

# Health Care Receivables (HCR) Current and Proposed H3 Factors

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# Setting the Context

- Authorized Control Level
  - National Association of Insurance Commissioners (NAIC) Risk-Based Capital Formula
- Health Care Receivables (HCR)
  - Part of the H3 Credit Risk
  - Factors applied to all HCR assets are a part of the H3 result

$$\text{\$Authorized Control Level} = 1.03 \times \frac{H0 + \sqrt{(H1^2 + H2^2 + \text{H3}^2 + H4^2)}}{2}$$

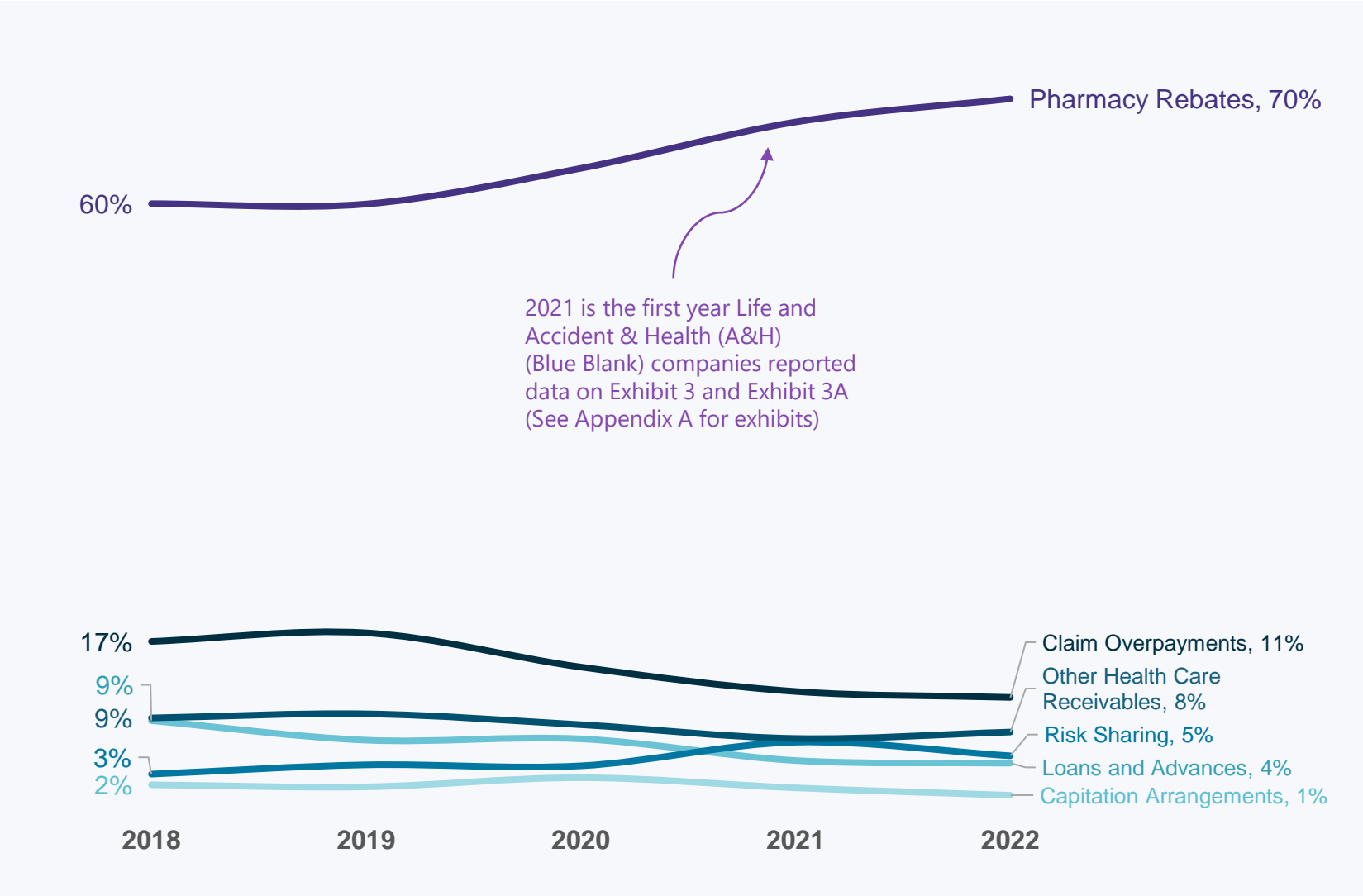
Credit Risk  


# Applying HCR Factors

- HCR Factors
  - Vary by Pharmaceutical Rebates or Non-Pharmaceutical Rebates

HCR Type	Factor (Current)	
<b>Pharmaceutical (Rx) Rebate Receivables</b>	0.05	
<b>Claim Overpayment Receivables</b>	0.19	} Non-Pharmaceutical Rebates Receivables
<b>Loans and Advances to Providers</b>	0.19	
<b>Capitation Arrangement Receivables</b>	0.19	
<b>Risk Sharing Receivables</b>	0.19	
<b>Other Health Care Receivables</b>	0.19	

# HCR Dollar Distributions



Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

# Collecting HCRs

$$\text{Collection Ratio} = \frac{\text{Surplus Component}_{t-1} + \text{Collections}_t}{\text{Admitted HCR Assets}_{t-1}}$$

- *Surplus Component*, prior year: Factors multiplied by admitted assets
- *Collections*, current year: Exhibit 3A Column 5 "Health Care Receivables in Prior Years (Columns 1 + 3)"
- *Admitted HCR Assets*, prior year: Exhibit 3 Column 7 "Admitted"
- *Collection Ratio*: Goal is for a company to collect  $\geq 100\%$
- See Appendix A for exhibit layouts and column names

# Collecting HCRs (Year)

- Data: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables
- 2021 is the first year Life and A&H (Blue Blank) companies reported on the Health Care Receivables Supplement (Exhibits 3 and 3A)
