



TO: Derek Skoog, Chair of the Health Solvency Subcommittee of the American Academy of Actuaries

FROM: Steve Drutz, Chair of the Health Risk-Based Capital (E) Working Group

Date: September \_\_\_\_, 2020

RE: Request for Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital Formula

On July 30, 2020 the Health Risk-Based Capital (E) Working Group agreed to request assistance from the Health Solvency Subcommittee of the American Academy of Actuaries (Academy) to evaluate incorporating and including investment income into the Underwriting Risk component of the Health RBC formula. In a letter sent to the Working Group dated March 4, 2020, the Academy responded to comments made requesting that investment income be included in the proposed bond factors for the new 20 designations. The Academy noted that they did not believe it would be appropriate to ascribe all investment income to offset default risk and suggested utilizing investment income to offset specific risk charges, such as in Underwriting Risk.

The Health Risk-Based Capital (E) Working Group requests that the Health Solvency Subcommittee evaluate including investment income in the existing Underwriting Risk factors and not alter the existing methodology or assumptions underlying those factors in any other way. Please notify the Working Group by \_\_\_\_, 2020 if the Academy can move forward with this project and provide an estimated timeline for completion.

Please forward a copy of your analysis to Crystal Brown via email [cbrown@naic.org](mailto:cbrown@naic.org).

cc: Devin Boerm, Staff Support- Health Solvency Subcommittee of the American Academy of Actuaries