Capital Adequacy (E) Task Force

RBC Proposal Form

DATE: 10/25/2021

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ON BEHALF OF: Health RBC (E) Working Group

NAME: Steve Drutz

TITLE: Chief Financial Analyst/Chair

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

[ ] Health RBC Blanks [ ] Life and Fraternal RBC Blanks [ ] Property/Casualty RBC Blanks [ ] Other ___________________

[ x ] Health RBC Instructions [ ] Life and Fraternal RBC Instructions [ ] Property/Casualty RBC Instructions

DESCRIPTION OF CHANGE(S)

Incorporate benchmarking guidelines for the Working Group to follow in updating the investment income adjustment in the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision.

REASON OR JUSTIFICATION FOR CHANGE **

The reason for the change is to clearly identify the frequency and parameters to use in adjusting the underwriting risk factors for investment income in the Comprehensive Medical, Medicare Supplement and Dental & Vision lines.

Additional Staff Comments:

11-4-21 cgb The WG exposed for 30-day public comment period ending on Dec. 3, 2021.

** This section must be completed on all forms.

Revised 11-2013
**UNDERWRITING RISK - L(1) THROUGH L(21)**

**XR013**

**Line (12) Underwriting Risk Claims Ratio.** For Columns (1) through (5), Line (11) / Line (6). If either Line (6) or Line (11) is zero or negative, Line (12) is zero.

**Line (13) Underwriting Risk Factor.** A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 0.5%.

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>$0 – $3 Million</th>
<th>$3 – $25 Million</th>
<th>Over $25 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Medical &amp; Hospital</td>
<td>0.1493</td>
<td>0.1493</td>
<td>0.0893</td>
</tr>
<tr>
<td>Medicare Supplement</td>
<td>0.1043</td>
<td>0.0663</td>
<td>0.0663</td>
</tr>
<tr>
<td>Dental &amp; Vision</td>
<td>0.1195</td>
<td>0.0755</td>
<td>0.0755</td>
</tr>
<tr>
<td>Stand-Alone Medicare Part D Coverage</td>
<td>0.251</td>
<td>0.251</td>
<td>0.151</td>
</tr>
<tr>
<td>Other Health</td>
<td>0.130</td>
<td>0.130</td>
<td>0.130</td>
</tr>
<tr>
<td>Other Non-Health</td>
<td>0.130</td>
<td>0.130</td>
<td>0.130</td>
</tr>
</tbody>
</table>

The investment income yield was incorporated into the Comprehensive Medical & Hospital, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. The Working Group will evaluate the yield of the 6-month Treasury bond as of January 1st each year and determine if further modifications to the 0.5% adjustment are needed. Any adjustments will be rounded up to the nearest 0.5%.

**Line (14) Base Underwriting Risk RBC.** Line (6) x Line (12) x Line (13).