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November 9, 2015

Doug Slape, Chair, Capital Adequacy (E) Task Force
c/o Jane Barr (jbarr@naic.org), Company Licensing/RBC Manager
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Health RBC Formula Update

Dear Mr. Slape:

On behalf of the American Academy of Actuaries'¹ Health Solvency Subcommittee, I would like to provide the Capital Adequacy (E) Task Force with an update on the evaluation of asset risk in the health risk-based capital (HRBC) formula.

Our understanding is the NAIC Health RBC (E) Working Group established the Drafting/Technical Group to document the formula differences between the factors used in the RBC formulae for Health, Life and P/C, and to evaluate the impact of investment risk on the overall Health RBC formula. We further understand a purpose of this effort is to document the analysis and source of the factors currently used in the HRBC formula. An additional goal would be to provide rationale for why changes in investment profile to riskier assets translate into little change in overall Health RBC formula.

The Subcommittee is presently assisting the Drafting/Technical Group in analyzing and reviewing the rationale for the formula differences, including the impact of the covariance aspects of the HRBC formula where it differs from the other two formulae. We anticipate this portion of the analysis to be completed by 1Q 2016. Once completed, the Subcommittee is ready to assist the Drafting/Technical Group in evaluating potential changes related to asset risk factors based on recent analyses of models for corporate bonds, real estate, and common stock.

The Subcommittee 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,

Tim Deno, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

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.