothesis. Braue inquired whether it would be worthwhile to investigate the Hypothesis again just for companies with large ratios (health care receivables/claims or capital and surplus). Quinn deferred to the Working Group but agreed with Braue that there is no significant benefit to doing so, at least for the short term.

Drutz asked whether Working Group members have concerns about using tiered factors for health care receivables. There were no objections or discussion. Drutz said the next decision point is regarding whether the tiered factor should be applied to each health care receivable line (Option 1) or pharmacy and non-pharmacy rebates receivables in aggregate (Option 2). Drutz said Option 1 does not require structure change and can be implemented for 2024 reporting if adopted. Option 2 requires structure change and, therefore, cannot be implemented until 2025. The NAIC has drafted proposal 2024-12-H for Option 1. Without hearing any discussion or preference, Drutz directed exposure of proposal 2024-12-H for Option 1 for a 30-day comment period ending May 16.

4. **Heard an Update from the Academy on the H-2 – Underwriting Risk Review**

Matthew Williams (Academy) said the tiered risk-based capital (RBC) factor development (Track 2) work group continues to meet on a regular basis (typically weekly) to discuss various modeling and factor development considerations. Outside of the regular meetings, project teams are meeting to refine analysis and weigh the merits and constraints of current/proposed features of factor development. At the moment, the Academy is finalizing data exploration and analysis and continues to share additional questions with NAIC staff.

Williams said the Academy is in the process of generating a revised timeline but expects to have a draft finding available for review in the second half of 2024.


Drutz said during its Feb. 22 meeting, the Working Group directed NAIC staff to draft a referral to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to inquire about
whether the pandemic risk should be addressed in the financial analysis and/or financial examination process, if it has not already been addressed (Attachment xx). There was no further discussion.

There was no objection from the Working Group to expose the referral for a 30-day public comment period ending May 16.

6. Discussed the Excessive Growth Charge

Drutz said the Health RBC Excessive Growth Charge Ad Hoc Group met March 27 to discuss another methodology for assessing the excessive growth charge as recommended by the Operation Risk (E) Subgroup in 2019 (“Operational Risk SG methodology”). The suggested methodology reversed the variables used in the application of the growth safe harbor such that the excessive growth charge is triggered when the underwriting risk revenue is increasing faster than the growth rate of net underwriting risk RBC plus 10%. After reviewing the results of applying the Operational Risk SG methodology to a nine-year period (2013–2021), the ad hoc group concluded that the methodology did not perform better than the existing methodology in predicting an underwriting loss in the subsequent year.

To provide historical background, Drutz said that the analysis of the excessive growth risk charge was first taken up by the Operational Risk (E) Subgroup a number of years ago. Different analyses were considered at that time, but the subgroup was unable to find a reasonable alternative to the current methodology. That led to the referral to the Working Group to consider whether the existing methodology was working as intended. It included a request to determine if reversing the variables used in the formula yielded better results. It also included requests to determine whether the 10% threshold is still reasonable, whether the charge should apply to start-up companies, and whether the methodology should be adopted into the life RBC formula for companies that write a material amount of health business based on a specified percentage of premiums.

The issue related to the charge applying to start-up companies was addressed by adding a footnote to the RBC formula to base the charge on projected premiums. Analyses using different variables (including total revenue, total liabilities, total hospital and medical, and member months [MM]) were all considered, with growth in MM having the best correlation to when a company would be more likely to have an underwriting loss in the following year. While MM growth had the best overall correlation with underwriting losses in the following year, the correlation did not appear significantly better than the percentage of the general population of companies with an underwriting loss (the baseline). In addition, using higher MM growth rates as the trigger for a charge did not yield a significantly higher percentage of companies that would trigger the charge as compared to the baseline.

Drutz said that the ad hoc group reached a consensus that after an extensive exploration of various alternatives (e.g., MM growth greater than 10%, disaggregation by lines of business, Operational Risk SG methodology, etc.), there was no specific alternative that obviously outperformed the current excessive growth charge methodology. As such, the ad hoc group looked to the Working Group to determine the path forward. Drutz said his opinion was that the current methodology works reasonably well and better than the alternative calculations considered. He said, therefore, that the Working Group can either determine to keep the current excessive growth risk charge as it currently stands or direct the ad hoc group to pursue alternatives if any Working Group members have ideas or suggestions. There were no questions, comments, or discussion from the Working Group.

