



# AMERICAN ACADEMY *of* ACTUARIES

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September 10, 2005

To: Mr. Louis Felice, Chair, NAIC Capital Adequacy (E) Task Force

From: John Fritz, Chair, American Academy of Actuaries<sup>1</sup> Medicare Part D Subgroup

Re: Proposed RBC Instruction Changes and Formula Changes to Address Medicare Part D Coverage – Effective 2006.

Dear Mr. Felice,

The American Academy of Actuaries' Medicare Part D RBC Subgroup wishes to present the attached as draft RBC instructions and formula changes to address the new risks that health entities and others will face relating to the insurance of Medicare Part D coverage commencing January 1, 2006.

Comparable instructions and formula changes are provided for the Life RBC Formula and the Health RBC Formula. We wish to note the following:

1. These instructions assume that later work by the Subgroup will develop appropriate factors to be applied to exposures for both standard Part D coverage and any supplemental benefits included in some plan sponsors' Part D plans. Most, but not all, of the standard coverage's risk will be subject to significant risk reduction programs provided by CMS. None of the supplemental benefits will have these CMS-provided protections. Some Part D coverage written by entities subject to a RBC formula may be provided through employer groups that will not have some or any of the protections. The proposed draft allows for a unique factor for supplemental benefits but no special factor for employer-based coverage that is not subject to "risk corridor protection." The Task Force may or may not wish to retain this distinction.
2. These instructions assume a specified manner in which payments received for Part D coverage (from beneficiaries and CMS) will be reported under Statutory accounting. The Academy assisted the CADTF in developing the EAIWG Form B recommending an accounting treatment. If another accounting approach is used, it is possible that additional risks may need to be addressed.

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<sup>1</sup> The American Academy of Actuaries is the public policy organization for 15,000 actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the actuarial profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also supports the development and enforcement of actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

3. This draft of the instructions does not contain the specific source of exposure data. For 2006, it seems likely that companies will need to rely on company records. The Task Force may wish to ask the Blanks Working Group for assistance to provide direct input sources for 2007.
4. An Appendix specific to Part D coverage has been added at the end of both sets of instructions. Key terms used in the instructions are defined. Review of this Appendix will assist the reader of the instructions.
5. The RBC Formula uses the Managed Care Credit section to provide risk reduction credits for the various CMS-provided protections. No other managed care credits are allowed for Part D, even though we recognize that several useful risk reduction approaches are available to PDPs. We do not think a basis is available to recommend such credits at this time, but the Task Force may wish to recognize some value. In addition, it has been noted that the title for this section, "Managed Care Credits," could be expanded to recognize the additional use we recommend related to Part D coverage.

We appreciate the opportunity to provide these draft instructions and changes and look forward to your feedback. If there are any questions regarding these comments, I invite you to contact Geralyn Trujillo, staff liaison to the Subgroup, at (202) 785-6924 or [trujillo@actuary.org](mailto:trujillo@actuary.org).

Sincerely,

John F. Fritz  
Chair, Health RBC Subgroup  
Task Force on Health RBC  
American Academy of Actuaries

CC: Julia Philips, Chair of Health RBC Subgroup, Capital Adequacy (E) Task Force  
Dan D. Swanson, NAIC Staff Liaison  
Alan Ford, Chair, Academy Task Force on Health RBC  
Michael Abroe, Vice President, Academy Health Practice Council

Attachments:

Health RBC Instructions (word document)  
Health RBC Formula Changes (spreadsheet)  
L&H RBC Instructions (word document)  
L&H RBC Formula Changes (spreadsheet)

Academy Medicare Part D RBC Subgroup

John Fritz, chair

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