2009 NAIC ANNUAL STATEMENT INSTRUCTIONS – HEALTH

AUG 2009 REVISIONS

PAGE 205:	**SUMMARY INVESTMENT SCHEDULE**
Revision:	Modify instruction Line 1.22 removing reference to Student Loan Marketing Association
Reason:	In a list of securities that qualify for government in statutory accounting , elsewhere in the instructions.

PAGE 427:	**PROPERTY SUPPLEMENT – SCHEDULE P**
Revision:	Add Line 17.3 Excess Workers Compensation instruction
Reason:	Consistency with Property Schedule P

EDITOR'S NOTE:

The above changes are highlighted within the attached instructions that follow this page.

Recent Blanks Working Group Agenda Items (Exposure Drafts) may be viewed in detail at the following web site: http://www.naic.org/committees_e_app_blanks.htm.

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Line 1.22 – Issued by U.S. Government-sponsored Agencies

Include: The value of all obligations (excluding mortgage-backed securities) that have been issued by U.S. Government-sponsored agencies. For purposes of this schedule, U.S. Government-sponsored agencies are defined as agencies originally established or chartered by the U.S. Government to serve public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. Government. Include, among others, debt securities and mortgage-backed bonds (i.e., bonds that are collateralized by mortgages) of the following government-sponsored agencies:

Federal Agricultural Mortgage Corporation (Farmer Mac)

Federal Farm Credit Banks

Federal Home Loan Banks (FHLBs)

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

Federal Land Banks (FLBs)

Federal National Mortgage Association (FNMA or Fannie Mae)

Financing Corporation (FICO)

Resolution Funding Corporation (REFCORP)

Tennessee Valley Authority (TVA)

U.S. Postal Service

Line 1.3 – Non-U.S. Government (Including Canada, Excluding Mortgage-Backed Securities)

Include: The value of all obligations (excluding mortgage-backed securities) that have been issued by Foreign Governments (including Canadian obligations). All included are debt securities issued by foreign governmental units and debt securities issued by international organizations such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank.

Line 1.4 – Securities Issued by States, Territories and Possessions and Political Subdivisions in the U.S

Include: The value of all securities issued by states and political subdivisions in the United States.

Exclude: All mortgage-backed securities issued by state and local housing authorities in the U.S. Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by state and local housing authorities in the U.S.

Line 1.41 – States, Territories and Possessions General Obligations

Include: The value of all obligations (excluding mortgage-backed securities) that have been issued by U.S. States and Territories. U.S. States and Territories, for purposes of this schedule, include general obligations that are securities whose principal and interest will be paid from the general tax receipts of the NAIC members. NAIC members are composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Line 1.42 – Political Subdivisions of States, Territories and Possessions and Political Subdivisions General Obligations

Include: The value of all obligations (excluding mortgage-backed securities) that have been issued by Political Subdivisions of U.S. States, Territories and Political Subdivisions. Political Subdivisions of U.S. States, Territories and Possessions, for purposes of this schedule, include general obligations that are securities whose principal and interest will be paid from the general tax receipts of the Political Subdivision (the counties, municipalities, school districts, irrigation districts, and drainage and sewer districts of the NAIC members. NAIC members are composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Line 1.43 – Revenue and Assessment Obligations

Include: The value of all revenue and assessment obligations that are securities whose debt service is paid solely from the revenues of the projects financed by the securities rather than from general tax funds.

Line 1.44 – Industrial Development and Similar Obligations

Include: The value of all industrial development bonds (IDB) and similar obligations. IDBs and similar obligations are issued under the auspices of states or political subdivisions for the benefit of a private party or enterprise where that party or enterprise, rather than the government entity, is obligated to pay the principal and interest on the obligation.

Line 1.5 – Mortgage-backed Securities

Include: The value of all residential and commercial mortgage-backed securities, including mortgage pass-through securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).

Exclude: Securities backed by loans extended under home equity lines, (i.e., revolving open-end lines of credit secured by 1-4 family residential properties).

Bonds issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are collateralized by mortgages, (i.e., mortgage-backed bonds, and mortgage-backed bonds issued by non-U.S. Government issuers).

Participation certificates issued by the Export-Import Bank and the General Services Administration.

Participation certificates issued by a Federal Intermediate Credit Bank.

SCHEDULE P

To be filed on or before March 1.

There are two parts within the Supplemental Schedule P. Part 1 provides detailed information on losses and loss expenses. Part 2 provides a history of incurred losses and Defense & Cost Containment expenses.

For both Parts 1 and 2, there is a summary schedule and individual schedules for each line of business. Health entities with property/casualty business should submit the summary schedule for Schedule P, Parts 1 and 2. In addition, an individual Schedule Part 1 and Part 2 should be provided for each property/casualty line of business written by the entity (excluding the Accident and Health business that property/casualty companies report in Parts 1L and 2L - Other). For example, if an entity writes medical professional liability – occurrence, the entity would file supplements for Schedule P, Part 1 Summary; Schedule P, Part 1F, Section 1; Schedule P, Part 2 Summary; and Schedule P, Part 2F, Section 1.

Schedule P is intended to display a summary containing ten years of historical data for all lines of business. The casualty lines of business will display ten years of historical data in their respective sections of Schedule P. Within each part, the property lines of business, previously reported in Schedule O, and financial guaranty/mortgage guaranty business, will display two-year development (Sections I through L, S and T). Since the Summary of each part contains ten years of historical data, the information from the "Prior" line in the Property Lines, Sections I through L, S and T, must be supplemented for the eight accident years preceding the two most recent years.

Data for Annual Statement Line 30 – Warranty should be reported prospectively (i.e., prior-year amounts need not be restated) starting with the 2008 reporting year.

