Date: 3/27/19

2019 Spring National Meeting
Orlando, Florida

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Sunday, April 7, 2019
12:00 – 2:00 p.m.
JW Marriott Orlando—Palazzo Ballroom Salons D & E—Lobby Level

ROLL CALL

Patrick McNaughton, Chair	Washington	Kristi Bohn	Minnesota
Steve Ostlund	Alabama	Annette James	Nevada
Rolf Kaumann	Colorado	Stephen Wiest	New York
Wanchin Chou	Connecticut	Kimberly Rankin	Pennsylvania
Carolyn Morgan/Kyle Collins	Florida	Mike Boerner/Aaron Hodges	Texas
Tish Becker	Kansas		

NAIC Support Staff: Crystal Brown/Eva Yeung

AGENDA

1. Consider Adoption of its Mar. 6, 2019, Feb. 1, 2019, and Dec. 3, 2018, Minutes—*Patrick McNaughton (WA)* — Attachment A, Attachment B, Attachment C

2. Receive Excessive Growth Charge Memo from the Operational Risk (E) Subgroup —*Patrick McNaughton (WA)* — Attachment D

3. Discuss and Expose the Health Care Receivable Proposal (2019-04-H)—*Patrick McNaughton (WA)* — Attachment E
   - Numeric Examples — Attachment F

4. Consider Updates to the 2019 Health Risk-Based Capital (RBC) Working Agenda —*Patrick H. McNaughton (WA)* — Attachment G

5. Receive an Update on the Annual Statement Health Test Ad Hoc Group—*Patrick McNaughton (WA)*

6. Discuss Any Other Matters Brought Before the Working Group—*Patrick McNaughton (WA)*

7. Adjournment

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Draft: 3/11/19

Health Risk-Based Capital (E) Working Group
E-Vote
March 6, 2019

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote that concluded March 6, 2019. The following Working Group members participated: Patrick McNaughton, Chair (WA); Steven Ostlund (AL); Rolf Kaumann (CO); Wanchin Chou (CT); Carolyn Morgan (FL); Tish Becker (KS); Kristi Bohn (MN); Annette James (NV); Stephen Wiest (NY); Kimberly Rankin (PA); and Mike Boerner (TX).

1. Referred the Credit Risk/Reinsurance Memorandum to the Capital Adequacy (E) Task Force

The Working Group conducted an e-vote that concluded March 6 to consider referring the credit risk/reinsurance memorandum to the Capital Adequacy (E) Task Force (Attachment ___).

Mr. Ostlund made a motion, seconded by Mr. Wiest, to refer the memorandum to the Task Force. The motion passed.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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Draft: 3/19/19

Health Risk-Based Capital (E) Working Group
Conference Call
February 1, 2019

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call Feb. 1, 2019. The following Working Group members participated: Patrick McNaughton, Chair, and Steve Drutz (WA); Steve Ostlund (AL); Rolf Kaumann (CO); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker (KS); Kristi Bohn and Charles Roadfeldt (MN); Annette James (NV); Stephen Wiest (NY); and Mike Boerner (TX).

1. Received an Update from the Operational Risk (E) Subgroup on the Excessive Growth Charge in the Health RBC Formula

Mr. Wiest said the Operational Risk (E) Subgroup will disband by March 31, as it has completed its charge for developing the basic operational risk charge. He said the Subgroup will not be able to make a final recommendation for a methodology for replacing the current excessive growth charge in the health risk-based capital (RBC) formula. He said the Subgroup will spend the bulk of its remaining time making a recommendation to collect information about the approaches used by state insurers to assess operational risk internally. However, the Subgroup wants to provide useful information to transition the excessive growth charge back to the Working Group.

Mr. Wiest said the Subgroup has considered various ways to move the excessive growth risk charge. The Subgroup has proposed to remove the informational only growth risk page from the health RBC formula, and it does not recommend the addition of a replacement page. He said a referral letter will be sent to the Working Group to review the existing excessive growth charge in the health RBC formula.

Lou Felice (NAIC) summarized the draft health growth risk referral letter (Attachment __). He said the market conditions that existed when the health RBC formula was developed in the mid-to-late 1990s were different than the market conditions today. He said some reasons to consider a change in the excessive growth charge are because when the charge was originally developed, it was only for health maintenance organizations (HMOs) and Blue Cross and Blue Shield plans. Since then, the health reporting blank has been implemented and has different types of arrangements.

