

Review of the H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula—Updates

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National Association of Insurance Commissioners (NAIC) Fall National Meeting
Health Risk-Based Capital (E) Working Group

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American Academy of Actuaries

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The Academy recommended six areas where the H2 Underwriting Risk factors could be improved

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The Academy's Health Solvency Subcommittee's January 2022 [report](#)* included the following six recommendations for the HRBC Working Group's consideration:

- Refresh factors based on updated insurer data
- Develop factors at a more granular product level
- Develop factors specific to more relevant block sizes and consider an indexing factor for cut points to change over time
- Model risk factors over an NAIC-defined prospective time horizon with a defined safety level that can be refreshed regularly
- Refresh of managed care credit formula and factors to be more relevant and reflective of common contracting approaches and other risk factors associated with these contracting approaches
- Analyze long-term care insurance (LTCI) underwriting performance to create a more nuanced set of risk factors that considers pricing changes over time

*See also [Timeline Letter to NAIC 7/13/22](#)

Initial focus of the thorough H2 review is intended to focus on areas of the underwriting risk calculation that are most impactful ⁵

Areas of focus for the initial underwriting risk factor analysis:

- Redesign HRBC Pages XR013/XR014 (Experience Fluctuation Risk)
- Develop Tiered RBC Factors
- Redesign HRBC Pages XR018/XR019 (Managed Care Credit)

Further refinement of other components of the H2 Underwriting risk formula (e.g., Stop Loss, Long-Term Care) can be undertaken following this initial phase.

The core Experience Fluctuation Risk pages are to be updated to include more detail and consideration of additional factors

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- Redesign HRBC Pages XR013/XR014 (Experience Fluctuation Risk)
 - Identify specific fields from the Exhibit of Premiums, Enrollment, and Utilization for use in the updated formula
 - Specify the updated formula for consideration of
 - Company-specific experience adjustments, based on historical company-specific experience—likely between five and 10 years
 - An adjustment for investment income, tailored to the cash flows of health products
 - A premium diversification discount factor
 - Adjustments to the tiering thresholds
 - Finalize the recommended underwriting risk page

Initial analysis is intended to create transparent risk factors that match the actual underwriting volatility for each line of business 7

- Develop Tiered RBC Factors
 - Actual underwriting volatility will be analyzed to understand the spread of performance by line of business
 - Additional analysis of underwriting volatility by company size will also be conducted
 - The value of diversification will be analyzed as well
- A number of key questions have already been identified—and many others will likely arise as part of the analysis
 - What years must be analyzed? Should it vary by line of business?
 - How will outlier issuers be handled?
 - How will outlier years be handled (e.g., the early years of the individual market and 2020)?
 - How will start-up experience be handled versus mature plans?

The Managed Care Credit are to be rethought given the shift in provider contracting norms and new contracting elements

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- HRBC XR018 and XR019 (Managed Care Credit) redesign
 - Given the limited data collected within Exhibit 7, this exercise would only include the design of a new HRBC page based on company records (or potentially a new health blank exhibit) for the working group's consideration
 - This work track would produce a brief discussion document with a corresponding workbook with the proposed Managed Care Credit data collection template and calculation.

The Health Underwriting Risk Factors Analysis Work Group expects the exercise will be completed by next summer with regular interim updates for the working group

	2022		2023					
	November	December	January	February	March	April	May	June
Core Page Redesign	[Orange shaded]					[White]		
Factor Development	[Orange shaded]							
Managed Care Credit Redesign	[Orange shaded]					[White]		

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Thank you

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Questions?

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