



AMERICAN ACADEMY of ACTUARIES

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March 17, 2020

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Draft Bond Structure and Instructions

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee, I am pleased to provide this response letter to the NAIC Health Risk-Based Capital (HRBC) Working Group. This letter is in response to the request from the HRBC Working Group to provide the health bond factors over a range of additional time horizons – spanning one to five years.

The table below shows the health base risk factors between a one-year and five-year time horizon before any adjustments have been made to account for minimum risk factors.

Moody's Rating Class	S&P Rating Class	Indicated Base Risk Factors				
		1Yr	2Yr	3Yr	4Yr	5Yr
Aaa	AAA	0.0%	0.0%	0.0%	0.2%	0.3%
Aa1	AA+	0.0%	0.0%	0.0%	0.4%	0.5%
Aa2	AA	0.0%	0.1%	0.2%	0.6%	0.8%
Aa3	AA-	0.0%	0.2%	0.4%	0.8%	1.1%
A1	A+	0.1%	0.3%	0.7%	1.1%	1.4%
A2	A	0.2%	0.5%	0.9%	1.3%	1.6%
A3	A-	0.3%	0.7%	1.2%	1.5%	1.9%
Baa1	BBB+	0.5%	1.0%	1.5%	1.8%	2.2%
Baa2	BBB	0.6%	1.2%	1.7%	2.0%	2.5%
Baa3	BBB-	0.8%	1.5%	2.0%	2.4%	3.1%

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

No adjustments have been made to the bond risk factor model utilized to develop the original results,² beyond adjusting the time horizon to illustrate bond factors for time horizons between three and five years.

We appreciate the opportunity to provide this analysis and would welcome the opportunity to speak with you regarding these comments in more detail and answer any questions you might have. If you have any questions or would like to discuss further, please contact Devin Boerm (boerm@actuary.org) or Craig Hanna (hanna@actuary.org) at 202-223-8196.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson
Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown: Senior Insurance Reporting Analyst

² See Academy report titled “An Update to the Property & Casualty and Health Risk-Based Capital Bond Factors: Report to the NAIC Investment Risk-Based Capital (E) Working Group, Health Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group.