

# Capital Adequacy (E) Task Force

## RBC Proposal Form

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force  | <input checked="" type="checkbox"/> Health RBC (E) Working Group | <input checked="" 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"/> SMI RBC (E) Subgroup                  |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group    | <input type="checkbox"/> Stress Testing (E) Subgroup           |

<b>DATE:</b> <u>7-6-2017</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b> <u>Crystal Brown</u>	Agenda Item # <u>2017-09-CA</u>
<b>TELEPHONE:</b> <u>816-783-8146</u>	Year <u>2018</u>
<b>EMAIL ADDRESS:</b> <u>cbrown@naic.org</u>	<b><u>DISPOSITION</u></b>
<b>ON BEHALF OF:</b> <u>Health RBC (E) Working Group</u>	<input type="checkbox"/> ADOPTED _____
<b>NAME:</b> <u>Patrick McNaughton</u>	<input type="checkbox"/> REJECTED _____
<b>TITLE:</b> <u>Chief Financial Examiner/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
<b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
<b>ADDRESS:</b> <u>PO Box 40255</u>	<input checked="" type="checkbox"/> EXPOSED <u>9-8-17</u>
<u>Olympia, WA 98504-0255</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- |  |  |  |
|--|--|--|
| <input checked="" type="checkbox"/> Health RBC Blanks    | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life RBC Instructions              |
| <input checked="" type="checkbox"/> Fraternal RBC Blanks | <input checked="" type="checkbox"/> Health RBC Instructions      | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions |
| <input checked="" type="checkbox"/> Life RBC Blanks      | <input checked="" type="checkbox"/> Fraternal RBC Instructions   | <input type="checkbox"/> OTHER _____                                   |

### DESCRIPTION OF CHANGE(S)

Modify the Risk Adjustment and Risk Corridor Sensitivity Test to remove the Risk Corridor portion from the sensitivity test.

### REASON OR JUSTIFICATION FOR CHANGE \*\*

The Risk Corridor program was a temporary program that was effective for years 2014-2016 under the federal ACA program. HHS announced in Oct. 2015 that a proration of 12.6% of the 2014 risk corridor payments would be distributed. The Statutory Accounting Principles (E) Working Group determined under INT 15-01 that risk corridor receivables for 2015 and 2016 estimated in accordance with SSAP No. 107, paragraphs 56.b and 56.e are nonadmitted 1) until such time that the prior benefit year is paid in full and 2) until additional proration amounts are confirmed by HHS or other information of a sufficient nature supports that collectability is probable and reasonable. As a result of the nonadmission and ending of the program, the risk corridor can be removed from the sensitivity test.

### Additional Staff Comments:

7-6-17 cgb The sensitivity test is included in all formulas, it is recommended if the risk corridor is removed from the Health formula that a similar consideration be made for Life, Fraternal and P&C.

8-7-17 cgb The HRBCWG exposed the proposal for a 30 day comment period ending on Sept. 8, 2017.

\*\* This section must be completed on all forms.

Revised 11-2013

**FEDERAL ACA RISK ADJUSTMENT ~~AND RISK CORRIDOR~~ SENSITIVITY TEST**  
XR023

The federal ACA Risk Adjustment ~~and Risk Corridor~~ Sensitivity Test is used to adjust TAC for the risk adjustment receivable or payable ~~and the risk corridor retrospective premium and reserve for rate credit or policy experience rating refunds~~. The sensitivity test identifies the potential impact to an insurer's RBC ratio due to the risk of misestimation ~~ong of~~ the ACA risk adjustment ~~and risk corridor~~ by the insurer. The sensitivity test looks at both the risk of overestimation and underestimation by the insurer for both receivables and payables. Lines (1) through (814) look at the risk of overestimation while Lines (912) through (1622) look at the risk of underestimation by decreasing and increasing the amount reported in the Notes to Financial Statement by 25 percent. The sensitivity test provides a "what if" scenario that has no effect on the risk-based capital amounts reported in the annual statement. The Health Risk-Based Capital (E) Working Group determined that a 25 percent change in the annual statement amount and a 50 percent factor should be used to calculate the effect of the misestimating the risk adjustment ~~or risk corridor~~ receivable and payable on the RBC ratio. The company can provide an explanation in the footnote if the company believes the factors are not appropriate, with an explanation as to why the factors are inappropriate.

Line (1) and Line (912) – Premium Adjustments Receivable Due to ACA Risk Adjustment. This is the amount reported in the annual statement Notes to Financial Statement 24E2a1. Column (2) would equal Column (1) multiplied by the sensitivity amount.

Line (2) and Line (1013) – Premium Adjustments Payable Due to ACA Risk Adjustment. This is the amount reported in the annual statement Notes to Financial Statement 24E2a3. Column (2) would equal Column (1) multiplied by the sensitivity amount.

Line (3) and Line (114) – Total ACA Risk Adjustments Receivable and Payable. Line (3) would be equal to Line (2) minus Line (1) and Line (141) would be equal to Line (1013) minus Line (129).