Mr. Felice said it is still worth considering that a charge should be applied to startup companies as a result of rapid growth.

The Working Group will continue to monitor and accept the excessive growth charge referral once it is received and will consider forming an ad hoc group to consider the changes.

2. Referred Proposal 2018-14-CA to the Capital Adequacy (E) Task Force for Re-Exposure

Jan Graeber (American Council of Life Insurers—ACLI) provided a summary of the ACLI's comment letter (Attachment __). She said the ACLI's concerns revolved around three main issues: 1) stop-loss carriers' inability to access and report data based on total lives covered; 2) clarification and revisions to the data collected and the type of stop-loss business reported in Table 2a and Table 2b; and 3) clarification to the instructions for determining the "Average Specific Attachment Point" and the "Average Aggregate Attachment (%)."

A second comment letter from the Self-Insurance Institute of America, Inc. was also received by the Working Group (Attachment __).

Mr. McNaughton said, based on the comments received, several changes were incorporated into the proposal: 1) deleting the Average Aggregate Attachment (%) column in Table 2a; 2) deleting the Average Specific Attachment Point ($) column in Table 2b; 3) adding a footnote for the number of covered lives reported; 4) clarifying the instructions; and 5) adding examples.

Mr. McNaughton said the footnote was added to address concerns that stop-loss carriers do not collect data on the total number of lives covered and the suggestion to base this amount on the number of employees covered. However, throughout the annual financial statement (Accident & Health Policy Experience Exhibit, Column 6, Section C, Line 2) and the RBC formula references to the lives covered are not limited to just employees. The annual instructions allow for those carriers that do not have the exact number of covered lives administratively available to them to be approximated. For consistency in reporting,

the number of covered lives will be based on the total, rather than the number, of employees. An instruction and footnote were added to reflect how they are to be calculated if estimated amounts are used.

Crystal Brown (NAIC) said NAIC staff will work to clarify the instructions to reflect whether the weighted average should be on the number of covered lives or expected claims.

Ms. Graeber asked whether the change is to be applied to direct business and not assumed. Ms. Brown said the purpose of this proposal is to split the current Table 2 into two separate tables and not to change the current reporting. She said the question of direct versus assumed may need to be addressed separately, as it was not discussed in this proposal. She said the current instructions state to report on a gross basis.

Bill Weller (America's Health Insurance Plans—AHIP) suggested adding an example for an Insured 4 that has a specific attachment point but no aggregate, so it would be included in Table 2a and excluded from Table 2b because there is no aggregate.

James Braue (UnitedHealthcare Group) asked for clarification on what is to be estimated in the footnote. Mr. Roadfeldt said, in many groups, regulators look at the number of covered employees and apply a factor to come up with the number of covered lives.

Mr. Weller suggested changing the second question to read, "If the answer is 'yes,' provide an explanation for the assumptions used in how the estimation was calculated."

The Working Group agreed to refer the proposal, with the modifications suggested in the comment letters and discussed during the conference call, to the Capital Adequacy (E) Task Force to consider re-exposing it for a public comment period ending Feb. 19.

3. Exposed the Credit Risk/Reinsurance Memorandum

Mr. McNaughton said the Capital Adequacy (E) Task Force received a referral from the Financial Condition (E) Committee to evaluate the recommendation regarding the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Bilateral Agreement) on the health RBC formula, and the Task Force requested that the Working Group review the impact.

Mr. McNaughton said, based on a review of the current credit risk charge in the health RBC formula, it is the Working Group's belief that the risk is not material enough to modify the health RBC formula at this time. He provided a summary of the review performed. Twelve companies (out of 990) reported unauthorized reinsurance on line 20 of the Liabilities page for year-end 2017. Of those 12 companies, the company reporting the largest amount of unauthorized reinsurance accounted for only 1.97% of the company's capital and surplus amount.

Mr. McNaughton said the health RBC formula currently applies a risk charge to the entire (authorized and unauthorized) recoverable balance for paid and unpaid claims, unearned premiums and other reserve credits (Schedule S, Part 2 and Schedule S, Part 3, Section 2). There is no reduction in the risk charge in the current health RBC formula to account for reinsurance recoverable balances from unauthorized reinsurance, which are currently treated as a liability (and a reduction in total adjusted capital (TAC)) based on current annual financial statement reporting. Lastly, annual financial statement reporting changes to Schedule S being considered by the Blanks (E) Working Group will address the TAC adjustment in the health RBC formula.

