

# 2014 Opinions Revisited

## Health Insurance Concurrent Session

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# Presentation Topics

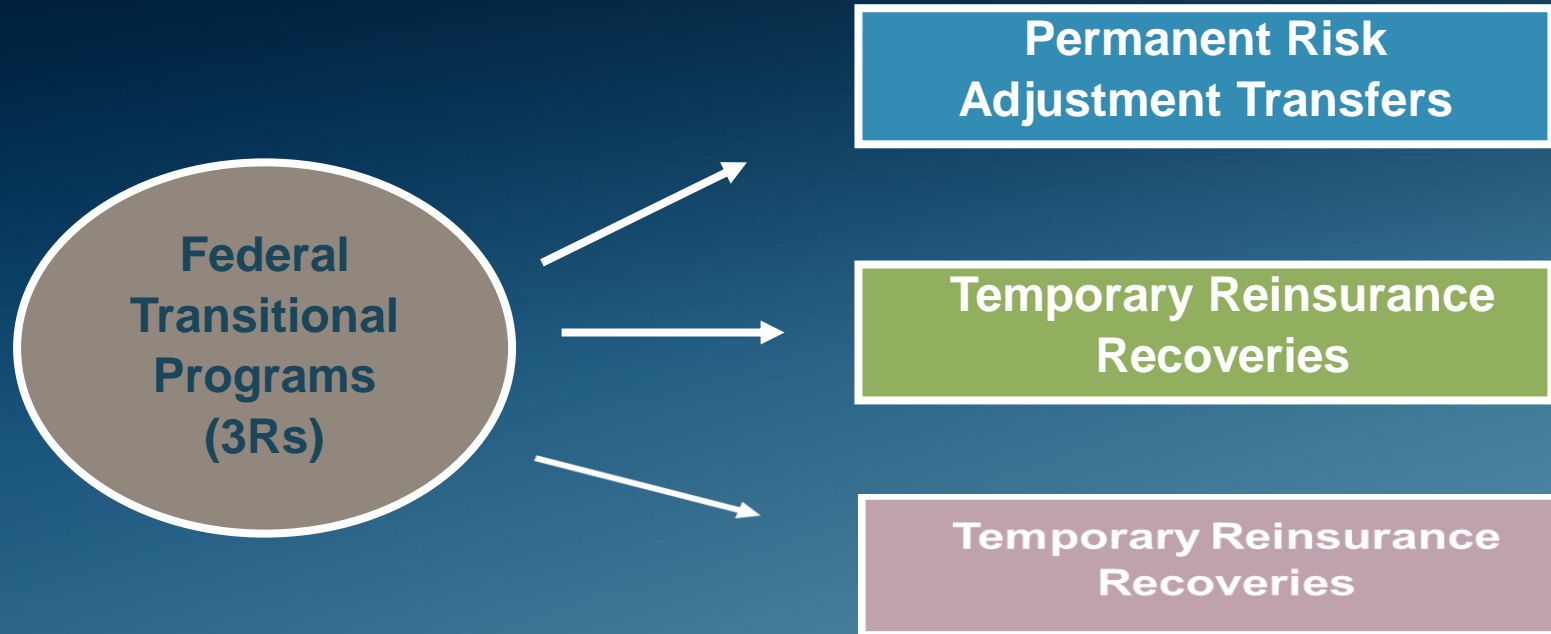
- “New” Accruals
- Impact on “Old” Accruals
- To Qualify or Not Qualify...that is the Question
- Preparing for 2015 Opinions – Any Different?
- Questions?

# New Health Accruals

- Several New Health Accruals in 2014
- Difficult estimation due to lack of data and/or methods.



# New Health Accruals



# New Health Accruals – 3Rs

- Risk Adjustment
  - Most difficult to determine
  - Don't have information regarding the state average information
  - Choices for Appointed Actuary
    - Estimate \$0
    - Estimate a non-zero value
    - Don't provide estimate and qualify opinion

# New Health Accruals – 3Rs

- Risk Adjustment
  - Methods used to approximate
    - ASPE data for state mix as compared to carrier mix
    - Simulation Study (Auditors typically required further testing)
    - Utilize claims and demographic information known pre vs post ACA
  - Not 100% clear where to report in Orange/Blue Blank
    - May have varied by carrier
    - Different places for receivable versus payable

# New Health Accruals – 3Rs

- Reinsurance

- Easier to determine since known (or so we thought) attachment points and parameters
- Some may have assumed the potential change in parameters and held this amount instead of what was codified
- What about reinsurance IBNR?
  - Typically haven't completed reinsurance claims previously
- Split in reporting for “known” versus estimated amount
  - Known = Asset
  - Estimated = Offset to claims liability

# New Health Accruals – 3Rs

- Risk Corridor
  - Calculation is known
  - However, not all input items may be known
    - Watch the duplication of margin
  - Deciding on collectability was difficult
    - Is collectability an actuarial item?
  - Still an issue due to partial payout
  - Admitted Asset or Non-Admitted Asset or both
  - Not 100% clear where to report



# Impact on “Old” Accruals

- MLR Rebates
  - Calculation changed to include the 3Rs
  - 3R estimates used, even if didn’t book them
  - However, not all input items may be fully known
    - Watch the duplication of margin
- CSR & Premium Subsidies
- Adjustments to Claim Lags
- Premium Deficiency Reserves

# New Health Accruals – Other Issues

- Margin...On Assets Too?
- Asset Adequacy
  - Important to watch cash flows
  - Timing of 3R payouts
- What type of Opinion to Issue?



# The 2014 (+?) Dilemma

The 3Rs added a major level of uncertainty to the year end reserves:

1. How do I know my companies risk relative to market or my state doesn't seem to be able to produce and accurate risk simulation
2. Risk Corridors are not funded or the feds really haven't released clear instructions on calculating
3. I could be mistaken but they keep changing the reinsurance levels

In addition we have 2015 rates which were set before any ACA experience available

# What are my 4 options to sign the opinion?



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## 4. Inconclusive Opinion

- Deficiencies in data, analysis, assumption or related information

# What are my 4 options to sign the opinion?

## 3. Adverse

- Reserves and liabilities are not good and sufficient
- May have regulatory repercussions

# What are my 4 options to sign the opinion?

## 2. Qualified

- All liabilities except for defined components make a good & sufficient provision
- Not necessary if amounts are immaterial

# What are my 4 options to sign the opinion?

## 1. Unqualified

- All liabilities make a good & sufficient provision
- Most opinions are unqualified
- Prior to 2014, had more negative view



# How Did Rachel Decide What to Do?

- Took an overall view of all liabilities and receivables
- Viewed risk adjustment as the most uncertain calculation
- Many interactions between the 3R calculations
- Review margin levels of all major reserves
- Ran sensitivity tests on the 3R to see how it impacted the total set of major reserves when viewed collectively



# What Did you Do?



# So What About 2015?

- Somewhat the same situation
- More things known?
  - 2014 Risk Adjustment may or may not make things easier for 2015
  - 2015 Reinsurance parameters could change
  - Now what to do about risk corridors?
- Probably a little better but not completely status quo

# Questions