



AMERICAN ACADEMY *of* ACTUARIES

January 3, 2013

Dennis Julnes
Chair, Health Risk-Based Capital Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Re: Underwriting and Investment Exhibit Part 2B – Analysis of Claims Unpaid – Prior Year – Net of Reinsurance

Dear Mr. Julnes:

At the request of the NAIC's Health Risk-Based Capital Working Group, the American Academy of Actuaries¹ Health Care Receivables Factors Work Group has reviewed company data filed with the NAIC in order to develop recommendations on receivables factors in the Risk-Based Capital formula. In the course of our work we developed an initial proposal on changing the reporting of health care receivables on the U&I Exhibit Part 2B, but after our December 7 conference call with you and NAIC staff, the Academy work group has agreed on the following revised proposal:

1. The current U&I Exhibit Part 2B would be unchanged, except that it would receive the additional label of "Section A – Analysis of Claims." Health care receivables would continue to be reported on Line 10. Amounts collected on health care receivables would continue to be reported as adjustments to paid claims reported in Columns 1 and 2 on Lines 1 through 8.
2. An addition labeled "Section B – Analysis of Health Care Receivables" would be placed on the same page. This provides a follow-up study for the prior year's accrual for estimated health care receivables that is analogous to the follow-up study in Section A for the prior year's accrual for the estimated claim reserve and claim liability. Language for the Section B column headings reflects health care receivables rather than claims, but is otherwise similar to that of Section A. There are separate lines for each type of health care receivable shown in Exhibit 3.

¹The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.

There is a note to reiterate that the accrued amounts in Section B are the total health care receivables, not just the admitted portion.

3. We have also developed proposed instructions for the new Section B. These were not available for the December 17, 2012 conference call.

We look forward to discussing this revised proposal with the Health RBC Working Group. This revised proposal does not make any change that would directly affect the calculation of RBC. Rather, it serves to expand the reporting of information that could be then used to make a change, if needed, to the factors in the Credit Risk portion of the RBC for pharmacy rebates receivable and each of the other types of health care receivables.

We look forward to continuing to work with you. Should you have any questions in the meantime, please contact Tim Mahony, the Academy's state health policy analyst (202.223.8196; mahony@actuary.org).

Sincerely,

F. Kevin Russell, FSA, MAAA
Chairperson, Health Care Receivables Factors Work Group
American Academy of Actuaries