

Capital Adequacy (E) Task Force

RBC Proposal Form

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|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input checked="" type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> SMI RBC (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

<p style="text-align: right;">DATE: <u>3-6-19</u></p> <p>CONTACT PERSON: <u>Crystal Brown</u></p> <p>TELEPHONE: <u>816-783-8146</u></p> <p>EMAIL ADDRESS: <u>cbrown@naic.org</u></p> <p>ON BEHALF OF: <u>Health RBC (E) Working Group</u></p> <p>NAME: <u>Patrick McNaughton</u></p> <p>TITLE: <u>Chief Financial Examiner/Chair</u></p> <p>AFFILIATION: <u>WA Office of Insurance Commissioner</u></p> <p>ADDRESS: <u>PO Box 40255</u> <u>Olympia, WA 98504-0255</u></p>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2019-04-H</u></p> <p>Year <u>2020</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p><input type="checkbox"/> ADOPTED _____</p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input checked="" type="checkbox"/> EXPOSED May 7, 2019</p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life RBC Instructions |
| <input type="checkbox"/> Fraternal RBC Blanks | <input checked="" type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions |
| <input type="checkbox"/> Life RBC Blanks | <input type="checkbox"/> Fraternal RBC Instructions | <input type="checkbox"/> OTHER _____ |

DESCRIPTION OF CHANGE(S)

Add a break out for health care receivables accrued vs. recovered from the CY and PY.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the proposal is to apply an additional charge for receivable amounts that were accrued in the PY but not recovered in the CY.

Additional Staff Comments:

The proposal is being exposed would be on an informational only basis for 2020 & 2021 reporting with full implementation to the formula in 2022. The factors and instructions will be discussed in more detail on future calls and will exposed around the Summer National Meeting.

The proposed calculations include the current 5% and 19% factors for the health care receivables, additional consideration to change the factors will be addressed by the Working Group after 2020 data has been received.

4-7-19 cgb The WG exposed the proposal along with a copy of the numeric examples for a 30-day comment period ending on 5-7-19.

** This section must be completed on all forms.

Revised 11-2013

Page XR020A - For Informational Purposes Only

	Annual Statement Source	(1) Amount	Factor	(2) RBC Requirement
<u>Other Receivables (excluding Health Care Receivables)</u>				
(25) Investment Income Receivable	Page 2, Col. 3, Line 14		0.010	
(26) Accounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Col. 3, Line 17		0.050	
(27) Amounts Due from Parents, Subs, and Affiliates	Page 2, Col. 3, Line 23		0.050	
(28) Aggregate Write-Ins For Other Than Invested Assets	Page 2, Col. 3, Line 25		0.050	
(29) Sub-Total Other Receivables RBC	Sum L(25) through L(28)			
<u>Health Care Receivables</u>				
(30.1) Pharmaceutical Rebate Receivables – Current Year	Exhibit 3, Col. 7, Line 0199999 (CY)		0.050	
(30.2) Pharmaceutical Rebate Receivables – Prior Year	Exhibit 3, Col. 7, Line 0199999 (PY)			
(30.3) Pharmaceutical Rebates – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 1 ???		#	
(31.1) Claim Overpayment Receivables – Current Year	Exhibit 3, Col. 7, Line 0299999 (CY)		0.190	
(31.2) Claim Overpayment Receivables – Prior Year	Exhibit 3, Col. 7, Line 0299999 (PY)			
(31.3) Claim Overpayment Rebates – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 2 ???		*	
(32.1) Loan and Advances to Providers – Current Year	Exhibit 3, Col. 7, Line 0399999 (CY)		0.190	
(32.2) Loan and Advances to Providers – Prior Year	Exhibit 3, Col. 7, Line 0399999 (PY)			
(32.3) Loan and Advances to Providers – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 3 ???		*	
(33.1) Capitation Arrangement Receivables – Current Year	Exhibit 3, Col. 7, Line 0499999 (CY)		0.190	
(33.2) Capitation Arrangement Receivables – Prior Year	Exhibit 3, Col. 7, Line 0499999 (PY)			
(33.3) Capitation Arrangement – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 4 ???		*	
(34.1) Risk Sharing Receivables – Current Year	Exhibit 3, Col. 7, Line 0599999 (CY)		0.190	
(34.2) Risk Sharing Receivables – Prior Year	Exhibit 3, Col. 7, Line 0599999 (PY)			
(34.3) Risk Sharing Receivables – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 5 ???		*	
(35.1) Other Health Care Receivables – Current Year	Exhibit 3, Col. 7, Line 0699999 (CY)		0.190	
(35.2) Other Health Care Receivables – Prior Year	Exhibit 3, Col. 7, Line 0699999 (PY)			
(35.3) Other Health Care Rebates – Prior Year Collected in the Current Year	Exhibit 3A, Col. 1, Line 6 ???		*	
(36) Sub-Total Health Care Receivables	Sum of Line (30.1) through Line (35.3)			
(37) Total Other Receivables RBC	Line (29) + Line (36)			
(38) Adjusted Informational Credit RBC	Line (17) + Line (29) + Line (37)			

 Denotes items that must be manually entered on filing software

For Pharmaceutical Rebates: [Greater of 0 or L(30.2) minus (1 + .05) times Line (30.3)] times (1 - .05)

