Draft date: 6/13/25

Virtual Meeting

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Friday, June 20, 2025
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Steve Drutz, Chair	Washington	John Rehagen/ Danielle Smith	Missouri
Matthew Richard, Vice Chair	Texas		
Wanchin Chou	Connecticut	Margaret Garrison	Nebraska
Kyle Collins	Florida	Michel Laverdiere	New York
Tish Becker	Kansas	Diana Sherman	Pennsylvania

NAIC Support Staff: Derek Noe/Maggie Chang

AGENDA

1. Consider Adoption of its April 30 and Spring National Meeting Minutes — Attachment 1, Attachment 2
   —*Steve Drutz (WA)*
2. Discuss 2024 Health Risk-Based Capital (RBC) Statistics — Attachment 3
   —*Steve Drutz (WA)*
3. Discuss Any Other Matters Brought Before the Working Group
   —*Steve Drutz (WA)*
4. Adjournment

Draft: 5/21/25

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 30, 2025

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 30, 2025. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker represented by Chut Tee (KS); Danielle Smith (MO); and Margaret Garrison (NE).

1. Discussed the Referral Regarding INT 24-01

Drutz said the first agenda item was to discuss the exposed referral regarding *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*. The referral gave the Working Group notice of an industry comment concerning the moving of some debt investments to Schedule BA as capital notes. The referral was exposed for a 30-day comment period that ended April 23. The Working Group received a comment letter from AHIP. Drutz asked if AHIP would like to address the comment.

Ray Nelson (AHIP) said that AHIP supported the comment from the referral and would support the Working Group taking up the issue to align the health risk-based capital (RBC) treatment of capital notes with the life RBC treatment, which would allow the health companies to use ratings for capital notes.

Drutz said that the RBC procedures would not allow change for 2025, but the Working Group would continue to monitor the capital notes' impact on 2025 filings and review the topic in 2026. Drutz asked if this would address AHIP's comment, and Nelson said it would. Drutz asked NAIC staff to add the capital notes review to the working agenda.

2. Discussed the Referral Regarding INT 24-02

Drutz said the next agenda item was to discuss the exposed referral regarding *INT 24-02: Medicare Part D Prescription Payment Plan*. The referral gave the Working Group notice of statutory accounting guidance for the new Medicare prescription payment plans that went into effect in 2025. The referral was exposed for a 30-day comment period that ended April 23. The Working Group received a joint comment letter from AHIP and the Blue Cross Blue Shield Association (BCBSA). Drutz asked if AHIP or the BCBSA would like to address the comment.

Carl Labus (BCBSA) said the joint comment letter responded to many exposures related to the Medicare Part D prescription payment plans. Labus said that for the health RBC exposure, the comment letter recommends deferring Working Group action until the materiality of the plans can be determined. He said that currently, the payment plans are part of the other healthcare receivables and already receive a risk charge.

Drutz said that the Blanks (E) Working Group's current exposure includes the Medicare Part D prescription payment plans in a note for annual reporting, which can be used to determine materiality and whether future modifications need to be made. Drutz asked Kevin Russell (American Academy of Actuaries—Academy) if this approach would work for the Academy. Russell said it would and added that if a dedicated line in Exhibit 3A is needed in the future, a new line could be added or an existing line could be repurposed. He said that capitations could be a good candidate for repurposing, as they represent about 1% of the value reported on Exhibit 3A.

3. Referred Proposal 2025-03-CA to the Capital Adequacy (E) Task Force

Drutz said the next agenda item was to consider referring proposal 2025-03-CA (UW Risk Factors – Investment Income Adjustment) to the Capital Adequacy (E) Task Force for exposure. This proposal aims to update the underwriting risk factors for the annual investment income adjustment for the Comprehensive Medical, Medicare Supplement and Dental & Vision factors. The Working Group initially exposed this proposal for a 30-day comment period that ended April 23. The Working Group received one comment from AHIP. Drutz asked if AHIP would like to address the comment.

Nelson said AHIP's comment was supportive of moving the proposal forward as it was in line with the update methodology developed by the Working Group and the Academy.

Drutz said that the proposal would need to be referred to the Capital Adequacy (E) Task Force for exposure for all lines of business. Hearing no objections, the proposal was referred.

