

# Health Industry RBC Results for 2008

by NAIC Staff

As of July 30, 2009, approximately 807 Health Risk-Based Capital (RBC) filings have been received and uploaded to the NAIC database for calendar year 2008. This article summarizes the industry results and discusses some of the trends noted in the 2008 filings.

The RBC test is one of many different tests used by regulators to help ensure that insurers remain solvent. The NAIC RBC formula generates the regulatory minimum amount of capital that an insurer is required to maintain to avoid regulatory action. There are five levels of action that an insurer can trigger under the formula. The base action level is the Authorized Control Level. If an insurer's actual capital dips below its Authorized Control Level Risk-Based Capital, the state insurance regulator has the authority to place the insurer under regulatory control. Therefore, the Authorized Control Level (ACL) is used as the base level, and the other regulatory intervention levels are defined relative to the ACL. The five action levels are:

- 1) No Action, which means that an insurer's total adjusted capital (TAC) is at least twice its ACL;
- 2) Company Action Level, which means that an insurer's TAC is at least 1.5 times its ACL but less than twice its ACL;
- 3) Regulatory Action Level, which means that the insurer's TAC is at least equal to its ACL but less than 1.5 times its ACL;
- 4) Authorized Control Level, which means that an insurer's TAC is at least 0.70 times its ACL but less than its ACL; and
- 5) Mandatory Control Level, which means that the insurer's TAC is less than 0.70 times its Authorized Control Level RBC.

Most companies fall into the "No Action" level. This level does not necessarily mean that the insurer is in strong financial condition. It simply means that the insurer has not triggered one of the regulatory intervention levels. An insurer can be in weak condition and still pass the RBC test.

## Distribution of Companies by Action Level

As can be seen in Table 1, approximately 94 percent of the insurers that made a Health RBC filing for 2008 did not trigger one of the regulatory intervention levels. This percentage has been fairly consistent over the past few years.

Table 2 shows the disposition of insurers filing in data years 2007 and/or 2008. There is an increase of 35 new filers in 2008, which is offset by a decrease of 31 companies that filed in 2007 but did not file in 2008. Some of these companies have not filed because they have merged or otherwise gone out of business, and some have not filed because they were exempted by state regulators.

Of the 772 companies that filed in both 2007 and in 2008, 30 companies triggered one of the action levels in 2007. One-third (10 of 30) of those companies that triggered an action level in 2007 were able to move to the "No Action" level in 2008, while two-thirds (20 of 30 companies) remain in one of the action levels.

## Aggregate Industry Results

The Managed Care Discount Factor determines the percentage of underwriting risk RBC that is carried down in the RBC calculation. It is based upon the type of managed care arrangement an insurer has with its providers. The median discount factors for 2008 are broken out by insurer asset size in Table 3. It should be noted that there is considerable variation in the discount factor within each asset category because of the different types of arrangements possible between insurer and provider.

Table 3 also shows the median RBC ratio by asset size for 2004-2008. The RBC ratio is the ratio of an insurer's TAC to its ACL RBC. Though median RBC ratio is a function of size, with larger insurers tending to have lower ratios, the opposite appears to occur for all but the lowest asset range.

The aggregate RBC by major covariance elements for 2004-2008 is shown in Table 4. As might be expected, the greatest portion of RBC for

2008 comes directly from net underwriting risk, which accounts for 62 percent of the total. The next highest factors for 2008 are affiliated and non-affiliated asset risk, which weigh in at 11 and 13 percent respectively.

Figure 1 shows the percentage breakdown of the aggregate RBC by component for 2008. H2 – Underwriting Risk constitutes most of the aggregate RBC, as expected. Asset Risk (H0 and H1) becomes more prominent as the asset size increases and Business Risk (H4) becomes less prominent. For example, Business Risk is 17 percent of the total RBC for companies with less than \$10 million in total admitted assets, while Asset Risk contributes only seven percent. Companies with between \$25 and \$100 million in assets have nine percent of their RBC coming from Business Risk and eight percent from Asset Risk. Companies with more than \$250 million in assets have 10.5 percent of their RBC coming from Business Risk, while 29 percent is contributed by Asset Risk.

