



AMERICAN ACADEMY *of* ACTUARIES

March 21, 2007

To: Ms. Julia Philips, Chair, NAIC Health Risk-Based Capital (RBC) Working Group,
Capital Adequacy (E) Task Force

From: Mr. Shaun Peterson, Chair, American Academy of Actuaries¹ Stop-Loss Work Group

RE: March 2007 Progress Report on Stop-Loss Project

During the December 2006 NAIC meeting in San Antonio, the Academy's Stop-Loss Work Group (Work Group) provided a progress report to the Health RBC (E) Working Group. As per the report, we offer the following current update on our progress.

In December 2006, we committed to provide guidance pertaining to the structure for the RBC calculations for Provider Excess, Medical Excess, HMO Reinsurance, Specific Stop Loss & Aggregate Stop Loss. We are currently investigating which **one** of the following three (3) structures will produce the optimal result:

1. Single Factor Approach: A single premium-based factor for all excess medical products;
2. Premium Factor Approach: Factors that are tiered by the amount of written premium (encompassing all products); or
3. Product Factor Approach: Premium-based factors that vary only by the products written (regardless of premium written).

Our assessment will be based on an analysis of materiality and complexity of the final structure. Materiality will be assessed by the differences among factors across buckets. If differences among factors are immaterial when compared to the Single Factor Approach, we will recommend the use of the Single Factor Approach. A benchmark for materiality for this analysis has not yet been determined.

We have ruled out the use of an approach where the factor varies across both premium and products at the same time. The complexity of this approach is not justifiable in light of the

¹ The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

importance of excess medical products vis-à-vis all products covered by the NAIC risk-based capital formula.

The Work Group continues to make progress and anticipates providing a final report to the Health RBC Working Group at the June 2007 meeting in San Francisco.

We appreciate the opportunity to offer this update and look forward to your thoughts. If there are any questions regarding these comments, I invite you to contact Geralyn Trujillo, Health Policy Analyst, State Health, at (202) 785-6924 or trujillo@actuary.org.

Very truly yours,

Shaun Peterson
Chair, Stop-Loss Work Group
American Academy of Actuaries

cc: Dan Swanson, NAIC Staff
Mike Abroe, Chairperson, State Health Committee, American Academy of Actuaries