Mr. Weller said AHIP supports the conclusion of the Working Group.

The Working Group agreed to expose the memorandum for a public comment period ending Feb. 19.

4. Adopted its Working Agenda

Ms. Brown summarized the changes to the 2019 health RBC working agenda, which included: 1) moving the expected completion date of item 21 to 2021 or later, considering federal discussions and legislation; 2) moving the expected completion date of item 22 to 2021 or later, as these items are also related to federal and state discussions and legislation; 3) deleting the technical corrections item, as this is addressed under the Working Group's charges; 4) moving the priority of item 23 to a 1; 5) moving the expected completion date of item 24 to 2021 or later, as the Working Group continues to work with the American

Academy of Actuaries (Academy) and potentially draft a proposal for these receivables; 6) moving the priority of item 27 to a 1 based on the memorandum that was discussed under Item 3 of the agenda; 7) moving the priority of item 28 to a 2; and 8) adding new agenda item 29 to look at the calculation of the managed care credit for Category 2a and Category 2b.

Mr. Ostlund made a motion, seconded by Mr. Kaumann, to adopt the 2019 health RBC working agenda (Attachment __). The motion passed.

Mr. McNaughton invited other interested regulators to join the Working Group as members.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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Draft: 12/12/19

Health Risk-Based Capital (E) Working Group
Conference Call
December 3, 2018

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call Dec. 3, 2018. The following Working Group members participated: Patrick McNaughton, Chair, and Steve Drutz (WA); Richard Hinkel, Vice Chair (WI); Steve Ostlund (AL); Rolf Kaumann (CO); Wanchin Chou (CT); Carolyn Morgan and Kyle Collins (FL); Tish Becker (KS); Kristi Bohn and Charles Roadfeldt (MN); Annette James (NV); Stephen Wiest (NY); and Mike Boerner (TX).

1. Discussed Rounding Functions in Capitation Tables and Referred Proposal 2018-17-CA to the Capital Adequacy (E) Task Force

Mr. McNaughton said that there is not a rounding function included in capitation tables of the health risk-based capital (RBC) formula. He said that it is recommended that the rounding function be added in the formula as this will result in a more accurate calculation and will be consistent with the life and property/casualty (P/C) formulas.

Mr. McNaughton said that proposal 2018-17-CA would allow the current capitation tables, used to calculate the capitation charge in the RBC forecasting spreadsheet, to be captured as electronic-only tables. He said that this change would allow for more transparency and the addition of crosschecks.

Hearing no objections, the Working Group agreed to add the rounding function to the capitation tables within the health RBC formula and to refer proposal 2018-17-CA to the Capital Adequacy (E) Task Force for exposure, with comments to come back to the Working Group.

2. Discussed the Health Care Receivables Factors

Mr. McNaughton said that American Academy of Actuaries (Academy) submitted a recommendation several years ago to the Working Group to increase the health care receivables factors from 5% to 57%. Due to the large increase in the recommended factor, the Working Group agreed to update the factor at a lower charge than the Academy recommended. However, the Academy was asked to continue to review the factors. The Academy has continued to review factors but found that there are concerns with the data quality of the amounts reported in Exhibit 3, Exhibit 3A and U&I Part 2B. The Academy provided this summary of the data concerns that it has encountered: "For the company data for 2015-2017, Exhibits 3 and 3A balance to each other 99% of the time. However, the situation is much different in the balancing of U&I Part 2B and Exhibit 3A. If you exclude the companies where 2B and 3A are both zero (about 37% of the companies), for the remaining companies the current year receivable in Exhibit 2B and 3A balance less than 10% of the time. However, the Blank instructions indicate that Exhibit 2B and Exhibit 3 and 3A should both be on insured business only excluding Loans and Advances."

Mr. McNaughton stated that due to these discrepancies, the data is lacking in providing meaningful analysis. He said one option that the Working Group could consider would be to draft a proposal to add an adjustment to the health care receivable portion of the health formula based on the company's past experience. If the base value (current year) is reported correctly, then the formula would work as it currently does. However, if the amount is set too high for the prior year or the company did not account for the receivables correctly, the charge would be increased by a large portion of the excess.