4. Exposed the Academy's H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health RBC Formula Report

Drutz said the next item was to receive and consider exposure of the Academy's report on the H2—Underwriting Risk Component and Managed Care Credit Calculation. He asked if the Academy would like to address the report.

Steve Guzski (Academy) said that the report contains material updates since the presentation at the Spring National Meeting. The first change is that a long-term care insurance (LTCI) group is being formed at the Academy, and experts from both the health and life academies will work with the Working Group to create a timeline for factor development. He also said the Academy determined that the underwriting risk factors should be updated every five years.

Drutz asked if the Academy could talk about the investment income update for the underwriting factors going forward and what investment rate was utilized in the creation of the factors. Derek Skoog (Academy) said that the Academy's current plan is to update the investment income during the five-year underwriting risk factor review process. Drutz asked if the factors in the report were developed using a specific investment yield. Skoog said that a specific investment yield was used, but he would need to review the model to remember the yield used. Drutz asked if it would be possible to update the investment income annually while maintaining the current investment income update process. Skoog said that the current annual update process could be maintained since the new yield is all that is needed to update the models if the Working Group preferred the current process.

Drutz asked if the Academy had a timeline and process in mind to change the factors to incorporate company-specific experience. Skoog said there is a lot of complexity involved in using company-specific factors. He said the property/casualty (P/C) Academy members have implemented company experience, and the health Academy members would need to study what thresholds are needed for company experience and the duration of risk.

Drutz asked if the historic underwriting risk factors were developed at the 95% confidence level. Skoog and Guzski agreed that the original factors were developed at the 95% confidence interval. Guzski said the original factors were modeled over the medium term, with a three-to-five-year time horizon, and the factors in the report presented were developed at both the 87.5% and 95% confidence intervals, with factors for one, three, and five-year time horizons using 10 years of data. Skoog said the differences in data, model development, and time horizons make direct comparison between the current factors and proposed factors difficult due to the different base data.

Drutz asked if Skoog or Guzski would be part of the Academy's LTCI group once formed. Skoog said that he and Guzski may be involved in a supporting role, but would likely not lead the group to allow the Academy's LTCI experts to lead the group.

Drutz asked if NAIC staff were planning to complete analyses of the impact on the RBC reported results if the structures and factors proposed by the Academy were used. NAIC staff affirmed the plan.

Chou asked about the Academy's plan to approach LTCI. Skoog said he did not speak for the ultimate LTCI group, but the group would have to take a different approach to study LTCI, which is why it was not included in the H2 factor work.

Drutz asked if NAIC staff were working on Exhibit 7 to address the report's recommendation. Derek Noe (NAIC) said that staff were developing a proposal.

The Working Group agreed to expose the report for a 60-day comment period ending June 29.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/ …

Draft Pending Adoption

Attachment Two
Capital Adequacy (E) Task Force
3/25/25

Draft: 3/30/25

Health Risk-Based Capital (E) Working Group
Indianapolis, Indiana
March 24, 2025

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Indianapolis, IN, March 24, 2025. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair and Rachel Hemphill (TX); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker (KS); Danielle Smith, Shannon Schmoeger, and William Leung (MO); Margaret Garrison and Michael Muldoon (NE); and Diana Sherman (PA). Also participating were: Sanjeev Chaudhuri (AL); Tom Botsko (OH); and Andy Schallhorn (OK).

1. Adopted its July 25, 2024, Minutes

Drutz said the Working Group met July 25, 2024. During its meeting, the Working Group took the following action: 1) adopted its June 24, 2024; June 6, 2024; and April 16, 2024, minutes; 2) adopted the 2024 health risk-based capital (RBC) newsletter; 3) adopted the 2023 health RBC statistics; 4) received an update from the American Academy of Actuaries (Academy) on the H2 underwriting review; 5) forwarded a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group; and 6) adopted its working agenda.

Chou made a motion, seconded by Sherman, to adopt the Working Group's July 25, 2024, minutes (Attachment Two-A). The motion passed unanimously.