Braue said that the “Disaggregated Results Based on Size of Company” (Attachment xx) graphically displayed that the current test, as well as the alternative test, did not perform well in terms of predicting subsequent years’ underwriting loss for large companies (defined as companies having over 1 million MM). He asked if the Working Group should pursue exempting large companies from the test in order to improve the test’s performance. Doggett said she is hesitant to remove large companies from the test. She suggested the Working Group work...
with industry members to determine if there are other nuances to be introduced to the test to improve its predictive power for large companies.

Drutz suggested disbanding the Excessive Growth Charge Ad Hoc Group and deferring future discussions to the Working Group. He said the excessive growth charge topic should not be removed from the working agenda until the observation on large companies raised by UHG is addressed. There was no objection from the Working Group.

Drutz asked if a Working Group member would direct NAIC staff to make a referral to the Life Risk-Based Capital (E) Working Group to deliberate on the need for the excessive growth charge. No Working Group member sponsored that referral; therefore, the referral was tabled for future consideration.

7. **Discussed Other Matters**

Drutz suggested discussing potential revisions to the working agenda based on the development of pandemic risk and excessive growth charge during the next Working Group meeting.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.
Newsletter Items for Adoption for 2024 for Health RBC:

Date: September 2024
Volume: 26.1

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?
For the year-end 2024 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.

Page 1+: Items Adopted for 2024:

Modification of Fixed Income Assets - Miscellaneous (XR008) Structure for Residual Tranches or Interests
The Capital Adequacy (E) Task Force adopted proposal 2024-02-CA during its April 30 meeting to add a line in XR008 to include the total of residual tranches or interests on a standalone line with no factor proposed and, hence, deemed as structural change only.

Factor for Residual Tranches or Interests (XR008)
The Capital Adequacy (E) Task Force adopted proposal 2024-18-CA during its June 28 meeting to adopt a 20% factor for residual tranches or interests in XR008.

Modification to the Affiliated Investment Blanks (XR002)
The Capital Adequacy (E) Task Force adopted proposal 2024-08-CA during its April 30 meeting to remove the reference to “H0 Component” from the Column (12) heading on page
XR002. The “H0” references are misleading in that only affiliate types 1, 2, 5, and 6 flow into H0, while affiliate types 3, 4, 7, 8, and 9 flow into H1.

In addition, the Task Force adopted proposal 2023-12-CA during its Dec. 2, 2023, meeting to adopt an editorial change made to remove the word “Common” in the heading of Column (13) of XR002 (Details for Affiliated Stocks). A corresponding change was made to XR010 (Equity Assets) and XR024 (Calculation of Total Risk-Based Capital After Covariance) by removing the word “Common” in line “Market Value in Excess Affiliated Stocks.” This line includes the affiliated amounts for both preferred and common stock.

**Underwriting Risk Factors (XR013) - Investment Income Adjustment**
The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

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<th>Comprehensive Medical</th>
<th>Medicare Supplement</th>
<th>Dental &amp; Vision</th>
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**Receivable for Securities Factor (XR008)**
The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting, determining the factor for the Receivables for Securities (Line (11), Page XR008) to remain unchanged.

**Underwriting Risk Annual Statement Source (XR014)**
The Capital Adequacy (E) Task Force adopted proposal 2023-11-H during its Dec. 2, 2023, meeting. The proposal adopted an editorial change made to the Annual Statement Source column on page XR014 for the following:

a. Column (1), Line (4) Other Health Risk Revenue was updated to reference “Pg. 7, Col. 2+3+8+9, Line 4.”
b. Column (1), Line (10) Fee-For-Service Offset was updated to reference “Pg. 7, Col. 2+3+8+9, Line 3.”

**Health Care Receivables (XR021) Factor Changes**
The Capital Adequacy (E) Task Force adopted proposal 2024-12-H (MOD) during its June 28 meeting. The modified proposal updated the factor for Pharmaceutical Health Care Receivables (line 26.1) to 20% on the first $5 million and 3% on the amount over $5 million. For non-pharmaceutical health care receivables (lines 26.2 through 26.6), tier factors are applied to those lines in the aggregate, with 40% applied on the first $10 million and 5% on the amount over $10 million.

**Last Page: RBC Forecasting & Warning:**

**RBC Forecasting and Instructions**
The health RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies*, and it can be downloaded from the NAIC Account Manager. The *2024 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies* publication is available for purchase in an electronic format through the NAIC Publications 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.