Kevin Russell (Academy) said that the current health RBC formula uses a similar approach in the long-term care (LTC) calculation, where not all companies have the same factor, but the experience of company compared to its prior accrual drives the factor in the next year. He said moving forward with the development of a proposal would serve two purposes: 1) not to penalize those companies that are doing a good job of estimating their receivables and reporting the recoveries; and 2) to encourage companies in reporting their accrual and reporting the recoveries in their accrual. Jim Braue (UnitedHealthcare) asked if it has been identified as to where the inconsistencies lie within the data. Crystal Brown (NAIC) said that the discrepancies within the data appear to be between Exhibit 3A and U&I Part 2B, with U&I Part 2B as having the inconsistent data.

The Working Group directed NAIC staff to proceed with drafting a proposal for year-end 2020.

3. Discussed MCC Calculation

Mr. McNaughton said that a question was brought forward regarding the calculation of the managed care credit (MCC) as a result of the execution of a risk-sharing contract with providers, which shifts paid claims from "Category 1 – Payments Made According to Contractual Arrangements" to "Category 2 – Payments Made Subject to Withholds or Bonuses That Are Otherwise Managed Care Category 1." When modeling the change, it was found that there was little benefit in shifting from Category 1 to Category 2b. This resulted in a broader question: What was the original intent of the formula? Was it that the formula would yield the same MCC (e.g., a 15% result) under Category 1 and Category 2B, even though the underlying arrangements are subject to different MCCs on their own? Or should a company get an additional credit under Category 2b compared to a 15% result under Category 1? Mr. McNaughton said that it is unclear how many companies are affected by the MCC, how broad of a scope this may be and the materiality impact to the formula.

The Working Group asked NAIC staff to pull the data and do some initial analysis to get a better understanding of the impact to industry. The Working Group will continue to discuss this further during its next conference call.

4. Received an Update from the Operational Risk (E) Subgroup on the Excessive Growth Charge in the Health RBC Formula

Mr. Wiest said that the Operational Risk (E) Subgroup will disband by March 31, 2019 and has completed its charge for developing the basic operational risk charge. He said that the Subgroup will not be able to make a final recommendation for a methodology for replacing the current excessive growth charge in the health RBC formula. He summarized the Operational Risk Analysis – Health RBC Growth Risk Existing vs. Current Informational Growth Risk and Further Options for Consideration document (Attachment). Mr. Wiest said that the Subgroup will spend the bulk of its remaining time on making a recommendation to collect information about the approaches used by insurers to assess operational risk internally. However, the Subgroup wants to provide useful information to transition the excessive growth charge back to the Working Group. Lou Felice (NAIC) said that the existing excessive growth charge measures the difference between underwriting risk RBC and underwriting risk revenue. He said that at the time of the development, there were changes in product mix largely away from capitated or risk sharing arrangements to preferred provider organization (PPO) products and fee for service-type arrangements. However, in today's market, the current excessive growth charge is capturing a smaller number of companies, even during the rapid growth of the federal Affordable Care Act (ACA), because the arrangements are moving up the MCC scale rather than down the MCC scale. He said that the informational methodology currently in the formula would not likely be recommended due to the inability to determine if it captured more companies through the charge or because of price/premium increases during that time period.

The Working Group will continue to monitor and work with the Subgroup as it transitions the excessive growth charge work to the Working Group in 2019.

5. Received an Update on the Health Annual Statement Health Test Ad Hoc Group

Mr. McNaughton said that the ad hoc group met Nov. 20 to continue the discussion of the best approach to move forward with updating the health annual statement test. He said that the group discussed two possible approaches: 1) look at modifying the health test language; and 2) consider adding supplemental schedules to the life and P/C annual statement filings to more appropriately gather the relevant health data needed to provide more meaningful analysis. Mr. McNaughton said that the group directed NAIC staff to review the 2017 data and provide aggregate results to the group, as well as individual company results to state insurance regulators. The group and NAIC staff were asked to provide their thoughts on which schedules in the health blank would be beneficial as supplemental schedules. The group plans to meet next on Dec. 18 to continue its discussions.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

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National Association of Insurance Commissioners & The Center for Insurance Policy and Research

