

Capital Adequacy (E) Task Force

RBC Proposal Form

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| <input checked="" type="checkbox"/> Capital Adequacy (E) Task Force | <input 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>4-19-18</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> <p>Agenda Item # <u>2018-03-CA</u></p> <p>Year <u>2018</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p><input checked="" type="checkbox"/> ADOPTED <u>6-28-18</u></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 <u>4-30-18</u></p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION OF CHANGE(S)

Delete individual definitions in Appendix 2 – Commonly Used Terms for Medicare Part D Coverage and add a reference to refer to INT 05-05: Accounting for Revenue under Medicare Part D Coverage for the definitions.

REASON OR JUSTIFICATION FOR CHANGE **

The change would reduce the risk of misalignment to changes in the INT compared to the RBC instructions.

The Statutory Accounting Practices (E) Working Group currently has a proposal exposed to revise some of the Medicare Part D definitions included in INT-05-05.

Additional Staff Comments:

4-30-18 cgb The Capital Adequacy Task Force agreed to expose the proposal for a 30 day comment period ending on May 31, with the modification to delete the following sentence “CMS ascribes a specific meaning to most of the following terms, and the RBC formulas have adopted that terminology to reduce the potential for misinterpretation.”

6-11-18 cgb No comments were received on this proposal.

6-28-18 cgb The Capital Adequacy (E) Task Force adopted the proposal.

** This section must be completed on all forms.

Revised 11-2013

FOR FRATERNAL, HEALTH, LIFE, AND P/C

APPENDIX 2 – COMMONLY USED TERMS FOR MEDICARE PART D COVERAGE

The U.S. Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including both coverage provided through a stand-alone Prescription Drug Plan (PDP) and coverage provided as part of a Medicare Advantage plan. ~~CMS ascribes a specific meaning to most of the following terms, and the RBC formulas have adopted that terminology to reduce the potential for misinterpretation. Other The terms have been are defined below in order to in INT 05-05: Accounting for Revenue under Medicare Part D Coverage. facilitate the appropriate application of the RBC formula.~~

~~**Beneficiary Premium (Standard Coverage Portion)**—The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for the Standard Coverage. This includes any late enrollment penalties that the PDP Sponsor receives for an enrollee. The Beneficiary Premium is accounted for as health premium.~~

~~**Beneficiary Premium (Supplemental Benefit Portion)**—The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for Supplemental Benefits. The Beneficiary Premium is accounted for as health premium.~~

~~**Coverage Year Reconciliation**—Reconciliation made after the close of each calendar year, to determine the amounts that a PDP Sponsor is entitled to for the Low Income Subsidy (Cost Sharing Portion), the Reinsurance Payment, and the Risk Corridor Payment Adjustment. To the extent that interim payments (if any) from CMS exceeded the amounts determined by the reconciliation, the PDP Sponsor must return the excess to the government; to the extent that interim payments (if any) from CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP Sponsor. The Coverage Year Reconciliation results in the Low Income Subsidy (Cost Sharing Portion) and the Reinsurance Payment being essentially a self-insured (by the government) component of the Part D coverage, subject to *SSAP No. 47—Uninsured Plans*. The Coverage Year Reconciliation also results in the treatment of the Risk Corridor Payment Adjustment as a retrospective premium adjustment, subject to *SSAP No. 66—Retrospectively Rated Contracts*.~~

~~**Direct Subsidy**—The amount the government pays to the PDP Sponsor for the Standard Coverage. These payments are accounted for as health premium.~~

~~**Low Income Subsidy (Cost Sharing Portion)**—The amount the government pays to the PDP Sponsor for additional benefits provided to low income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the co-payment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.~~

~~**Low Income Subsidy (Premium Portion)**—The amount the government pays to the PDP Sponsor for low income enrollees in lieu of part or all of the Beneficiary Premium (Standard Coverage Portion). These payments are accounted for as health premium.~~

~~**Part D Payment Demonstration**—A payment from the government to a PDP Sponsor participating in CMS's Part D Payment Demonstration. The Payment Demonstration is a special arrangement in which the PDP sponsor receives a predetermined pre-enrollee capitation payment and the government no longer provides reinsurance for the 80 percent of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for this 80 percent of costs, in addition to its normal 15 percent share of costs in excess of this threshold. However, risk corridor protection does still apply to this 80 percent share of costs. These payments are accounted for as health premium.~~

~~**PDP Sponsor**—The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).~~

~~**Reinsurance Coverage**—The Medicare Part D provision under which the PDP sponsor may receive a Reinsurance Payment. This does not include payments under the Part D Payment Demonstration.~~

~~**Reinsurance Payment**—An amount paid by the government for benefit costs above the out of pocket threshold (see “Standard Coverage”). Generally, when costs exceed the out of pocket threshold, the government pays 80 percent of the costs, the enrollee pays 5 percent (or specified co-payments, if greater), and the PDP Sponsor pays the remainder (typically, 15 percent of the costs). The amount paid by the government is treated as a claim payment made by a self insured benefit plan rather than as revenue to the PDP Sponsor, and the claims do not flow through the PDP sponsor’s income statement. In cases where the government prepays the Reinsurance Payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP Sponsor’s income statement.~~

~~**Risk Corridor Payment Adjustment**—An amount, by which the government adjusts its payments to the PDP Sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP Sponsor’s bid for the Part D contract (the “target amount” of costs). The government established thresholds for symmetric risk corridors around the target amounts, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. If actual costs exceed the first threshold upper limit, the government will make an additional payment equal to 50 percent (75 percent in 2006 and 2007, or 90 percent under some circumstances) of the excess that falls between the first and second thresholds are 2.5 percent and 5 percent, respectively; for 2008-2011, they are 5 percent and 10 percent; and for 2012 and later, the thresholds have not yet been established, but will be no less than the 2008-2011 values. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.~~

~~**Risk Corridor Protection**—The Medicare Part D provision under which the PDP sponsor may receive or pay a Risk Corridor Payment Adjustment. Most employer plans providing Medicare Part D are not subject to Risk Corridor Payment Adjustments.~~

~~**Standard Coverage**—The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (25 percent of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit, in which the insured pays all of the prescription drug costs—i.e., no coverage by the PDP; and an annual out of pocket threshold, above which the insured pays the greater of a specified co-payment or 5 percent of the drug cost. The various limits and thresholds are set at specified dollar amounts for 2006, which will be increased in later years based on the growth in drug expenditures. Wherever the term “Standard Coverage” is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out of pocket threshold, see the definitions of “Reinsurance Payment” and Part D Payment Demonstration.”~~

~~**Supplemental Benefits**—Benefits in excess of the Standard Coverage. These benefits typically will cover some portion of the deductible, the co-payments, or the “coverage gap” between the initial coverage limit and the out of pocket threshold. Supplemental Benefits are part of an enrollee’s Part D coverage, so they are not placed in the “Other” category in the RBC formula. However they are not subject to either the Reinsurance Payment or the Risk Corridor Payment Adjustment, so they receive less favorable RBC treatment than the Standard Coverage.~~