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AMERICAN ACADEMY *of* ACTUARIES

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November 12, 2012

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: Academy Health Care Receivables Factors Work Group recommendation for change to the Underwriting and Investment Exhibit Part 2B – Analysis of Claims Unpaid – Prior Year – Net of Reinsurance

Dear Mr. Julnes:

The American Academy of Actuaries<sup>1</sup> Health Care Receivables Factors Work Group has been asked by the Health Risk-Based Capital Working Group to review 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 have developed an initial proposal on changing the reporting of health care receivables on the U&I Exhibit Part 2B.

The current annual statement instructions call for receivables to be reported in a manner that does not make a comparison practical between the accrual made at the end of the prior year and the amounts realized during the year. The attached spreadsheet contains an example showing the current method and the proposed method, which would provide the means for a more meaningful follow-up study on prior year-end accruals for health care receivables. Pharmacy rebates are shown on a separate line; they are the largest category of health care receivables, and amounts actually realized are typically available. Health care receivables other than pharmacy rebates are shown on a different line; amounts actually realized may not be available as a separate amount, but may be embedded within paid claims.

We look forward to discussing this initial proposal with the Health RBC Working Group. This initial proposal does not make any change that would directly affect the calculation of RBC. Rather, it serves to clarify 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 other types of health care receivables.

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<sup>1</sup> The 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.

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](mailto:Mahony@actuary.org)).

Sincerely,

F. Kevin Russell, FSA, MAAA  
Chairperson, Health Care Receivables Factors Work Group