



MEMORANDUM

TO: Commissioner David Altmaier (FL), Chair, Capital Adequacy (E) Task Force

FROM: Patrick McNaughton (WA), Chair, Health Risk-Based Capital (E) Working Group

DATE: _____, 2019

RE: Recommendation Regarding Risk-Based Capital Charge for Guaranty Association Assessment Risk

On Sept. 21, 2018 the Health Risk-Based Capital (E) Working Group received a request from the Capital Adequacy (E) Task Force to review the referral letter regarding adopted amendments to the *Life and Health Insurance Guaranty Association Model Act*, Model #520. The referral outlined significant amendments to Model #520, including: 1) broadening the assessment base for long-term care insurance (LTCI) insolvencies to include both life and health insurers and splitting the assessment 50%/50% between the life and health insurers; 2) clarifying the guaranty associations' coverage of LTCI; and 3) including health maintenance organizations (HMOs) as members of the guaranty association, similar to other health insurers. The referral letter requested that the Task Force consider if changes were warranted to the health RBC formula in light of the changes made to Model #520.

Based upon our review of existing Guaranty Fund Assessment Risk charge under the H4-Business Risk component, a charge of .5% is applied to direct earned premiums (as reported in Schedule T) in any state in which the reporting entity is subject to guaranty fund assessments. Based on the current instructions and reporting the Working Group does not believe that modifications to the Health Risk-Based Capital formula are required for the change to Model #520.

The recommendation above does not preclude the Working Group from potential changes to long-term care or the business risk component charge in the future.

If you have any questions regarding this memorandum, please contact me at PatM@oic.wa.gov or Crystal Brown (NAIC) at cbrown@naic.org.