**Table 1**  
**Industry Results By Action Level, 2004-2008**

	2004	2005	2006	2007	2008
No Action	679	725	758	767	759
Company Action Level	8	12	8	12	24
Regulatory Action Level	8	4	7	9	6
Authorized Control Level	2	1	6	5	3
Mandatory Control Level	7	9	14	10	15
Total	704	751	793	803	807
Percent At 'No Action' Level	96.4%	96.5%	95.59%	95.52%	94.05%

**Table 2**  
**2008 Disposition of 2007 RBC Filers By Action Level**

		2008 Action					
		NO ACTION	COMPANY ACTION LEVEL	REGUL. ACTION LEVEL	AUTHOR. CONTROL LEVEL	MANDATORY CONTROL LEVEL	NOT ON DATABASE
<b>2007 Action</b>	NO ACTION	719	17	4	0	2	25
	COMPANY ACTION LEVEL	4	4	0	2	1	1
	REGULATORY ACTION LEVEL	4	1	0	0	2	2
	AUTHORIZED CONTROL LEVEL	0	0	0	1	2	2
	MANDATORY CONTROL LEVEL	2	0	1	0	6	1
	NOT ON DATABASE	30	2	1	0	2	0

**Table 3**  
**Median RBC Ratios By Asset Size, 2004-2008**

Asset Size	2008 Median Managed Care Discount Factor	2004	2005	2006	2007	2008
Less than \$10 million	0.855	863%	938%	958%	855%	852%
\$10 million to \$25 million	0.850	359%	422%	438%	497%	465%
\$25 million to \$100 million	0.850	412%	444%	431%	451%	425%
\$100 million to \$250 million	0.849	482%	512%	542%	500%	472%
More than \$250 million	0.850	613%	659%	687%	675%	543%
All Companies	0.850	548%	574%	582%	589%	545%



Assessment Risk (Non-Guaranty Fund)	254,909	365,731	N/A	N/A	N/A	1.23%	1.49%	N/A	N/A	N/A
Stop Loss	175,665	242,678	N/A	N/A	N/A	0.85%	0.99%	N/A	N/A	N/A
Disability Income	77	0	72	45	210	0.00%	0.00%	0.00%	0.00%	0.00%
Long-Term Care	909	1,100	948	1,443	1,292	0.00%	0.00%	0.00%	0.00%	0.00%
Limited Benefit Plans	2,582	3,509	4,177	1,822	1,647	0.01%	0.01%	0.01%	0.01%	0.01%
Premium Stabilization Reserve	-326,184	-378,625	-532,836	-599,163	-516,223	-1.58%	-1.54%	-1.88%	-1.90%	-1.59%
Total H2	12,880,641	14,796,845	16,760,240	18,864,287	20,062,967	62.29%	60.35%	59.10%	59.86%	61.76%
<b>H3 - Credit Risk</b>										
Total Reinsurance	3,941	4,663	5,525	7,379	9,396	0.02%	0.02%	0.02%	0.02%	0.03%
Intermediaries Credit Risk	543,163	592,283	578,875	576,748	587,463	2.63%	2.42%	2.04%	1.83%	1.81%
Total Other Receivables	357,374	488,846	632,400	607,541	715,934	1.73%	1.99%	2.23%	1.93%	2.20%
Total H3	904,479	1,085,793	1,216,800	1,191,669	1,312,793	4.37%	4.43%			
<b>H4 - Business Risk</b>										
Administrative Expense	866,548	997,276	1,089,403	1,181,561	1,217,840	4.19%	4.07%	3.84%	3.75%	3.75%
Non-Underwritten & Limited Risk	611,220	888,869	1,106,473	1,276,944	1,511,280	2.96%	3.63%	3.90%	4.05%	4.65%
Business	137,035	234,340	251,079	285,355	300,572	0.66%	0.96%	0.89%	0.91%	0.93%
Premiums Subject to Guaranty Fund	212,351	125,246	275,887	299,578	259,738	1.03%	0.51%	0.97%	0.95%	0.80%
Excessive Growth	1,827,154	2,245,731	2,722,841	3,043,437	3,289,430	8.84%	9.16%	9.60%	9.66%	10.13%
Total H4	20,678,701	24,520,113	28,359,972	31,512,283	32,484,299	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Total RBC</b>	16,274,011	19,115,247	21,848,875	24,464,756	25,446,079	78.70%	77.96%	77.04%	77.64%	78.33%
RBC After Covariance	46,764,809	61,563,506	72,220,578	79,831,386	75,204,146	226.15%	251.07%	254.66%	253.33%	231.51%
<b>Total Adjusted Capital</b>										

**Figure 1**  
**RBC Components by Company Size**  
**2008**

