



# Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

## New Medicare Part D Prescription Drug Coverage Calculations

A proposal to add RBC calculations for Medicare Part D prescription drug coverage was adopted at the Dec. 3, 2005, meeting and the Feb. 22, 2006, conference call of the Capital Adequacy (E) Task Force.

The RBC proposal was done in conjunction with the accounting and annual statement treatment. INT 05-05 addressed the Medicare Part D accounting treatment. A Medicare Part D supplement was added to the annual statement blank along with changes to the annual statement instructions.

### XR013 Health Premiums

One new line was added to 2006 RBC XR013 Health Premiums for Medicare Part D prescription drug coverage:

XR013 Health Premiums	Factor
Supplemental benefits within Part D Coverage - Individual	0.120

### XR011 Underwriting Risk – Experience Fluctuation Risk

A new column for Medicare Part D Prescription drug coverage was added to page XR011 Underwriting Risk – Experience Fluctuation Risk.

The alternate risk charge is calculated as the greater of 150,000 or 6 times the maximum individual risk.

### XR011 Underwriting Risk – Experience Fluctuation Risk (Continued)

The underwriting factors are 0.141 for the first 25 million of premium and 0.109 for premiums above 25 million. Premiums are multiplied by the claims ratio and the weighted average underwriting factor.

### XR016 Underwriting Risk – Managed Care Credit

A managed care credit is calculated for XR016 line (16). A new column and new lines were added to page XR011 for the Medicare Part D prescription drug coverage:

XR016 Claims Category	Factor
Category 0 - No Federal Reinsurance or Risk Corridor Protection	XXX
Category 1 - Federal Reinsurance but no Risk Corridor Protection	XXX
Category 2a - No Federal Reinsurance but Risk Corridor Protection	0.500
Category 3a - Federal Reinsurance and Risk Corridor Protection apply	0.650

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**New Medicare Part D Prescription Drug Coverage Calculations (Continued)**

The resulting weighted average factor for the two lines will be subtracted from one and carried forward to XR011 Column (4) Line (12).

**Sample Calculation**

Assumptions:

- Total Premium – \$50 million.
- Total Claims – \$5 million.
- Maximum Individual Risk – \$20,000.
- All claims are in category 3a – federal reinsurance and risk-corridor protection.

Claims Ratio:

5,000,000 claims / 50,000,000 premiums  
= 0.10 claims ratio

Underwriting Factor:

25,000,000 x 0.141 = 3,525,000  
 25,000,000 x 0.109 = 2,725,000  
 Total 6,250,000  
 6,250,000 / 50,000,000 = 0.125 underwriting factor

Managed Care Discount:

5,000,000 claims x 0.65 managed care factor  
 = 3,250,000 weighted claims  
 3,250,000 weighted claims / 5,000,000 total claims  
 = 0.65 weighted average managed care discount  
 1.0 – 0.65 = 0.35 managed care discount adjustment factor

Alternate Risk Charge:

6 x 20,000 maximum individual risk = 120,000  
 120,000 is less than 150,000 so the alternate risk charge is 120,000.

**Sample Calculation (Continued)**

RBC Charge:

50,000,000 total premium  
 x 0.10 claims ratio  
 x 0.125 underwriting factor  
 = 625,000 base underwriting risk RBC charge  
 x 0.35 managed care discount  
 = 218,750 base RBC after managed care discount

The 218,750 base RBC is greater than the 120,000 alternate risk charge. So, the total RBC charge reported on page XR011 Column (4) Line (18) would be \$218,750.

**Instructions Added For**

Instructions were added to XR011 Underwriting Risk – Claims Experience Fluctuation for Medicare Part D Coverage and to XR016 Managed Care Credit.

Business Risk – XR020 Excessive Growth Risk Lines (13) through (19) exclude premium and net Underwriting Risk RBC for Medicare Part D in 2006.

Appendix 2 \_ Commonly Used Terms for Medicare Part D Coverage was added for reference of terms used in the instructions for Medicare Part D.



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