

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; margin: 0;">DATE: <u>3-2-18</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; margin: 0;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # <u>2018-06-H</u> Year <u>2018</u></p> <hr/> <p style="text-align: center; margin: 0;"><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>4-24-18</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 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 language to the instructions for Line 8 and 9 on page XR021 to include ASC and ASO broker commissions.

REASON OR JUSTIFICATION FOR CHANGE **

Add clarifying language to the page XR021 instructions for Line 8 and 9 to include ASC and ASO broker commissions since non-underwritten and limited risk business is based more on the potential for losing money on the administration of the business and commissions should be a part of that calculation.

Additional Staff Comments:

- 3-25-18 cgb The WG exposed proposal 2018-06-H for a 30-day comment period ending on April 24, 2018.
 4-25-18 cgb Received a joint comment letter from AHIP/BCBSA.
 5-18-18 cgb The WG adopted the 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

BUSINESS RISK

XR021

There are four major subcategories found in the Business Risk section of the formula: Administrative Expense Risk; Non-Underwritten and Limited Risk Business; Guaranty Fund Assessment Risk; and Excessive Growth Risk.

Administrative Expense Risk – L(1) through L(7) and L(20) through L(26)

There is a risk associated with the fluctuation of administrative expenses relative to the premium needed to pay those expenses. Estimates of administrative expense ratios are built into the price of providing medical care to subscribers, just as claims expenses are built into the rates. Like claim expenses, administrative expenses are subject to misestimation, and therefore, generate an RBC requirement, but lower than the RBC requirement for claim fluctuations.

Administrative Expense Risk encompasses both Claims Adjustment Expenses and General Administrative Expenses as separate items that should be reported on Lines (1) and (2), respectively.

The ASC and ASO revenues and expenses that are included in the Administrative Expenses reported in Lines (1) and (2) should be removed from those lines by reporting the net amount of expenses to the revenues on Lines (3) and (4). If the revenues are greater than the expenses for the ASC or ASO business, then a negative amount will be reported on these lines in order to add back the net income from the ASC or ASO business. Keep in mind that only the ASC and ASO revenues and expenses that are included in the administrative expenses will be reported on lines (3) and (4).

ASC/ASO commissions that are reported within the Underwriting and Investment Exhibit, Part 3 of the annual statement should be included in Line (5).

Lines (20) through (26) calculate the RBC risk factor for administrative expense risk as a weighted average, using underwriting risk revenue as the weight. The factor is 7 percent of the first \$25 million of underwriting risk revenue plus 4 percent of the underwriting risk revenues in excess of \$25 million, divided by total underwriting risk revenues. The weighted average factor is then multiplied by the administrative expenses excluding administrative expenses associated with ASC/ASO business, premium taxes and commission payments. The ending charge is then prorated for administrative expenses related only to the managed care lines of business.

Non-Underwritten and Limited Risk – L(8) through L(11)

The risks associated with administrative services only (ASO) arrangements and administrative services contracts (ASC) are different than the risks of underwritten business. Therefore, the administrative expenses for these contracts are netted out of the total administrative risk category before applying a risk factor. However, there is still some risk that the administrative expenses for these contracts are insufficient to absorb the full outlay required and for the recovery of ASC claims payments. While the risk associated with these expenses is lower than that of general operating expense risk, it is still greater than zero.

ASO administrative fees, and reimbursements under ASC contracts for both administrative fees and the medical costs paid (ASC only), are included in the Non-Underwritten and Limited Risk Base. Any commissions associated with ASC and ASO business should be included in Lines (8) and (9) due to the risk of costs to the insurer in administering ASC and ASO plans.

NOTE: The claim payments under ASC contracts **SHOULD NOT** be included in the Underwriting Risk section; they are reported in the Non-Underwritten and Limited Risk section only.

The RBC requirement for administrative expenses on non-underwritten and limited risk business is two percent of both ASC administrative expense and ASO administrative expenses. The RBC requirement for claims payments paid through ASC arrangements is one percent of the medical expense payments [not including Medicare Part D reinsurance payment or low-income subsidy (cost sharing portion)].

The RBC requirement for fee-for service revenues received from other reporting entities is also 1 percent.



Detail Eliminated To Conserve Space

