



SEAC Spring Meeting
Key West
June 23, 2005

Annual Statement Topics for Health Plans

Presented by:
Laurel Kastrup, Manager
KPMG LLP

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Agenda

- Deficiency Reserves
- RBC
- LAE
- Opinion
- Claim Reserves
- Other



Deficiency Reserves

- NAIC *Health Reserves Guidance Manual* provides guidance on Premium Deficiency Reserves
- NAIC Accident & Health Working Group was examining Premium Deficiency Reserves. This project was suspended in May.

Deficiency Reserves— Definition

- There are essentially two statutory requirements that get confused:
 - The requirement expressed in Statement of Statutory Accounting Principles No. 54, paragraph 18, which is commonly referred to as a “premium deficiency reserve” or “PDR” requirement.
 - Smaller groupings and shorter time frames
 - The requirement for a gross premium valuation as expressed in the NAIC’s model regulation “Minimum Reserve Standards for Individual and Group Health Insurance Contracts,” which is also incorporated into Appendix A-010 of the NAIC’s *Accounting Practices and Procedures Manual*. The liability required, pursuant to the latter standard, will be referred to here as a “gross premium valuation” or “GPV” (although that term can be used more broadly to refer to a family of reserve methodologies).
 - Performed in aggregate for the life of the contracts

Deficiency Reserves— Issues

- How should grouping be performed?
 - Products that are priced together
 - Products that are similar risks
 - Block must be material to have a PDR
- How should expenses be allocated to a grouping?
 - Overhead expenses
 - Abnormal expenses—wind-up, etc.
- What timeframe should be tested?
 - Contract guarantees
 - Business practices
 - Regulatory constraints

RBC

- No new changes for Health 2005
- Changes in LTC

LAE

- Covered under ASOP 42 *Determining Health & Disability Liabilities Other Than Liabilities for Incurred Claims*
 - Applies to self-funded plans with respect to determining liabilities
- The actuary should determine LAE unless it is included in the claim liability or otherwise provided for
- Typically a % of claim reserve; should be supported by expense studies.

Actuarial Opinion—Orange Blank

- Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.
- Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared
- Meet the requirements of the laws of the state where opinion is filed
- In aggregate, make good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contract and agreements
- Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the previous year-end
- Include appropriate provision for all actuarial items that ought to be established.

Actuarial Opinion –Blue Blank

- AOMR requires asset adequacy testing
 - Types of asset adequacy
 - Cash flow testing
 - Gross premium valuation
 - Conservatism in reserves
 - Demonstrate risks not subject to material variation
 - Risk theory techniques
 - Loss ratio analysis
- Varies by state law

Claim Reserves

- Covered under ASOP #5 *Incurred Health & Disability Claims*
 - Actuary should consider margin for uncertainty
 - GAAP seems to require a “best estimate” (ie. No margin)
- Development methods usually used for medical coverage
- Loss Ratio or PMPM for recent months

Future Issues

- NAIC is moving toward Sarbanes Oxley 404 requirements, likely in 2007
- Will probably be a "SOX-lite" version
- Documentation and testing of process and controls