**Last Page: 2024 National Association of Insurance Commissioners:**

2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Health Risk-Based Capital Newsletter Volume 26.1 Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Derek Noe, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197. Phone: 816-783-8973. Email: dnoe@naic.org.
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<td>2021</td>
<td>2020</td>
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* 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.
MEMORANDUM

TO: Amy Malm, Chair of Risk-Focused Surveillance (E) Working Group
FROM: Steve Drutz, Chair of Health Risk-Based Capital (E) Working Group
DATE: June 6, 2024
RE: Referral for Pandemic Risk

In 2020, in light of the Covid-19 pandemic, the Health Risk-Based Capital (E) Working Group added into its working agenda an item to consider impact of COVID-19 and pandemic risks in the Health Risk-Based Capital (RBC) formula. During subsequent meetings held in 2023 and 2024, the Working Group evaluated whether RBC is the appropriate tool to capture pandemic risk. Some of the actions include:

- Looked into 2014 Health RBC interrogatories to analyze how companies allocated surplus or model for pandemic and biological risks.
- Received presentation by Texas Department of Insurance on “Pandemic Risk and Insurer Solvency – A Review of Personal Consumption Expenditures (PCE) on Healthcare Before, During, and After the COVID-19 Pandemic”.
- Considered capital requirements for pandemic risk in other jurisdictions (e.g., Solvency II).

One specific trend noted from the Texas Department of Insurance presentation was the decrease in healthcare expenditures during the pandemic, and the return to historical norms that occurred as the pandemic subsided. This appeared to increase the difficulty in adequately pricing policies post pandemic. Based on the work and findings above, the Working Group concluded that changes, resulting from pandemic risks, to the Health RBC formula are not warranted for the time being. The Working Group would like to ask the Risk-Focused Surveillance (E) Working Group to evaluate whether the pandemic risk is being sufficiently addressed from their perspective, and if not, the need for enhancement in the financial analysis and/or financial examination process.

If you have any questions, or would like to further discuss, please contact the Health Risk-Based Capital (E) Working Group chair or vice chair (Steve Drutz, Matthew Richard), or NAIC staff Maggie Chang (mchang@naic.org).

Cc: Julie Gann, Maggie Chang, Derek Noe, Bruce Jenson, Jane Koenigsman
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<th>2024 #</th>
<th>Owner</th>
<th>2024 Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
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<td><strong>X1</strong></td>
<td>Health RBC WG</td>
<td>Yearly</td>
<td>Yearly</td>
<td>Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification 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%.</td>
<td>HRBCWG</td>
<td>Adopted 2022-16-CA (YE-2023), Exposed 2024-09-CA (YE-2024)</td>
<td>11/4/2021</td>
</tr>
<tr>
<td><strong>X2</strong></td>
<td>Health RBC WG</td>
<td>3</td>
<td>Ongoing</td>
<td>Continue to monitor the Federal Health Care Law or any other development of federal level programs and actions (e.g., state reinsurance programs, association health plans, mandated benefits, and cross-border) for future changes that may have an impact on the Health RBC Formula.</td>
<td>4/13/2010 CATF Call</td>
<td>Adopted 2014-01H, Adopted 2014-02H, Adopted 2014-05H, Adopted 2014-06H, Adopted 2014-24H, Adopted 2014-25H, Adopted 2016-01H, Adopted 2017-09-CA, Adopted 2017-10-H. The Working Group will continually evaluate any changes to the health formula because of ongoing federal discussions and legislation. Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.</td>
<td>1/11/2018</td>
</tr>
<tr>
<td><strong>X3</strong></td>
<td>Health RBC WG</td>
<td>2</td>
<td>Year-End 2025 RBC or Later</td>
<td>Consider changes for stop-loss insurance or reinsurance.</td>
<td>AAA Report at Dec. 2006 Meeting</td>
<td>(Based on Academy report expected to be received at YE-2016) 2016-17-CA, Adopted proposal 2023-01-CA</td>
<td></td>
</tr>
<tr>
<td><strong>X4</strong></td>
<td>Health RBC WG</td>
<td>2</td>
<td>Year-end 2025 RBC or later</td>
<td>Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.</td>
<td>HRBCWG</td>
<td>Adopted 2016-06-H, Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal</td>
<td></td>
</tr>
</tbody>
</table>
| #  | Health RBC WG | 1   | Year-end 2025 RBC 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)  
Review the Managed Care Credit calculation in the health RBC formula - specifically Category 2a and 2b.  
Review Managed Care Credit across formulas.  
As part of the H2 - Underwriting Risk review, determine if other lines of business should include investment income and how investment income would be incorporated into the existing lines if there are changes to the structure. | HRBCWG | (Year-End 2021) referred to the Blanks (E) Working Group Adopted 2024-12-H (MOD) | 4/23/2021 |
| #  | Health RBC WG | 1   | Year-end 2025 RBC 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 |
| #  | Health RBC WG | 3   | Year-End 2025 or later | Discuss and determine the re-evaluation of 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 |