~~Line (4) and Line (15) – Accrued Retrospective Premium Due to ACA Risk Corridors. This is the amount reported in the annual statement Notes to Financial Statement 24E2c1. Column (2) would equal Column (1) multiplied by the sensitivity amount.~~

~~Line (5) and Line (16) – Reserve for Rate Credits or Policy Experience Rating Refunds Due to ACA Risk Corridors. This is the amount reported in the annual statement Notes to Financial Statement 24E2c2. Column (2) would equal Column (1) multiplied by the sensitivity amount.~~

~~Line (6) and Line (17) – Total ACA Risk Corridor Retrospective Premium and Rate Credits or Policy Experience Rating Refunds. Line (6) is equal to Line (5) minus Line (4) and Line (17) is equal to Line (16) minus Line (15).~~

Line (47) and Line (128) – Total Risk Adjustment ~~and Risk Corridor~~. The absolute value of Line (47), Column (3) is equal to Line (3) ~~plus Line (6)~~. The absolute value of Line (182), Column (23) is equal to Line (142) ~~plus Line (17)~~.

Line (58) and Line (139) – Page XR026, Total Adjusted Capital, Post Deferred Tax. Line (6)

Line (69) and Line (1420) – Total Adjusted Capital Stressed for Risk Adjustments. Line (69) is equal to Line (58) minus Line (47) and Line (1420) is equal to Line (193) minus Line (182).

Line (710) and Line (1524) – Authorized Control Level RBC. Page XR027 – Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)

Line (814) and Line (1622) – ACA Risk Adjusted ACL RBC Ratio. Line (814) is equal to Line (69) divided by Line (740) and Line (1622) is equal to Line (1420) divided by Line (1524).

Footnote - If it is the belief of the company that the factors are not appropriate, provide an explanation as to why the factors are inappropriate. Provide an explanation as why the company believes that the factors are inappropriate.

**FEDERAL ACA RISK ADJUSTMENT ~~AND RISK CORRIDOR~~ SENSITIVITY TEST:**

		(1)	(2)	(3)	(4)
	Annual Statement Source	Amount	Sensitivity Percentage	Subtotal	Adjusted Capital
				Col. (1) * Col. (2) Factor	RBC Result
<u>Overestimation of 25%</u>					
(1)	Premium Adjustments Receivable Due to ACA Risk Adjustment	Notes to Financial Statement 24E2a1			
(2)	Premium Adjustments Payable Due to ACA Risk Adjustment	Notes to Financial Statement 24E2a3	0.75	0.500	
(3)	Total ACA Risk Adjustments Payable less Receivable	Line (2) - Line (1)			
<del>(4)</del>	<del>Accrued Retrospective Premium Due to ACA Risk Corridors</del>	<del>Notes to Financial Statement 24E2c1</del>			
<del>(5)</del>	<del>Reserve for Rate Credits or Policy Experience Rating Refunds Due to ACA Risk Corridors</del>	<del>Notes to Financial Statement 24E2c2</del>	<del>0.75</del>	<del>0.500</del>	
<del>(6)</del>	<del>Total ACA Risk Corridor Retrospective Premium and Rate Credits or Policy Experience Rating Refunds (Net)</del>	<del>Line (5) - Line (4)</del>	<del>0.75</del>	<del>0.500</del>	
(4)	Total Risk Adjustment <del>and Risk Corridor</del>	Absolute Value of (Line (3) + <del>Line (6)</del> )			
(5)	Total Adjusted Capital, Post-deferred Tax	XR026, Col. (2), Line (6)			
(6)	Total Adjusted Capital Stressed for Risk Adjustments	<del>Line (5) - Line (4)</del>			
(7)	Authorized Control Level RBC	XR027 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			
(8)	ACA Risk Adjusted ACL RBC Ratio	<del>Line (6)/Line (7)</del>			
<u>Underestimation of 25%</u>					
(9)	Premium Adjustments Receivable Due to ACA Risk Adjustment	Col. (1), Line (1)			
(10)	Premium Adjustments Payable Due to ACA Risk Adjustment	Col. (1), Line (2)	1.25	0.500	
(11)	Total ACA Risk Adjustments Payable less Receivable	<del>Line (9) - Line (10)</del>			
<del>(15)</del>	<del>Accrued Retrospective Premium Due to ACA Risk Corridors</del>	<del>Col. (1), Line (4)</del>			
<del>(16)</del>	<del>Reserve for Rate Credits or Policy Experience Rating Refunds Due to ACA Risk Corridors</del>	<del>Col. (1), Line (5)</del>	<del>1.25</del>	<del>0.500</del>	
<del>(17)</del>	<del>Total ACA Risk Corridor Retrospective Premium and Rate Credits or Policy Experience Rating Refunds (Net)</del>	<del>Line (16) - Line (15)</del>	<del>1.25</del>	<del>0.500</del>	
(12)	Total Risk Adjustment <del>and Risk Corridor</del>	Absolute Value of (Line (11) + <del>Line (17)</del> )			
(13)	Total Adjusted Capital, Post-deferred Tax	XR026, Col. (2), Line (6)			
(14)	Total Adjusted Capital Stressed for Risk Adjustments	<del>Line (13) - Line (12)</del>			
(15)	Authorized Control Level RBC	XR027 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			
(16)	ACA Risk Adjusted ACL RBC Ratio	<del>Line (14)/Line (15)</del>			

Footnote: If it is the belief of the company that the factors are not appropriate, provide an explanation as to why the factors are inappropriate. \_\_\_\_\_