2. Received Referral Letters from the Statutory Accounting Principles (E) Working Group

Julie Gann (NAIC) said the referral of the comment on *Interpretation (INT) 24-01 Principles-Based Bond Definition Implementation Questions and Answers* was referred to the Health Risk-Based Capital (E) Working Group and the Property and Casualty Risk-Based Capital (E) Working Group. Gann said the referral was related to non-bond debt securities, as well as capital/surplus notes reported on Schedule BA. Currently, life entities have the ability to adjust the risk charge for some assets reported on Schedule BA if they have NAIC designations, specifically Securities Valuation Office (SVO)-assigned designations for non-bond debt securities and NAIC designations in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) for capital/surplus notes, but such treatment is not available for health RBC and property/casualty (P/C) RBC filers. The industry inquired about the potential to align the RBC treatments across types of businesses, and its comment letter was appended to the referral letter.

Gann said the referral for *INT-24-02 Medicare Part D Prescription Payment Plan* was a notice referral that informs the Working Group of the Statutory Accounting Principles (E) Working Group's development of guidance for the prescription payment program that went into effect Jan. 1, 2025. She said the interpretation was exposed, and the Statutory Accounting Principles (E) Working Group had received and incorporated comments from the industry and that adoption was planned for the Statutory Accounting Principles (E) Working Group meeting later that day.

Drutz said the referrals informed the Working Group on areas that may need further deliberations, such as modifications to the RBC structure due to changes in accounting treatment of non-bond debt securities and other receivables resulting from the Medicare Part D prescription payment plans. He asked for interested regulators and interested parties to provide comments on the referred items.

The Working Group agreed to expose the referrals for a 30-day public comment period ending April 23.

3. Exposed Proposal 2025-03-CA

Drutz said proposal 2025-03-CA is related to the investment income adjustment in the underwriting risk factors for the comprehensive medical, Medicare supplement, and dental and vision underwriting factors. The investment yield for the six-month U.S. Department of the Treasury (Treasury Department) bond in January ranged from 4.24% to 4.3%, which is included in the proposal. Drutz said that based on the guidance adopted in 2022, any adjustments will be rounded up to the nearest 0.5%, so a 4.5% adjustment was utilized in the factors.

Drutz reminded participants that this proposal would affect all lines of business and suggested that the Working Group expose it first and then refer it to the Capital Adequacy (E) Task Force to re-expose for all lines of business.

The Working Group agreed to expose proposal 2025-03-CA for a 30-day public comment period ending April 23.

4. Heard a Presentation from the Academy on the H2—Underwriting Risk Report

Steve Guzski (Academy) said that on April 23, 2021, the Working Group requested the Academy perform a review of the H2—Underwriting Risk factors and managed care credit (MCC) components of the health RBC formula, which had not had a comprehensive review since the health RBC inception. He said there were six areas of focus for the Academy, and five were developed in the three work tracks. Track 1 was the HRBC XR013/XR014 redesign. Track 2 was developing tiered RBC factors, and track 3 was the HRBC XR018/XR019 redesign. The areas developed were: 1) refreshing underwriting factors with updated insurer data; 2) developing factors at an increased granularity; 3) developing the factors to more relevant block sizes; 4) modeling the risk factors over defined time horizons and safety levels; and 5) refresh the MCC formula and factors to reflect current industry practices. (Attachment Two-B) The area of focus that was not developed was the analysis of long-term care insurance (LTCI) underwriting performance, which the Academy suggests referring to the Life Risk-Based Capital (E) Working Group given the prevalence of LTCI among life RBC filers. The Academy also deferred the adoption of any or all the results presented in the report to the Working Group.

Guzski said that the track 1 redesign included aligning the columns on pages XR013 and XR014 with the annual statement, page 7 “Analysis of Operations.” This includes separating Comprehensive Major Medical into Commercial Individual, Commercial Group, Medicare, and Medicaid. The Academy also recommends future improvements to utilize company-specific claims and expense ratios in the risk calculation. This refinement aligns with the structure of the P/C RBC risk calculation.

Guzski said that for developing the track 2 tiered risk factors, the Academy used 10 years of reporting data from the health annual statement and health RBC files. The factors were created at various safety levels and time horizons with a premium tier cut-off increase to remain consistent with industry trends and growth in the health economy. He also said that the provider relationships used in track 3 MCC redesign had changed over time and that Exhibit 7, Part 1, “Summary of Transactions with Providers,” would need to be expanded to gather more information on emerging provider contracting approaches. The Academy plans to study data gathered from the expanded Exhibit 7 to develop a revised MCC methodology. He also discussed next steps, including recommending a five-year review cycle and an analysis of the impact of the recommended changes on a line-of-business and company level.

