



Current GAAP Issues: Health

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Overview

- GAAP Reporting by Health Insurers
- Financial Crisis Impact
- IFRS
- Discussion of PPACA Impacts
- GAAP PDRs
- Health Insurance Reserve Practice Note

GAAP Reporting by Health Insurers

- Who Practices GAAP? – Defining the Audience
- GAAP Reporting in a Health Insurer
- GAAP Reserves
- Premium Deficiency Reserves
- EITF 09-G and DAC

EITF 09-G for Health Insurers

- “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (from Julie’s slides)
- Existing guidance on deferrals:
 - “Costs that vary with and are primarily related to the acquisition of insurance contracts”
- Proposed guidance on deferrals:
 - “Incremental direct costs of contract acquisition”
 - Costs directly related to issue, underwriting, medical and inspection, contract selling.

EITF 09-G for Health Insurers

- Expenses which cannot be deferred: (from Julie's slide)
 - Unsuccessful acquisition or renewal efforts
 - Internal costs for issue and u/w that are not employee compensation or payroll-related fringe benefits
 - Market research
 - Training
 - Administration
 - Product Development
 - Costs of soliciting potential customers?

EITF 09-G for Health Insurers

- Deferral of advertising costs (from Julie's slide)
 - Not deferred as part of DAC
 - Follow GAAP guidance for advertising:
 - Topic 720, Other Expenses
 - Subtopic 340-20 (SOP 93-7), Other Assets and Deferred Costs – Capitalized Advertising Costs
 - Capitalize direct-response advertising if it creates “probable future economic benefit” and aims to generate sales

Financial Crisis: Impact on Health Insurers

- Impact on Assets
- Rates of Return
- Credit Worthiness
- Valuation Reporting

IFRS and Health Insurers

- Insurance Contracts
- Capitalized Assets (DAC)
- Risk Margin
- Solvency

GAAP Impacts Resulting from the PPACA

- Health Care Reform
- New Rules – Impact on Persistency
- Minimum Medical Loss Ratio (MLR)
- Reinsurance Costs
- Granularity

GAAP PDR

- Premium Deficiency Reserve
- AAA Discussion Paper – March 2007
- GAAP vs Statutory - Granularity
- Contract Grouping – PPACA Impact

Health Insurance Reserve Practice Note - Draft

- "...a description of practices the work group considers to be commonly employed by U.S. health actuaries.
- "...to assist actuaries who are required to prepare financial statements by providing examples of some of the common approaches to this work.
- "However, we make no representation of completeness;...
- "... the information contained in this practice note provides guidance, but is not a definitive statement of what constitutes generally accepted practice in this area.
- This practice note has not been promulgated by the Actuarial Standards Board, nor is it binding on any actuary.

Health Insurance Reserve Practice Note - Draft

- GAAP guidance historically resided within Statement of Financial Accounting Standards No. 60 (FAS 60), *Accounting and Reporting by Insurance Enterprises*.
- After the Codification of GAAP in July 2009, the guidance formerly in FAS 60 is now found within Topic 944, *Financial Services—Insurance*.
- Health maintenance organizations (HMOs) and hospital medical service organizations (traditional not-for-profit health organizations including many Blue Cross and Blue Shield plans and Delta Dental plans) guidance comes from ASC 954 ("Health Care Entities").

Health Insurance Reserve Practice Note - Draft

- Question 2. What is the main GAAP and SAP guidance on contract reserves, and how does that guidance differ between the two bases of accounting?
- Question 4. How do you determine appropriate SAP or GAAP contract reserve assumptions?
- Question 5. What methods are used for contract reserves for SAP versus GAAP?
- Question 7. When can you unlock GAAP assumptions?
- Question 8. How do you unlock GAAP assumptions when you have a premium deficiency?

Health Insurance Reserve Practice Note - Draft

- Question 11. How is GAAP loss recognition testing different from GAAP DAC recoverability testing?
- Question 12. How is GAAP recoverability testing and loss recognition testing performed?
- Question 14. On a GAAP basis, how do you determine if you have profits followed by losses?
- Question 15. If you have profits followed by losses on a GAAP basis, how do you establish a “loss reserve”?
- Question 17. How do unamortized deferred acquisition costs (DAC) relate to contract reserves?

Wrap Up



Volunteers?

Health Practice Financial Reporting Committee
IFRS Task Force
Life Practice Council

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