MEMORANDUM

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

FROM: Stephen Wiest, Chair, Operational Risk (E) Subgroup

DATE: February 26, 2019

RE: **Referral for Further Work on Health Growth Operational Risk**

The operational Risk (E) Subgroup believes that there is an opportunity to improve the assessment of growth risk in the Health Risk-based Capital (HRBC) formula. While alternatives to the existing growth risk methodology that have been tested by the Subgroup have not proved to be better indicators of risk, there are reasons to consider whether the existing methodology is working as intended. The Health RBC (E) Working Group is best positioned to continue the review. The Operational Risk (E) Subgroup recommends that the review focus on the existing growth risk by forming an ad hoc subgroup of regulators and interested parties familiar with the HRBC formula similar to what was utilized to review the existing growth risk methodology and factors in the Property RBC formula. This document should be used as a starting point for that review. That ad hoc group would provide suggestions for potential enhancements to the existing growth charge to the HRBCWG. The review could include:

- Given the current array of company types that now file Health RBC, should the variables used in the application of the 10% threshold be reversed (i.e., the charge is assessed if risk revenue is increasing faster than RBC)?
- Determine if a 10% threshold is still reasonable.
- Should the normal growth risk calculation (existing or as adjusted) apply to start-up companies? If not, what adjustments should be applied to the calculation for start-ups?
- Should the Health RBC growth risk methodology (existing or as adjusted) be adopted into the Life RBC formula for companies that write a material amount (e.g. > X%) of their premiums in health business, where such business would be subject to the growth risk calculation in the Health RBC formula?

Background

How the Existing Growth Risk Charge Works:

- Growth in Underwriting Risk RBC year over year is measured against growth in underwriting risk revenue year over year. Thus, the formula recognized that as risk was added, revenue should respond accordingly.
- If growth Underwriting Risk RBC exceeds growth in underwriting risk revenue by greater than 10%, growth risk is triggered.
- A factor of 50% is applied to the excess of growth in Underwriting Risk RBC above the 10% threshold.

Considerations in Developing the Existing Methodology:

- The risk of growth, while included in H-4, is most related to increased pricing risk caused by growth rather than increased operational risk that that may be caused by rapid growth.
- The methodology is better designed to capture change in product mix or introductions of new managed care products with differing levels of managed care features.
- At the time that the HRBC formula was being developed, there were significant issues around transfer of risk to providers which were driving a change from capitated arrangements and HMO products to greater use of contractual fee-for-service and withholds / incentives in provider agreements and PPO and POS products.
- The developers of the HRBC formula considered the potential for premium rate impact related to increasing competition from national carriers into local markets, and consolidation in the market.

Reasons to Consider a Change to the Existing Methodology:

- The original Health Organizations RBC (HORBC) formula applied primarily to HMOs and Not-for-profit health plans (e.g., hospital and medical indemnity plans). In the early 2000s, with the adoption of Statutory Accounting Principles and the Health financial reporting blank (and the addition of a health test to that reporting blank), insurers became subject to the renamed Heath RBC (HRBC) formula.
- Relatively few entities triggered the current growth risk charge, even during recent periods of rapid growth caused by the ACA.
- The application of growth risk to new entities is unclear. A number of entities that were new to the market and which grew rapidly in 2014 and 2015 ultimately failed regardless of original projections. If sufficient capital was put in place during the licensing process based on reasonably accurate projections, then there should be little impact from growth risk. If not, perhaps growth risk should be recognized as an early warning indicator. The growth should smooth out over time and the charge removed.
- For various reasons, neither the informational approach nor other alternatives explored thus far by the Operational Risk (E) Subgroup have indicated a significantly improved ability to identify companies that are not sufficiently capitalized to absorb the impact of rapid growth.
- Companies that file the Life RBC formula, but write the same type of health business written by companies that are required to file the Health RBC formula are not currently subject to a growth risk capital requirement.

Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force [x] Health RBC (E) Working Group [ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup [ ] Investment RBC (E) Working Group [ ] SMI RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup [ ] P/C RBC (E) Working Group [ ] Stress Testing (E) Subgroup

DATE: 3-6-19

CONTACT PERSON: Crystal Brown
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EMAIL ADDRESS: cbrown@naic.org
ON BEHALF OF: Health RBC (E) Working Group
NAME: Patrick McNaughton
TITLE: Chief Financial Examiner/Chair
AFFILIATION: WA Office of Insurance Commissioner
ADDRESS: PO Box 40255
Olympia, WA 98504-0255

FOR NAIC USE ONLY

Agenda Item # 2019-04-H
Year 2020

DISPOSITION

[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] EXPOSED
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[x] Health RBC Blanks [ ] Property/Casualty RBC Blanks [ ] Life RBC Instructions
[ ] Fraternal RBC Blanks [x] Health RBC Instructions [ ] Property/Casualty RBC Instructions
[ ]Life RBC Blanks [ ] Fraternal RBC Instructions [ ] 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.

