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October 30, 2015

Chairman Jim Armstrong
Chair of the Emerging Accounting Issues (E) Working Group
National Association of Insurance Commissioners
Via email to jgann@naic.org, rmarcotte@naic.org and jarpin@naic.org

Re: NAIC Emerging Accounting Issues Working Group (EAIWG) exposure draft INT 15-01T: ACA Risk Corridors Collectability

Dear Chairman Armstrong:

On behalf of the American Academy of Actuaries'[1] Health Financial Reporting and Solvency Committee, we appreciate this opportunity to comment on the NAIC Emerging Accounting Issues Working Group (EAIWG) exposure draft of INT 15-01, "ACA Risk Corridors Collectability."

In general, the direction that EAIWG has taken with this accounting guidance is appropriate, and we agree guidance should be issued prior to the deadline for submission of quarterly statements for third quarter 2015. We do offer the following comments on the exposure draft:

- It is important for users of the financial statements to understand the magnitude of the unrecognized risk corridor assets to which insurers would be received in the absence of concerns about funding and collectability. While the proposed guidance in paragraph 17 under which insurers would not recognize assets for 2015 risk corridor receivables may be appropriate, users could benefit from a statement disclosing what risk corridor payments for 2015 would be based on their financial results, notwithstanding collectability concerns. Similarly, users would benefit from a disclosure of the remaining amounts to which insurers would be received for 2014 risk corridor payments if collectability were not an issue, over and above the amounts recognized on the financial statements.
- We suggest a minor change to the second sentence of paragraph 17, as follows: "Accordingly, 2015 risk corridors receivables shall not be accrued until such time as the 2014 benefit year is paid in full <u>or federal funds are appropriated by Congress for the program costs for the 2015 benefit year</u>, at which time…" Congress has the authority to appropriate partial funding for 2015 risk corridor payments without having fully funded the 2014 risk corridor payments. As such, the accounting guidance should be written to contemplate the possibility of that situation. Similarly, we suggest the following change to the last sentence of paragraph 17: "Similarly, 2016 risk corridors receivables shall not be accrued until such time that the 2015 benefit year is paid in full <u>or federal funds are appropriated by Congress for the program costs for the 2016 benefit year</u>."

[1] The American Academy of Actuaries is an 18,500+ 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 qualification, practice, and professionalism standards for actuaries in the United States.

- We are concerned by the statement in paragraph 11 that it would be "reasonable **and conservative** to impair receivable amounts for the 2014 benefit year in excess of 37.8%" (emphasis added). When you say that impairing down to 37.8 percent is "conservative," the implication is that ultimately the payouts for 2014 will exceed 37.8 percent. It is uncertain as to whether total risk corridor payables by insurers in 2015 or 2016 will reach the same level ($362 million) as in 2014; therefore, we think it is uncertain as to whether the ultimate payouts for 2014 will reach the 37.8 percent level. Given this, we suggest deletion of the words "and conservative" from that sentence.
- Some implications of the proposed guidance are not immediately clear to us, and we suggest that you might want address the following in the guidance:
    - If a company had previously recorded a 2014 risk corridor asset at less than the 37.8 percent level, are they now allowed under this guidance to recognize 2015 income by writing the asset up to 37.8 percent (and then non-admitting down to 12.6 percent)?
    - If a company had recorded a 2015 risk corridor asset in its second quarter financial statement, does it impair that asset, or non-admit it?

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The committee welcomes the opportunity to speak with you about any of the items discussed in this letter, and offers assistance on any desired topic. If you have any questions or comments, please contact David Linn, the Academy's health policy analyst (202-223-8196, linn@actuary.org).

Sincerely,

Laurel Kastrup, MAAA, FSA
Chairperson, Financial Reporting and Solvency Committee
American Academy of Actuaries