Chou asked if the Academy had considered the recent administrative changes to Medicaid in the study of the historical data used to develop the factors. Guzski said that the historical data did not include the recent administrative changes and the recommended five-year review cycle would allow for the Academy to capture the effects of regulatory changes, including the Medicaid changes, as they appear in the data.

Drutz asked if there would be a problem if the Academy took on the LTCI topic and then reported the findings to the Health Risk-Based Capital (E) Working Group. Drutz said that since the Life Risk-Based Capital (E) Working Group has a full agenda, the Health Risk-Based Capital (E) Working Group should consider keeping the LTCI topic and inform the Capital Adequacy (E) Task Force when the analysis is complete. Guzski said that the Academy originally wanted to refer the LTCI topic to the Life Risk-Based Capital (E) Working Group to incorporate subject matter experts (SMEs) for the LTCI topic but is open to facilitating the work.

Drutz asked Guzski to expand on how the future factors for track 1 would be developed to be consistent with the structure of the P/C RBC risk calculation and how the company-specific loss data and the claims and expense ratio would be utilized. Guzski said that the proposal for factors to be in loss ratio and combined ratio terms would align the health RBC with the P/C RBC. Guski said that it would allow the Academy to consider the company-specific experience risk charges during the development of factors during the review cycle, as it is incorporated into the data. Drutz asked if the Academy's current proposal was developed based on aggregate data, with a separate proposal planned later to incorporate company-specific data to further refine the methodology. Guzski agreed. He said the P/C RBC formula is in the process of refining its underwriting risk factor methodology and this proposed timeline will allow the health formula to leverage on that work and make alignments among formulas.

Drutz asked if there are any specific outcomes that differ significantly from the risk charges currently incorporated. Guzski called out the most significant change being the proposed factor for Medicaid business. Instead of using factors broken out by premium tiers, a single factor is proposed. This is driven by the Academy's analysis of the data and the distribution of the entities. The current investment income adjustment remains in place and will be an overlay to the factors proposed.

Drutz asked if the MCC remained unchanged while data was being gathered. Guzski said that the proposal is to take in new data with the adjustments to Exhibit 7, Part 1, so that the Academy can perform an empirical analysis to make changes to MCC credit.

Leung asked what information the Academy is planning to use to develop a new set of underwriting risk factors for LTCI and whether the pricing changes over time will be captured in the factors. From his rate increase filing review experience, explicit underwriting experience was not available to him. Guzski said the scope of the report was major commercial comprehensive medical, and therefore, he would need to take the question back to the Academy to discuss what would be required to update the LTCI factors.

Muldoon asked whether the future proposal that uses company-specific loss ratios and claim experience would reflect the most recent filing year's result. He also asked whether the proposal would contemplate adjustment to ensure premium deficiency reserve (PDR) is properly stated without distorting the RBC calculation. Guzski said the Academy corroborated with the P/C Academy group to learn how the P/C formula incorporates company experience and how outliers are handled in the risk charge. Guzski also said PDR would continue to be looked at holistically and consider the data as collected and available.

Draft Pending Adoption

5. Discussed Other Matters

Drutz said that the Working Group plans to meet in late April to receive and discuss the Academy's proposal.

NAIC staff said that they were working with the Academy on a proposal for the Blanks (E) Working Group to address the Exhibit 7, Part 1, expansion, which is anticipated to be exposed in the near future.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-Spring/HRBC/SpNM Minutes_HRBC.docx