**** This section must be completed on all forms.** **Revised 11-2013**

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Page XR020A - For Informational Purposes Only

		Annual Statement Source	(1) Amount	Factor	(2) RBC Requirement
	Other Receivables (excluding Health Care Receivables)				
(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)**			
	Health Care Receivables				
(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 + Square Root of ($H1^2$+$H2^2$+$H3^2$+$H4^2$)	
(38)	Basic Operational Risk	0.030 x 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 x L(41)	
For Informational Purposes Only			
(37A)	**RBC after Covariance Before Basic Operational Risk**	**H0 + Square Root of ($H1^2$+$H2^2$+$H3A^2$+$H4^2$)**	
(38A)	**Basic Operational Risk**	**0.030 x 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 x 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 x 0.19 = $190,000
e. Informational formula amount =
   = $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $800,000)
   = $190,000 + 0.81 x max(0, $900,000 - $952,000)
   = $190,000 + 0.81 x 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 x 0.19 = $190,000
e. Informational formula amount =
   = $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $0)
   = $190,000 + 0.81 x max (0, $900,000)
   = $190,000 + 0.81 x $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 x 0.19 = $190,000
e. Informational formula amount =
   = $1,000,000 x 0.19 + (1 – 0.19) x max(0, $900,000 – (1 + 0.19) x $450,000)
   = $190,000 + 0.81 x max(0, $900,000 - $535,500)
   = $190,000 + 0.81 x $364,500
   = $190,000 + $295,245
   = $485,245

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Priority 1 – High priority
Priority 2 – Medium priority
Priority 3 – Low priority

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2019

2019 #	Owner	2019 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
				Ongoing Items – Health RBC			
18	Health RBC WG	3	Year-end 2021 RBC or later	Evaluate the impact of Federal Health Care Law on the Health RBC Formulas	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evalaute any changes to the health formula as a rsult of ongoing federal discsussions and legislation.	
19	Health RBC WG	3	Year-end 2021 RBC or later	Discuss and monitor the development of federal level programs and actions and the potiential impact of these changes to the HRBC formula: - Development of the state reinsurance programs; - Association Health Plans; - Cross-border sales	HRBCWG	Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
				Carry-Over Items Currently being Addressed – Health RBC			
20	Health RBC WG	1	Year-End 2019 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA	
21	Health RBC WG	2	Year-end 2021 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.	HRBC WG	Adopted 2016-06-H	
22	Health RBC WG	1	Year-end 2020 or later	Establish an Ad Hoc Group to review the Health Test and annual statement changes for reporting health business in the Life and P/C Blanks	HRBCWG	Evaluate the applicability of the current Health Test in the Annual Statement instructions in today's health insurance market. Discuss ways to gather additional information for health business reported in other blanks.	8/4/2018
23	Health RBC WG	2	Year-end 2020 RBC or later	Review referral letter from Capital Adequacy (E) Task Force regarding Guaranty Funds, Long-Term Care and HMO's	CADTF	Review if changes are required to the Health RBC Formula	9/21/2018
~~24~~	~~Health RBC WG~~	~~1~~	~~Year-end 2020 RBC or later~~	~~Review referral letter from Capital Adequacy (E) Task Force regarding reinsurance and covered agreement~~	~~CADTF~~	~~Review if changes are required to the Health RBC Formula~~	~~9/21/2018~~

24	Health RBC WG	2	Year-end 2020 RBC or later	Review Long-Term Care and Long-Term Disability and the RBC implications under the H2 component	HRBCWG	Review if changes are required to the Health RBC Formula	9/21/2018
25	Health RBC WG	1	Year-end 2020 RBC or later	Review the Managed Care Credit calculation in the Health RBC formula - specifically Category 2a and 2b.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	12/3/2018
				New Items – Health RBC			
26	**Health RBC WG**	**1**	**Year-End 2020 or Later**	**Review Referral Letter from Operational Risk (E) Subgroup on the Excessive Growth Charge and development of Ad Hoc group to review the charge**	**Op Risk SG**	**Review if changes are required to the Health RBC Formula**	**4/7/2019**