



AMERICAN ACADEMY *of* ACTUARIES

To: Jane Kipper, Dan Daveline, NAIC Staff to Codification of Statutory Accounting Principles Working Group

From: American Academy of Actuaries Health Codification Subgroup of the State Health Committee

Date: May 5, 1998

Re: Exposure of Health Related Statements of Statutory Accounting Principles

Dear Ms. Kipper and Mr. Daveline:

The American Academy of Actuaries Health Codification Subgroup would like to thank the NAIC Codification of Statutory Accounting Principles Working Group for this opportunity to comment on the exposure of health related Statements of Statutory Accounting Principles (SSAPs).

These comments respond specifically to the March 25, 1998 exposure of seven modified SSAPs and one new SSAP. The comments attached are under two different headings. The first deals with comments relating to changes to the existing SSAPs which are being proposed at this time by the NAIC. The second addresses the initial maintenance needs of these same SSAPs based on the existing wording to which the NAIC is not proposing changes at this time.

The Academy is the public policy organization for actuaries within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non partisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations and NAIC proposed models, and works closely with state officials on issues related to insurance.

The Academy is responsible for setting actuarial standards of qualification, conduct and practice, and for investigating complaints against actuaries who are accused of violating those standards. The Academy supports the work of the Accident and Health Working Group of the Life and Health Actuarial (Technical) Task Force of the NAIC. We have reviewed the Working Group's comments on the SSAPs documented in its May 1, 1998 memorandum to the NAIC Codification of Statutory Accounting Principles Working Group, and are in agreement with them - particularly the comment that there does not need to be as much differentiation between indemnity insurers and managed care organizations in the SSAPs on reserve requirements as the changes propose. We are also making comments for the maintenance phase which reflect the need to revise the SSAP for changes to the minimum reserve requirements model (approval by Plenary is expected in June).

Section I. - Comments on Changes to SSAP Nos 25, 35, 47, 50 and 54 plus new SSAP No. 100

SSAP No. 25 - Accounting for and Disclosures about Transactions with /Affiliates and Other Related Parties

Paragraph 17b defines disclosure requirements based on the amount exceeding “0.5% of the total admitted assets of the reporting entity.” For MCOs, the amount paid to contracted providers will frequently be capitated payments. The annual amount of these payments will not have any relation to the year-end liabilities and required surplus and could impose unreasonable reporting requirements. We recommend that there be an exclusion from this disclosure for capitated payments to network providers who would not otherwise be related parties, apply a higher limit of 5% of total health payments for contracted fee-for-service payments to any one provider and retain the current disclosure requirement for payments under provider stop-loss and provider withhold or incentive payments.

SSAP No. 35 - Accounting for Guaranty Fund and Other Assessments

Paragraph 3 should be expanded to give examples of assessments which are not to be included under this SSAP - i.e. not to be reported under Taxes, Licenses and Fees. Examples of such assessments are: State Health Insurance High-Risk Pool assessments (unless the assessment is allowed to be recovered from premium taxes), State voluntary or involuntary Small Employer Health Reinsurance Pool and State demographic or risk adjustment assessments. These types of assessments are either considered the equivalent of health reinsurance assumed claims or administrative expenses.

SSAP No. 47 - Uninsured Plans

The examples in paragraph 4 (minimum premium and stop-loss coverage) should not be referred to as “plans” since they are not “Uninsured Plans.”

If the first sentence was restructured to “... related to the claims (e.g. minimum premium and stop-loss coverage), but acts as administrator for some, or all, the claims paid by the plan.” this distinction would be clear.

We recommend that paragraph 5 be separated into two parts. One deals with those instances where the reporting entity is only acting as an administrator and the other where the reporting entity is acting as both an administrator and a provider of health care services. We suggest a period after ‘expense’ in the fourth line, then add:

- a. Where the only functions provided are administrative, administrative fees and related reimbursements from the plan shall be deducted from general insurance expenses;
- b. Where the reporting entity provides both administration and health care services directly, income from Medicare or similarly structured cost based reimbursement contracts is recorded as revenue on the appropriate line and within the appropriate column. Health care services rendered as "medical and hospital" categorized by type and administrative expenses by type of expense shall be reported on an incurred basis. Income from cost based...

