

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

DATE: <u>01-30-23</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Crystal Brown</u>	Agenda Item # <u>2022-16-CA</u>
TELEPHONE: <u>816-783-8146</u>	Year <u>2023</u>
EMAIL ADDRESS: <u>cbrown@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Grp</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Steve Drutz</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chief Financial Analyst/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>5000 Capitol Blvd SE</u>	<input checked="" type="checkbox"/> EXPOSED <u>2-7-23</u>
<u>Tumwater, WA 98501</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- Health RBC Blanks Property/Casualty RBC Blanks Life and Fraternal RBC Instructions
 Health RBC Instructions Property/Casualty RBC Instructions Life and Fraternal RBC Blanks
 OTHER _____

DESCRIPTION OF CHANGE(S)

Update the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages XR013, LR019, LR020, PR019 and PR020 for the investment income adjustment.

REASON OR JUSTIFICATION FOR CHANGE **

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision for investment income adjustment.

Additional Staff Comments:

2-7-23 cgb Exposed for 30-day comment period ending on March 9.

2-28-23 cgb EDITORIAL CHANGE: An editorial correction was made to the Health portion of the instructions to change the investment income adjustment reference from 0.5% to 5.0%.

** This section must be completed on all forms.

Revised 7-2022



February 2, 2023

Steve Drutz
 Chair, Health Risk-Based Capital (E) Working Group
 National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
High Tier (i.e., less than \$3Million (M) or less than \$25M)			
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
Low Tier			
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

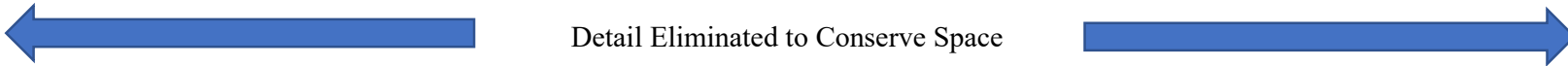
Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

HEALTH

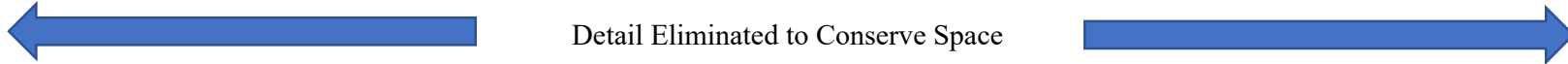
UNDERWRITING RISK - L(1) THROUGH L(21)
XR013



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 ~~5.00~~5%.

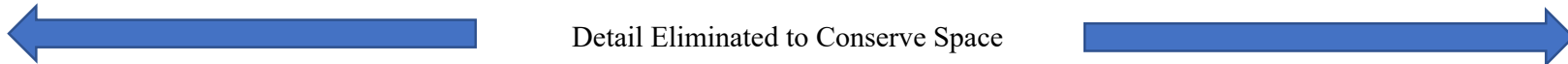
	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive Medical & Hospital	0.14 3493	0.14 3493	0.08 3893
Medicare Supplement	0.09 801043	0.06 0363	0.06 0363
Dental & Vision	0.11 4895	0.07 1155	0.07 1155
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

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. Each year, the Working Group will identify the yield of the 6-month Treasury bond ([U.S. Department of the Treasury](http://www.treasury.gov)) on each Monday through the month of January and determine if further modifications to the ~~5.00~~5% adjustment ~~is~~are needed. Any adjustments will be rounded up to the nearest 0.5%.



LIFE

Underwriting Risk – Experience Fluctuation Risk
LR020



Line (10) Underwriting Risk Factor
A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	\$0 - \$3 Million	\$3 - \$25 Million	Over \$25 Million
Comprehensive Medical	0.14 3493	0.14 3493	0.08 3893
Medicare Supplement	0.09 801043	0.06 0363	0.06 0363
Dental	0.11 4895	0.07 1155	0.07 1155
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151



Detail Eliminated to Conserve Space



PROPERTY/CASUALTY

**LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS
PR019 – PR026**



Detail Eliminated to Conserve Space



Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.14 3493	0.14 3493	0.08 3893
Medicare Supplement	0.09 801043	0.06 0333	0.06 0363
Dental & Vision	0.11 4895	0.07 1155	0.07 1155
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151



Detail Eliminated to Conserve Space



UNDERWRITING RISK

Experience Fluctuation Risk

		(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	XXX
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non-Health
\$0 - \$3 Million	0.1493-0.1434	0.1043-0.0980	0.1195-0.1148	0.251	0.130	0.130
\$3 - \$25 Million	0.1493-0.1434	0.0663-0.0603	0.0755-0.0711	0.251	0.130	0.130
Over \$25 Million	0.0893-0.0838	0.0663-0.0603	0.0755-0.0711	0.151	0.130	0.130

ALTERNATE RISK CHARGE**						
** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK

Experience Fluctuation Risk

	(1)	(2)	(3)	(4)	(5)
Line of Business	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Total
(1.1) Premium – Individual					
(1.2) Premium – Group					
(1.3) Premium – Total = Line (1.1) + Line (1.2)					
(2) Title XVIII-Medicare†		XXX			
(3) Title XIX-Medicaid†		XXX			
(4) Other Health Risk Revenue†		XXX			
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6) Net Incurred Claims					
(7) Fee-for-Service Offset†		XXX			
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.1493-0.1434	0.1043-0.0980	0.1195-0.1148	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.0893-0.0838	0.0663-0.0603	0.0755-0.0711	0.151	XXX
(10.3) Composite Underwriting Risk Factor					XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12) Managed Care Discount Factor = LR022 Line (17)					XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14) RBC Adjustment For Individual = [Line(1.1) x 1.2 + Line (1.2)] / Line (1.3) x Line (13)§					
(15) Maximum Per-Individual Risk After Reinsurance†					XXX
(16) Alternate Risk Charge*					
(17) Net Alternate Risk Charge£					
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)
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£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR020

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	TOTAL
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3) Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4) Other Health Risk Revenue†	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.1493-0.1434	0.1043-0.0980	0.1195-0.1148	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.0893-0.0838	0.0663-0.0603	0.0755-0.0711	0.151	XXX
(10.3) Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [Line(1.1) x 1.2 + Line (1.2)] / Line (1.3) x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge‡	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum of Columns (1), (2) (3) and (4)
	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 6 x Maximum Individual Risk	

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.