Aggregated Health Risk-Based Capital Data
2024 Data as of 6/3/2025

	2024	2023	2022	2021	2020	2020	2019	2019
	Health RBC	Health RBC	Health RBC	Health RBC	Health RBC Excluding ACA Fees	Health RBC	Health RBC Excluding ACA Fees	Health RBC
Companies that have an RBC loaded on the database	1143	1146	1143	1095	1067	1067	1,012	1,012
Companies with action levels excluding CAL-Trend Test:	21	16	28	12	15	15	31	15
Percentage of total RBC's loaded	1.84%	1.40%	2.45%	1.10%	1.41%	1.41%	3.06%	1.48%
Company Action Level - Trend Test	18	5	13	15	12	12	27	14
Company Action Level	8	4	6	5	4	4	14	3
Regulatory Action Level	2	4	10	2	3	3	5	3
Authorized Control Level	7	3	0	2	2	2	3	2
Mandatory Control Level	4	5	12	3	6	6	9	7
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	6,664,812,697	6,173,504,244	6,291,267,994	6,077,847,595	5,192,392,682	5,192,392,682	4,782,424,393	4,782,424,393
Total H1 (H1 - Asset Risk - Other)	15,296,110,720	15,575,455,266	14,838,262,774	15,015,094,709	11,292,103,225	11,292,103,225	9,743,938,557	9,743,938,557
Total H2 (H2 - Underwriting Risk)	65,691,287,678	60,486,797,414	58,513,470,158	52,350,782,384	45,819,164,666	45,819,164,666	44,037,638,071	44,037,638,071
Total H3 (H3 - Credit Risk)	7,057,569,411	6,586,546,767	5,526,140,601	4,762,549,718	4,199,732,859	4,199,732,859	3,626,933,231	3,626,933,231
Total H4 (H4 - Business Risk)	9,720,659,424	9,128,612,495	8,609,609,597	7,882,405,838	7,481,764,896	7,481,764,896	6,571,143,274	6,571,143,274
Total RBC Before Covariance	104,430,439,930	97,950,916,186	93,778,751,124	86,088,680,244	73,985,158,328	73,985,158,328	68,762,077,526	68,762,077,526
Net Basic Operational Risk	2,364,481,422	2,197,013,488						
Total Adjusted Capital	238,880,653,855	235,574,847,325	220,326,411,094	211,045,740,619	193,852,790,008	193,859,548,232	160,266,143,771	171,305,834,767
ACA Fees					6,758,224		11,039,690,995	
Authorized Control Level RBC *	40,584,351,341	37,756,237,282	36,522,419,595	33,256,637,840	28,853,148,695	28,853,148,695	27,216,649,996	27,216,654,287
Aggregate RBC %	589%	624%	603%	635%	672%	672%	548%	629%
Median RBC %	648%	643%	628%	633%	706%	707%	640%	672%
# of Companies with an RBC Ratio of > 10,000%	134	143	148	121	143	143	156	156
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	265	262	232	243	259	259	202	215
# of Companies with an RBC Ratio of < 1,000% & > 500%	308	327	333	356	320	320	257	282
# of Companies with an RBC Ratio of < 500% & > 300%	364	363	341	301	278	278	267	285
# of Companies with an RBC Ratio of < 300% & > 250%	27	16	35	32	N/A	N/A	N/A	N/A
# of Companies with an RBC Ratio of < 250% & > 200%	24	19	25	28	N/A	N/A	N/A	N/A
# of Companies with an RBC Ratio of < 300% & > 200%	N/A	N/A	N/A	N/A	52	52	99	59
# of Companies with an RBC Ratio of < 200% & <> 0%	19	16	28	12	14	14	31	15
# of Companies with an RBC Ratio of Zero	2	0	1	2	1	1	0	0
Total Companies with RBC	1,143	1,146	1,143	1,095	1,067	1,067	1,012	1,012
Total Revenue	1,161,250,484,760	1,086,198,599,716	998,270,459,614	888,638,436,244	806,712,759,846	806,712,759,846	731,800,228,651	731,800,228,651
Underwriting Deductions	1,162,830,527,950	1,067,113,764,391	973,220,456,829	873,483,482,222	774,563,533,665	774,563,533,665	715,077,656,883	715,077,656,883
Aggregate Premium	340,088,219,385	309,397,623,307	285,669,735,439	278,391,052,611	277,819,028,596	277,819,028,596	268,818,431,635	268,818,431,635
Aggregate Net Incurred Claims	975,056,294,889	885,831,331,032	806,428,955,513	721,841,094,774	622,491,724,778	622,491,724,778	585,439,850,066	585,439,850,066

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Source: NAIC Financial Data Repository