SSAP No. 50 - Classification and Definitions of Insurance or Managed Care Contracts In Force

We have reviewed the proposed comments of the Accident & Health Working Group and agree with their changes. Specifically, their proposed revisions to paragraphs 2,5, 22, 26 and 29 note that the two

types of A&H contracts (indemnity and managed care) have so much in common that it is better to have a single term - accident and health contracts - and to use different terms only in the exceptional case where something applies to only one type.

Paragraph 26 as currently written would have the A&H rules apply to all contracts with health benefits or disability contingencies. This would improperly include the following types of insurance under the A&H rules:

- waiver of premium (when included as a supplemental benefit to life insurance);
- accelerated benefits of life insurance when the insured qualifies based on health status;
- workers compensation; and
- medical benefits under automobile insurance.

The paragraph should be expanded to provide examples of benefits, such as the above, which would not automatically qualify the coverage as A&H.

SSAP No. 54 - Individual and Group Accident and Health Contracts

Again we agree the changes proposed by the Accident & Health Working Group, especially the comment that there need not be separate reserve standards for indemnity and managed care coverages. Specifically, their proposed changes to headings and to paragraphs 18 through 23 will have the effect of applying consistent reserve standards to all A&H. This is particularly important as the line between managed care and indemnity blurs with the increased offering of point-of-service products.

We recommend that paragraph 11 include the following as clarification of the codified separation of claim liabilities and claim reserves: The provisions of Appendix A-010 envision that claim reserves as defined in SSAP #54 and Claim Liabilities as defined in SSAP #55 will be adequate in the aggregate for incurred claims and will frequently be calculated in the aggregate in accordance with Actuarial Standards of Practice.

Paragraph 25 uses the term “commonly held” in a way which could be interpreted as making these reserves optional. Paragraphs 14 and 23 do not contemplate these reserves being optional. We suggest rewording as follows: “Additional reserves for actuarial or other liabilities may be required or are commonly held (even if not required) for such items as:”

SSAP No. 55 - Unpaid Claims, Losses and Loss Adjustment Expenses

We agree with the changes proposed by the Accident and Health Working Group. The rearrangement of paragraphs 6 and 7 clarifies that the same reserve standards apply for ‘normal’ claim or health care service obligations, but paragraph 7 recognizes additional liabilities relating to managed care contracts. We have further comments on this SSAP which can be addressed in the maintenance phase.

Section II. Issues to be Considered during the Initial Maintenance Phase of Codification

SSAP No. 54 - Individual and Group Accident and Health Contracts

The basis for Appendix A-010 is being revised to recognize that some of the requirements in the current version need to be revised because of changes related to HIPAA. Specifically, the use of the phrase “over the policy period” in paragraphs 13 and 19 take on new, potentially inappropriate meanings under HIPAA.

The basis for contract reserves will be changed to allow for reserves to be determined on a block of business, assuming approval by Plenary in June. The changes will require changes to this SSAP.

SSAP No. 55 - Unpaid Claims, Losses and Loss Adjustment Expenses

Paragraph 17 states that “life and A&H insurers and managed care providers accrue expenses as part of the claim liability.” While this may be true in some cases, it is the belief of the Academy that separate reserve liabilities for expenses related to claims adjudication and payment should be accrued and reported as part of incurred expenses consistent with the accounting treatment of actual payments. In those situations where the State establishes a morbidity table as the statutory minimum, the need for separation is clear. In addition, the ability to use the tests in Schedules H and O is distorted when the expense liability is included in claims.

A member of the Academy’s Health Codification Subgroup will be in Kansas City on May 19th to answer any questions. If you have questions before then, please contact Alison Kocz at the Academy’s office at 202-785-7866.

Academy of Actuaries Health Codification Subgroup of the State Health Committee

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