



Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

What Risk-Based Capital Pages should be Submitted?

For year-end 2006 property RBC, hard copies of pages **PR001 through PR031, PR034 and PR035** should be submitted to the NAIC in addition to the electronic filing.

Other pages, such as the Schedule P detail and capitations worksheet do not need to be submitted. Those pages would need to be retained by the company as documentation.

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

PR017 Health Premiums

Four new lines were added to 2006 RBC PR017 Health Premiums for Medicare Part D prescription drug coverage:

RBC Pages to Submit	Page 1
Medicare Part D Prescription Drugs....	Page 1
Medicare Part D Prescription Drugs....	Page 2
New Industry Average Risk Factors.....	Page 3

PR017 Health Premiums	Factor
Medicare Part D Coverage - Individual	Calculated on PR018
Supplemental benefits within Part D Coverage - Individual	0.120
Medicare Part D Coverage - Group	Calculated on PR018
Supplemental benefits within Part D Coverage - Group	0.120

PR018 Underwriting Risk – Experience Fluctuation Risk

A new column for Medicare Part D Prescription drug coverage was added to page PR018 Underwriting Risk – Experience Fluctuation Risk.

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

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.

The total RBC charge reported on PR018 is the greater of a) the alternate risk charge or b) the RBC charge generated by the premium times the claims ratio, the weighted average underwriting factor and the managed care discount adjustment factor.

PR019 Underwriting Risk – Managed Care Credit

A managed care credit is calculated for PR018 line (12). A new column and new lines were added to page PR019 for the Medicare Part D prescription drug coverage:

LR019 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

The resulting weighted average factor for the two lines will be subtracted from one and carried forward to PR018 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.

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 PR018 Column (4) Line (18) would be \$218,750.

New Industry Average Risk Factors

The new 2006 industry average risk factors are as follows:

PR015 Underwriting Risk – Reserves
Line (1), Industry Average Development Factors

Col.	Line of Business	2005 Factor	2006 Factor
(1)	H/F	1.007	0.997
(2)	PPA	1.018	1.017
(3)	CA	1.075	1.070
(4)	WC	1.061	1.081
(5)	CMP	1.054	1.025
(6)	MM OCCURRENCE	1.347	1.363
(7)	MM CLMS MADE	1.285	1.203
(8)	SL	1.098	1.118
(9)	OL	1.054	1.020
(10)	FIDELITY / SURETY	1.250	1.267
(11)	Special Property	1.125	1.101
(12)	Auto Physical	1.140	1.124
(13)	Other(credit a&h)	1.262	1.288
(14)	Mortg Guaranty	0.894	0.843
(15)	INTL	1.261	1.241
(16)	REIN. P&F Lines	1.169	1.096
(17)	REIN. Liability	1.398	1.237
(18)	PL	1.123	1.116

PR016 Underwriting Risk – Net Written Premiums
Line (1), Industry Average Loss and Expense Ratios

Col.	Line of Business	2005 Factor	2006 Factor
(1)	H/F	0.792	0.783
(2)	PPA	0.852	0.847
(3)	CA	0.832	0.805
(4)	WC	0.846	0.856
(5)	CMP	0.755	0.746
(6)	MM OCCURRENCE	1.291	1.269
(7)	MM CLMS MADE	1.141	1.134
(8)	SL	0.734	0.736
(9)	OL	0.775	0.769
(10)	FIDELITY / SURETY	0.588	0.566
(11)	Special Property	0.567	0.601
(12)	Auto Physical	0.742	0.729
(13)	Other(credit a&h)	0.764	0.783
(14)	Mortg. Guaranty	0.913	0.867
(15)	INTL	0.850	0.850
(16)	REIN. P&F Lines	0.952	0.984
(17)	REIN. Liability	1.147	1.143
(18)	PL	0.857	0.822

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