

MEMORANDUM

TO: Katie Dzurec, American Academy of Actuaries
Steve Guzski, American Academy of Actuaries
Derek Skoog, American Academy of Actuaries
Steve Jackson, American Academy of Actuaries

FROM: Steve Drutz, Chair, Health Risk-Based Capital (E) Working Group
Danielle Smith, Vice Chair, Health Risk-Based Capital (E) Working Group

DATE: August XX, 2026

RE: Request for Development of Diversification Credit for XR013, LR020, and PR020

The Health Risk-Based Capital (E) Working group received the *H-2 Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula Report* from the American Academy of Actuaries at their April 30, 2025 call. In comments received by the working group on the report the industry asked for the development and implementation of a diversification credit for lines of business reported on page XR013, LR020, and PR020. Interested parties commented that the separation of comprehensive medical into the four constituent lines increased the base Risk-Based Capital charge for those lines of business independent of any increase to the factors.

The working group would like the Academy's assistance in developing a diversification credit for XR013, PR020, and LR020. This would include:

- Any formula or factor the Academy believes represents the effect of diversification to the lines of business reported on XR013, Pr020, and LR020.
- The way this factor or formula should be applied to calculations on those pages.
- If the diversification credit should be part of the regular underwriting factor analysis, the next review based on the timeline from the Academy report beginning in 2027.

The Academy currently possesses the data utilized in the *H-2 Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula Report* but if additional data would be required please reach out to the NAIC committee support for the Health Risk-Based Capital (E) Working Group.

The working group would like to have a diversification credit ready for exposure by quarter one 2028. Please contact NAIC committee support for the Health Risk-Based Capital (E) Working Group with any questions concerns with this request or timeline.

Cc: Derek Noe, Maggie Chang, Eva Yeung, Kazeem Okosum

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