- 2018 is prior year input for 2019 results, so the table begins with 2019

Year (Rx Rebates HCR)	Company Count	Collection Ratio $\geq$ 100%
2019	519	87%
2020	559	83%
2021	621	86%
2022	674	83%
Year (Non-Rx Rebates HCR)	Company Count	Collection Ratio $\geq$ 100%
2019	366	85%
2020	402	79%
2021	411	81%
2022	457	79%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables



# Collecting HCRs (Size)

- Each company has an HCR size by year for this analysis
- HCR size “Small” if total HCR <\$1 million, “Large” if ≥\$10 million, “Medium” otherwise
- HCR <\$0 were then excluded (rare) and =\$0 excluded (common)

Size (Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	112	79%
Medium	216	84%
Large	259	89%

Size (Non-Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	58	80%
Medium	137	79%
Large	206	84%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

# Tiering HCR Factors

- Propose tiered HCR factors
  - Smaller HCR-sized companies hold more surplus component
  - Give larger HCR-sized companies credit for observed stability (higher counts of Collection Ratios  $\geq 100\%$ )

HCR Type	Current Factor	Tier 1 Factor	Tier Cutoff	Tier 2 Factor
<b>Rx Rebate Receivables</b>	0.05	0.20	\$5 Million	0.03
<b>Claim Overpayment Receivables</b>	0.19	0.40	\$10 Million	0.05
<b>Loans and Advances to Providers</b>	0.19	0.40	\$10 Million	0.05
<b>Capitation Arrangement Receivables</b>	0.19	0.40	\$10 Million	0.05
<b>Risk Sharing Receivables</b>	0.19	0.40	\$10 Million	0.05
<b>Other Health Care Receivables</b>	0.19	0.40	\$10 Million	0.05

# Collecting HCRs (Year Revisited)

- Improved Collection Ratio (CR) by year

Year (Rx Rebates HCR)	CR ≥ 100% (Current Factors)	CR ≥ 100% (Proposed Factors)
2019	87%	91% (+4%)
2020	83%	87% (+4%)
2021	86%	89% (+3%)
2022	83%	88% (+5%)

