



AMERICAN ACADEMY *of* ACTUARIES

TO: Lou Felice, Chairperson, NAIC HORBC Working Group
FROM: Alan Ford, Chairperson, AAA Task Force on HORBC
DATE: January 10, 2001
SUBJECT: Proposed Changes to 2001 Health RBC Property & Equipment Page

On January 5, 2001, NAIC staff exposed for comment a proposed change to the Property & Equipment page (MR009) of the 2001 Health RBC formula.

You will recall that the Academy, in its December 2000 report to the HORBC Working Group, recommended that the risk factor applied against certain health care delivery assets (HCDAs) should be reduced from the current level of 10%, as a consequence of the adoption of codification.

The proposed modification to the Property & Equipment page eliminates the distinctions between HCDAs and other property & equipment assets. Thus, if the proposal were accepted, then it would be impossible to lower the HCDA risk factor without making a further structural change to this formula page. In particular, the NAIC would no longer have the ability to lower the risk factor for 2001 if it so desired.

We would like to put forward a counterproposal regarding the redesign of the Property & Equipment page. Like the staff proposal, our counterproposal achieves the objectives of attaining compliance with the new Health blank and reducing the amount of data collected. However, our counterproposal would leave your working group with the flexibility to make a change to the HCDA risk factor in 2001, unlike the staff proposal. Similarly, our counterproposal would forestall the need for further formula changes if your working group decided to leave the HCDA risk factor as is for 2001 but reduce it in future years.

Our recommended modification to the Property & Equipment page is attached, with boldface denoting differences between the staff proposal and our counterproposal.

Thank you for the opportunity to comment on the proposal. We trust that our comments will be useful to you, and will be taken into consideration.

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2001 Health Risk-Based Capital Formula
Page MR009
AAA Counterproposal
January 12, 2001

boldface denotes differences from NAIC staff proposal (January 5, 2001)

PROPERTY & EQUIPMENT ASSETS

	Annual Statement Source	Statement Value	Factor	RBC Requirement
(1) Properties occupied by the company				
(1.1) Portion used for health care delivery	Company Records		0.100	
(1.2) Portion not used for health care delivery	Company Records		0.100	
(2) Properties held of the production of income	Page 2, Col 3, Line 4.2		0.100	
(3) Properties held for sale	Page 2, Col 3, Line 4.3		0.100	
(4) Furniture and equipment				
(4.1) Portion used for health care delivery	Company Records		0.100	
(4.2) Portion not used for health care delivery	Company Records		0.100	
(5) EDP equipment and software	Page 2, Col 3, Line 20		0.100	
(6) Total Property and Equipment	L(1.1)+L(1.2)+L(2)+L(3)+L(4.1)+L(4.2)+L(5)			

NOTE.

Crosschecks will need to be implemented to ensure that:

$$L(1.1) + L(1.2) = \text{Page 2, Col 3, Line 4.1}$$

$$L(4.1) + L(4.2) = \text{Page 2, Col 3, Line 17}$$