Statement of Statutory Accounting Principles No. 85
Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses

STATUS

Type of Issue: Life and Accident and Health

Issued: Finalized June 10, 2002

Effective Date: January 1, 2003

Affects: Supersedes paragraphs 6.c. and 7.b. of SSAP No. 55

Affected by: Superseded with guidance included in SSAP No. 55

Interpreted by: INT 03-17

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Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses

SCOPE OF STATEMENT

1. This statement addresses the accounting for claim adjustment expenses on accident and health contracts.

SUMMARY CONCLUSION

2. This statement supersedes paragraphs 6.c. and 7.b. of SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses (SSAP No. 55). The guidance outlined in paragraphs 3-5 of this statement shall be followed when accounting for claim adjustment expenses of accident and health contracts and managed care contracts.

3. Claim Adjustment Expenses for Accident and Health Reporting Entities are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraphs 6.a. and 6.b. of SSAP No. 55. Further, Claim Adjustment Expenses for Managed Care Reporting Entities are those costs expected to be incurred in connection with the adjustment and recording of managed care claims defined in subparagraph 7.a. of SSAP No. 55. Certain claim adjustment expenses reduce the number or cost of health services thereby resulting in lower premiums or lower premium increases. These claim adjustment expenses shall be classified as cost containment expenses.

4. Claim adjustment expenses, including legal expenses, can be subdivided into cost containment expenses and other claim adjustment expenses:

   a. Cost containment expenses: Expenses that actually serve to reduce the number of health services provided or the cost of such services. The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services:

      i. Case management activities;

      ii. Utilization review;

      iii. Detection and prevention of payment for fraudulent requests for reimbursement;

      iv. Network access fees to Preferred Provider Organizations and other network-based health plans (including prescription drug networks), and allocated internal salaries and related costs associated with network development and/or provider contracting;

      v. Consumer education solely relating to health improvement and relying on the direct involvement of health personnel (this would include smoking cessation and disease management programs, and other programs that involve hands on medical education); and

      vi. Expenses for internal and external appeals processes.

   b. Other claim adjustment expenses: Claim adjustment expenses as defined in paragraph 3 that are not cost containment expenses. Examples of other claim adjustment expenses are:

      i. Estimating the amounts of losses and disbursing loss payments;
ii. Maintaining records, general clerical, and secretarial;

iii. Office maintenance, occupancy costs, utilities, and computer maintenance;

iv. Supervisory and executive duties; and

v. Supplies and postage.

Effective Date and Transition

5. This statement is effective for years ending on and after December 31, 2003.

RELEVANT ISSUE PAPERS

- Issue Paper No. 116—Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses