



# Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

## New Long-Term Care Page Added to Risk-Based Capital

A new page XR014 Long-Term Care will be added to the RBC formula for year-end 2005 risk-based capital.

Previously, the risk-based capital charge for long-term care business had been based on premiums only.

Now, the RBC charge will be based on a combination of both premiums and a two-year premium to loss ratio multiplied by total claims.

The premiums will be multiplied in a tiered factor calculation as follows:

Other Long-Term Care Premium	Factor
First 50 Million	0.100
Over 50 Million	0.030

A ratio of premiums to claims will be calculated for the current year and prior year. For the loss ratios to be used, the current year and prior year premiums must be greater than zero. In addition, the current and prior year claims incurred must be greater or equal than zero.

Otherwise, the current year incurred claims are used instead of the two-year loss ratio multiplied by the current year premiums.

The result of the claims ratio or the current year's incurred claims is multiplied by tiered factors as follows:

	If Current Year LTC Premium Positive:	If Current Year LTC Premium Negative or Zero:
Long-Term Care Claims	Claim Factor	Claim Factor
First 35 Million	0.250	0.370
Over 35 Million	0.080	0.120

## Non-Cancellable Long-Term Care Business

All non-cancellable long-term care business receives one standard 10% charge based on premiums only. Claims are not used in the calculation of RBC for non-cancellable long-term care.

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**What Risk-Based Capital Pages should be Submitted?**

For year-end 2005 health RBC, hard copies of pages **XR001 through XR024** should be submitted to the NAIC in addition to the electronic filing.

Other pages, such as the capitations worksheet, do not need to be submitted, but would still need to be retained by the company as documentation.

**Cash Equivalent Bond Lines Added**

Lines (12) and (13) were added to page XR006 Fixed Income Assets. These lines were added in order to reduce the cash equivalents balance from Page 2 Line 6 for cash equivalent bonds.

This change was made due to the annual statement instructions changing for Schedule D Part 1A Section 1 indicating cash equivalent bonds are now included with other bonds on that schedule.

Cash equivalent bonds are included with other bonds reported on page XR006 Lines (1) through (8), these new lines will prevent receiving an RBC charge for cash equivalent in both sections.

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Managed Care Organizations Risk-Based Capital Newsletter  
Volume 8.1. Published annually or whenever needed by the  
NAIC for insurance regulators, professionals and consumers.

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RBC  
Risk-Based Capital  
2005