Year (Non-Rx Rebates HCR)	CR ≥ 100% (Current Factors)	CR ≥ 100% (Proposed Factors)
2019	85%	87% (+2%)
2020	79%	81% (+2%)
2021	81%	84% (+3%)
2022	79%	82% (+3%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

# Collecting HCRs (Size Revisited)

- Improved collection by HCR size

Size (Rx Rebates HCR)	CR $\geq$ 100% (Current Factors)	CR $\geq$ 100% (Proposed Factors)
Small	79%	85% (+6%)
Medium	84%	90% (+6%)
Large	89%	90% (+1%)

Size (Non-Rx Rebates HCR)	CR $\geq$ 100% (Current Factors)	CR $\geq$ 100% (Proposed Factors)
Small	80%	81% (+1%)
Medium	79%	83% (+4%)
Large	84%	86% (+2%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

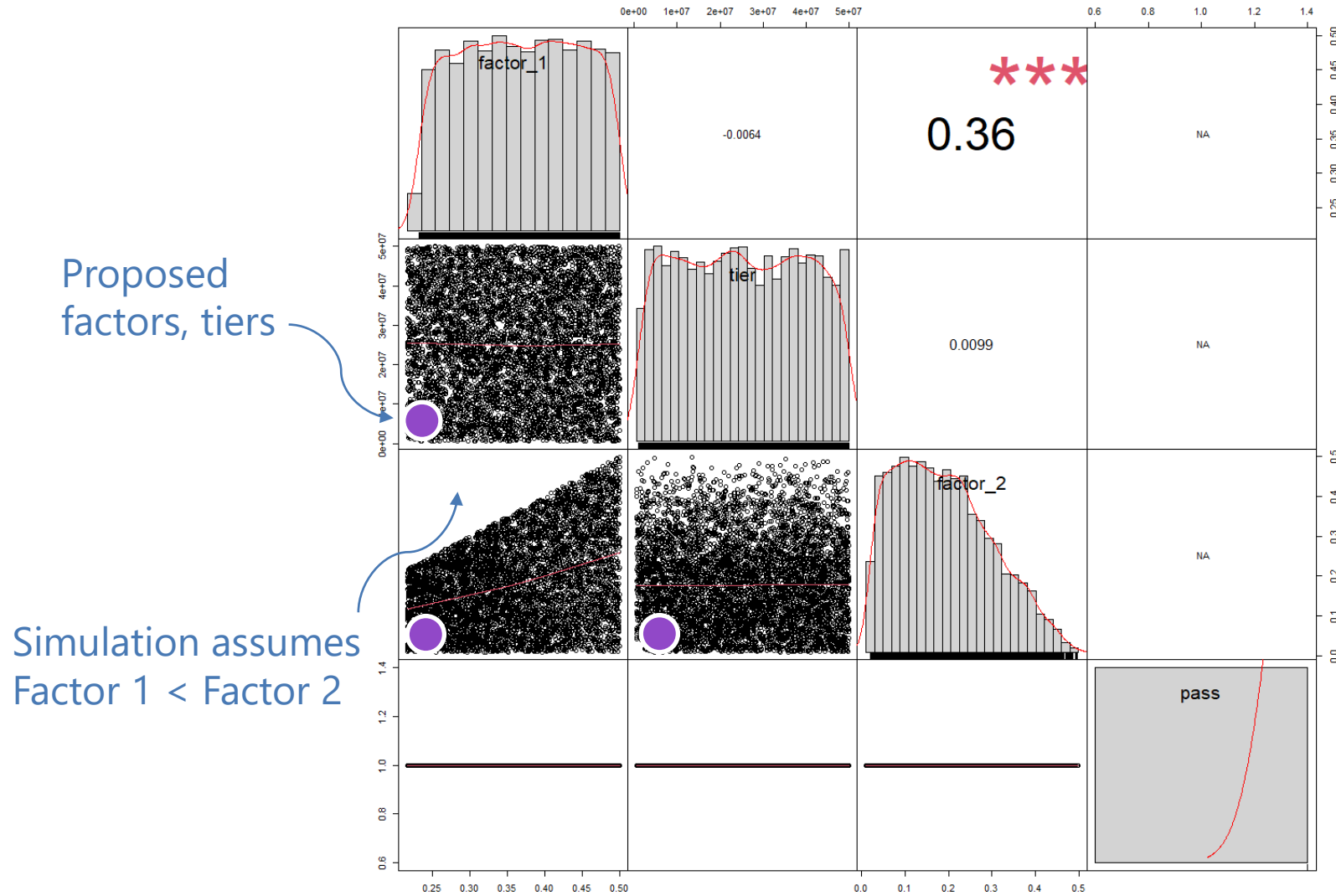
