Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force [x] 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

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ON BEHALF OF:	**Health RBC (E) Working Group**
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Agenda Item # 2019-15-H

Year 2020

DISPOSITION

[ ] ADOPTED _____

[ ] REJECTED _____

[ ] DEFERRED TO _____

[ ] REFERRED TO OTHER NAIC GROUP

[ ] EXPOSED _____

[ ] OTHER (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [ ] Life RBC Instructions
[ ] Fraternal RBC Blanks [ ] Health RBC Instructions [ ] Property/Casualty RBC Instructions
[ ]Life RBC Blanks [ ] Fraternal RBC Instructions [x] OTHER HC Rec Guidance

DESCRIPTION OF CHANGE(S)

Guidance for Health Care Receivables and the future review and development of the health care receivable factors.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the proposal is to create guidance on health care receivable reporting that will be used in the review and development of the health care receivable factors.

Additional Staff Comments:

**** This section must be completed on all forms.** **Revised 11-2013**

Health Care Receivable Guidance

In 2016, the Health Risk-Based Capital (E) Working Group adopted new factors for health care receivables: claim overpayments; loan and advances to providers; capitation arrangements; risk sharing; and other health care receivables. The factor was increased from .05 to .19 based on a recommendation from the American Academy of Actuaries (Academy), however, the new charge of .19 is still significantly less than the factor would have been needed to provide a 90% confidence that the collected amounts would exceed the sum of the admitted portion of the accrual plus the addition to the credit risk calculation. Because of this, the Health Risk-Based Capital (E) Working Group asked the Academy to continue to review the health care receivable date consider if the factors should be updated based on updated data.

The Academy used 2013 and 2014 data from Exhibit 3 – Health Care Receivables, Exhibit 3A – Analysis of Health Care Receivables Collected and Accrued, and Underwriting and Investment Exhibit (U&I) Part 2B – Analysis of Claims Unpaid – Prior Year – Net of Reinsurance to develop the revised factors.

Exhibit 3 – shows the details on the accrued amounts for each of the six categories, including the split between admitted and non-admitted amounts.

Exhibit 3A – shows the amount collected during the year, split between those on amounts accrued prior to the current year and those accrued during the prior year. It also shows the health care receivables accrued as of Dec. 31 of the current year, split between amounts accrued as of December 31 of the prior year and those accrued during the current year. The sum of amounts collected against the prior year's accrual plus any such amounts still accrued at the end of the current year is then compared to the accrual made as of December 31 of the prior year.

The Academy found inconsistencies in their review of the 2013 and 2014 data, that the data reported in Exhibit 3A for the claim overpayments receivables; loan and advances to providers; capitation arrangements receivables; risk sharing receivables; and other health care receivables. 66% of companies who had other types of health care receivables reported collections in 2014 on amounts accrued as of 12/31/2013 that exceeded or equaled the admitted portion of these receivables, with 7% reporting no collections and 27% reporting amounts collected in 2014 on amounts accrued as of 12/31/2013 less than those accruals.

The Academy continued to review the health care receivable date for 2015 and later. There has not been a substantive improvement that was hoped for on the continued review of the data. One reason for this may be the tracking of the recoveries that are being made. For example, amounts recovered for claim overpayments receivable may be accomplished by means of offsets against other claims paid to the same providers, so separate tracking through the claim payment system may not be automated.

The Working Group considered changes to the health RBC formula to provide for improved reporting, however, the Working Group later rejected this proposal and agreed use data reported in the years 2020-2022 for a re-evaluation of the health care receivable factors. Therefore, companies are encouraged to review the reporting of the accrual and receivable amounts report on Exhibit 3, Exhibit 3A and U&I, Part 2B going forward to ensure that the most accurate data is available to be used in the review and development of updated health care receivable factors.