* For Claim Overpayment, Loan and Advances to Providers, Capitation Arrangements, Risk Sharing, and

Other Health Care Receivables: [Greater of 0 or L(3_2) minus (1 + .19) times L(3_3)] times (1 - .19)

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

(1)
RBC Amount

H3 - CREDIT RISK

(28)	Total Reinsurance RBC	XR019, Credit Risk Page, L(17)	_____
(29)	Intermediaries Credit Risk RBC	XR019, Credit Risk Page, L(24)	_____
(30)	Total Other Receivables RBC	XR020, Credit Risk Page, L(30)	_____
(31)	Total H3	Sum L(28) through L(30)	=====

H3A - CREDIT RISK - (Informational Purposes Only)

(28A)	Total Reinsurance RBC	XR019, Credit Risk Page, L(17)	_____
(29A)	Intermediaries Credit Risk RBC	XR019, Credit Risk Page, L(24)	_____
(30A)	Total Other Receivables RBC	XR020A, Credit Risk Page, L(37)	_____
(31A)	Total H3A (For Informational Purposes Only)	Sum L(28A) through L(30A)	=====

H4 - BUSINESS RISK

(32)	Administrative Expense RBC	XR021, Business Risk Page, L(7)	_____
(33)	Non-Underwritten and Limited Risk Business RBC	XR021, Business Risk Page, L(11)	_____
(34)	Premiums Subject to Guaranty Fund Assessments	XR021, Business Risk Page, L(12)	_____
(35)	Excessive Growth RBC	XR021, Business Risk Page, L(19)	_____
(36)	Total H4	Sum L(32) through L(35)	=====
(37)	RBC after Covariance Before Basic Operational Risk	$H0 + \text{Square Root of } (H1^2 + H2^2 + H3^2 + H4^2)$	_____
(38)	Basic Operational Risk	$0.030 \times L(37)$	_____
(39)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	_____
(40)	Net Basic Operational Risk	Line (38) - Line (39) (not less than zero)	_____
(41)	RBC After Covariance Including Basic Operational Risk	$L(37) + L(40)$	_____
(42)	Authorized Control Level RBC	$.50 \times L(41)$	_____

For Informational Purposes Only

(37A)	RBC after Covariance Before Basic Operational Risk	$H0 + \text{Square Root of } (H1^2 + H2^2 + H3A^2 + H4^2)$	_____
(38A)	Basic Operational Risk	$0.030 \times L(37A)$	_____
(39A)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	_____
(40A)	Net Basic Operational Risk	Line (38A) - Line (39A) (not less than zero)	_____
(41A)	RBC After Covariance Including Basic Operational Risk	$L(37A) + L(40A)$	_____
(42A)	Authorized Control Level RBC	$.50 \times L(41A)$	_____

 Denotes items that must be manually entered on filing software.

Example 1:

Claim overpayment receivable as of 12/31/2020 with substantial recoveries (but still a little less than the accrual)

- a. Claim overpayment receivable as of 12/31/2020 of \$1,000,000
- b. Claim overpayment receivable as of 12/31/2019 of \$900,000
- c. Claim overpayment recoveries of \$800,000 reported achieved in 2020 against accruals at 12/31/2019
- d. Current formula amount: $\$1,000,000 \times 0.19 = \$190,000$
- e. Informational formula amount =
 $= \$1,000,000 \times 0.19 + (1 - 0.19) \times \max(0, \$900,000 - (1 + 0.19) \times \$800,000)$
 $= \$190,000 + 0.81 \times \max(0, \$900,000 - \$952,000)$
 $= \$190,000 + 0.81 \times \max(0, -\$52,000)$
 $= \$190,000$

Example 2:

Claim overpayment receivable as of 12/31/2020, but with no recoveries:

- a. Claim overpayment receivable as of 12/31/2020 of \$1,000,000
- b. Claim overpayment receivable as of 12/31/2019 of \$900,000
- c. Claim overpayment recoveries of \$0 reported achieved in 2020 against accruals at 12/31/2019
- d. Current formula amount: $\$1,000,000 \times 0.19 = \$190,000$
- e. Informational formula amount =
 $= \$1,000,000 \times 0.19 + (1 - 0.19) \times \max(0, \$900,000 - (1 + 0.19) \times \$0)$
 $= \$190,000 + 0.81 \times \max(0, \$900,000)$
 $= \$190,000 + 0.81 \times \$900,000$
 $= \$190,000 + \$729,000$
 $= \$919,000$

Example 3:

Claim overpayment receivable as of 12/31/2020, but with recoveries of half the amount of the accrual:

- a. Claim overpayment receivable as of 12/31/2020 of \$1,000,000
- b. Claim overpayment receivable as of 12/31/2019 of \$900,000
- c. Claim overpayment recoveries of \$450,000 reported achieved in 2020 against accruals at 12/31/2019
- d. Current formula amount: $\$1,000,000 \times 0.19 = \$190,000$
- e. Informational formula amount =
 $= \$1,000,000 \times 0.19 + (1 - 0.19) \times \max(0, \$900,000 - (1 + 0.19) \times \$450,000)$
 $= \$190,000 + 0.81 \times \max(0, \$900,000 - \$535,500)$
 $= \$190,000 + 0.81 \times \$364,500$
 $= \$190,000 + \$295,245$
 $= \$485,245$