# First Proposed Tier Factors

- Which combinations of factors and tier cutoffs work?
- Monte Carlo simulation

# First Proposed Tier Factors

- Goal of percent of companies meeting Collection Ratios  $\geq 100\%$ 
  - 90%–100% for Rx HCR
  - 90%–100% for Non-Rx HCR
    - For 10 or more of the 15 size and line combinations (3x sizes by 5x Non-Rx HCR types)
    - Acknowledge variance in reporting accuracy (more on this later)
- Many combinations of factors and tier cutoffs work
  - There's flexibility in the final factors and tier cutoff
  - Each black dot on the next charts is a possible solution

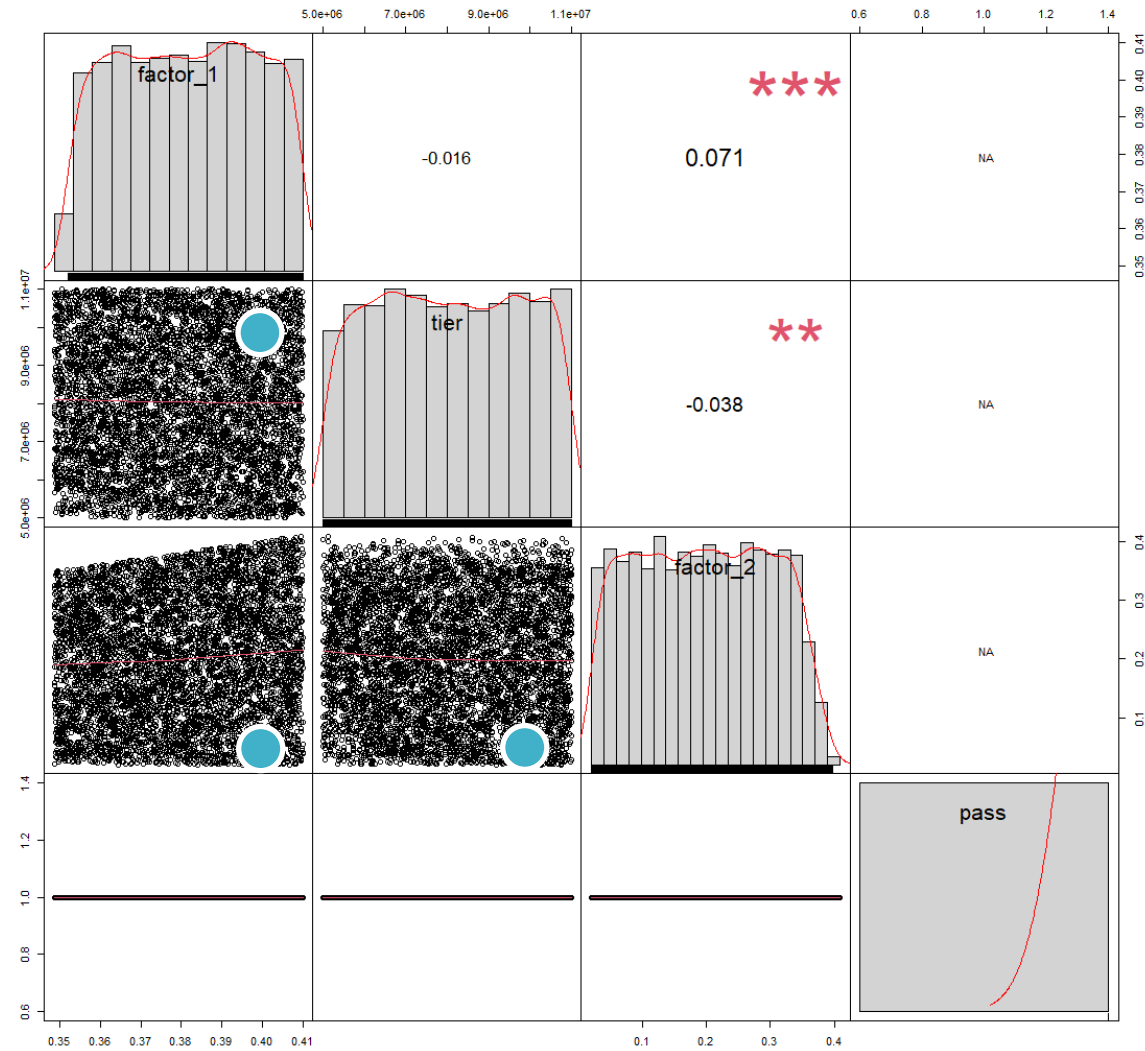
# Proposed Factors and Tiers (Rx Rebate HCR)