Data for Annual Statement Line 17.3 – Excess Workers' Compensation should be reported as Other Liability – Occurrence as appropriate for the contractual terms of the policy.

In those instances where an insurer files an amended annual statement as a result of a restatement of prior year earned premium, losses or loss adjustment expenses, Schedule P must be restated and included in the amended annual statement.

Schedule P includes only the data for the insurer identified on the Jurat page of the Annual Statement. Do not include consolidated data for affiliated companies. If the insurer participates in a pooling agreement, show only its share of the business, not the total for all participants.

Earned premium is on a calendar-year basis. Losses incurred should be assigned to the year in which the event occurred that triggered coverage under the contract. This may be a date of accident (occurrence policies), a date of report (claims-made policies), a policy issue date (tail policies), or a date of discovery (fidelity and surety).

Retroactive reinsurance should not be reflected in Schedule P. The transferor in such an agreement must record, without recognition of the retroactive reinsurance, its loss and loss adjustment expense reserves on a gross basis on its balance sheet and in all schedules and exhibits. The transferee in such an agreement must exclude the retroactive reinsurance from its loss and loss expense reserves and from its schedules and exhibits.

A discount implicit in tabular reserves may be included in Schedule P, Part 1. Schedule P, Part 2 is to be reported gross of ALL discounts. Otherwise, Schedule P is to be presented on a non-discounted basis. Information in Schedule P is to be reported on an undiscounted basis in order to make effective use of the triangles in Part 2. The reserves reported are expected to represent the ultimate amounts to be paid, including anticipated inflation. If discounting of loss or loss expense reserves is reflected on any line of Page 3 of this Annual Statement, a reconciliation is provided in Schedule P, Part 1. Also, work papers relating to any discount amounts must be available for examination upon request. The tabular reserve discount does not need to be shown separately. Discounting is governed by SSAP 65 – Property and Casualty Contracts, paragraphs 10 through 16.

The reserves for unpaid losses and loss adjustment expenses should take into account the explicit or implicit impacts of the various factors affecting claim frequency or ultimate claim cost.

For guidelines on completing Schedule P, see Exhibit B.

NOTE: Report all dollar amounts in Schedule P in thousands of dollars ($000 omitted), by either rounding or truncating.

SCHEDULE P – PART 1

To be filed on or before March 1.

Part 1 – Summary is the total of the Schedule P lines. For the property lines, it is necessary to supplement the data in the individual sections of Schedule P in order to complete the Part 1 – Summary for all lines for all years. Reinsurance A, B, and C can be summed together as reported.

The Columnar headings provide instructions necessary for completion.

Except for medical professional liability, other liability and products liability which separately display data for occurrence and claims-made coverages and the reinsurance lines, the lines of business are groupings of the lines of business used on the Property/Casualty state page. In some cases, the heading of the line of business has been expanded for clarity. Business reported on the Aggregate write-ins for other lines of business line of the Property/Casualty State Page should be included in the Other Liability sections of Schedule P.

"Number of Claims Reported," Column 12, applies to Auto Liability (commercial and private passenger), Workers' Compensation, Medical Professional Liability, Homeowners/Farmowners Multiple Peril, Commercial Multiple Peril, Other Liability, Products Liability Auto Physical Damage and Warranty only. This Column may be left blank in all other lines, including the Summary. For each year, this Column should include the cumulative number of claims reported through the annual statement date for pooled and non-pooled business. "Number of Claims Outstanding," Column 25, must be reported for all lines, except Reinsurance A, B and C. For insurers reporting on a pooling basis, the pooling percentage should be applied to claim count as well as dollar amounts. Indicate in the Interrogatories whether per claim or per claimant.

Cumulative salvage and subrogation received and losses and expenses paid should be reported for each specific year. For "prior," report only salvage and subrogation received and losses and expenses paid in current year.

In Schedule P, Part 1, salvage and subrogation received should be reported net of reinsurance, if any. Loss payments are to be reported net of salvage and subrogation received in Schedule P.

"Adjusting & Other Payments," Column 9, should only reflect ceded recoveries made in 1997 and subsequent. "Adjusting & Other Payments," Column 8, should reflect net payments in 1996 and prior and direct and assumed payments for 1997 and subsequent.

Premiums earned and losses paid, unpaid, and incurred should reconcile with the Underwriting and Investment Exhibit. The work papers that show a reconciliation explaining reinsurance, discounting, and salvage and subrogation adjustments should be available for examination on request.

> "Assumed" means reinsurance assumed, including from affiliated pooling agreements, but excluding any non-proportional reinsurance assumed reported as a separate line and reported accordingly.
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> "Direct" means as directly written, but not if part of an affiliated pooling agreement.
>
> "Ceded" means reinsurance ceded on business so reported as direct or assumed.

Line 1, "Prior," Columns 4 through 11, (summary and appropriate parts), should only reflect amounts paid or received in the current calendar year.

Report cumulative amounts paid or received for specific years.

The loss adjustment expenses used to be divided in Schedule P into "allocated" and "unallocated," which were terms that were never clearly defined. Effective January 1, 1998, a detailed definition of these expenses was adopted. The distinction is now between "Defense & Cost Containment" and "Adjusting & Other." The loss adjustment expenses are separated with the intent of identifying the "Defense & Cost Containment" expenses as those, which are correlated with the loss amounts, and the "Adjusting & Other" as those expenses, which are correlated with claim count or are general loss adjusting expenses. In projecting the necessary reserves for these expenses, actuaries use a different approach for each of the two types of expenses. It is the character of the expenses that is most important, not whether the expenses were internal or external to the insurer.