Proposed factors, tiers

Simulation assumes Factor 1 < Factor 2

# Proposed Factors and Tiers (Non-Rx Rebates HCR)





# Limitations and Considerations

- Recommendation subject to approval and comment
- Reporting Accuracy
  - Parity between prior year Exhibit 3 and current year Exhibit 3A
    - A company may establish a prior HCR but collect on it in a way not reported in Exhibit 3A
- HCR Size
  - Many combinations of tiers and tier cutoffs
    - Smaller tier threshold, higher factor
  - Proposed factors will have variable impacts on companies

# Surplus Component Change in H3 (Proposal)

- 2022 Data

HCR Type	Co. with an <i>Increased</i> H3 Surplus (+)	Co. with a <i>Decreased</i> H3 Surplus (-)	Avg. Relative Change in H3 Surplus (+)	Avg. Relative Change in H3 Surplus (-)	Largest Magnitude Relative Change (+)	Largest Magnitude Relative Change (-)
<b>Rx Rebate HCR</b>	89%	11%	+240%	-19%	+300%	-39%
<b>Non-Rx Rebates HCR</b>	91%	9%	+105%	-14%	+111%	-69%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

# Surplus Component Change in H3

- Rx Rebate HCR (2022)

Rx Rebate HCR (Millions)	H3 Surplus <i>Before Proposal</i>	H3 Surplus <i>After Proposal</i>	Difference
<b>If an Increase (+)</b>	\$188	\$385	+\$197
<b>If a Decrease (-)</b>	\$780	\$535	-\$245
<b>Total</b>	\$968	\$920	-\$48

# Surplus Component Change in H3

- Non-Rx Rebate HCR (2022)

Non-Rx Rebate HCR (Millions)	H3 Surplus <i>Before</i> Proposal	H3 Surplus <i>After</i> Proposal	Difference
<b>If an Increase (+)</b>	\$326	\$551	+\$225
<b>If a Decrease (-)</b>	\$630	\$329	-\$301
<b>Total</b>	\$956	\$880	-\$76

# Appendix A: Exhibit 3, Exhibit 3A Examples

## EXHIBIT 3 – HEALTH CARE RECEIVABLES

ANNUAL STATEMENT FOR THE YEAR 2013

1 Name of Debtor	2 1 – 30 Days	3 31 – 60 Days	4 61 – 90 Days	5 Over 90 Days	6 Non-admitted	7 Admitted
Pharmaceutical rebate receivables Claim overpayment receivables Loans and advances to providers Capitation arrangement receivables Risk sharing receivables Other receivables						
Gross health care receivables					R6	R7

## EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5 Health Care Receivables in Prior Years (Columns 1 + 3)	6 Estimated Health Care Receivables Accrued as of December 31 of Prior Year
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year		
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)						A6 = Prior Yr(R6+R7)

# Questions?

# Thank You

For more information, please contact

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