

Health Annual Statement New Exhibit 3A

Health Care Receivables Follow-up Study

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Webinar-Oct. 18, 2013



Agenda

- Who is Affected by the New Exhibit 3A
- Health Care Receivables Overview
- Purpose and Past Studies
- Exhibit 3A Instructions
- Examples with cross references to
Exhibit 3 and
Underwriting & Investment (U&I) Exhibit Part 2B
(See accompanying Excel spreadsheets)



Who is Affected

For insurers that file the Health Annual Statement (Orange Blank)

- Starts with the Dec. 31, 2013 annual statement
- Exhibit 3A format mirrors that of U&I Exhibit Part 2B, the follow-up study on claims

Not affected are insurers who write health insurance that file

- Life and Accident & Health (Blue Blank)
- Fraternal (Brown Blank)
- Property/Casualty (Yellow Blank)



Who is Affected (cont.)

Scope of the actuarial opinion of the appointed actuary for a health insurer includes “specified actuarial items presented as assets”

- All actuarial items presented as assets are not health care receivables
 - Accrued retrospective premiums and contingent premiums receivable
- Not all health care receivables are actuarial items
 - Pharmaceutical rebates based on filed but not processed rebates
- Some health care receivables are actuarial items
 - Provider risk sharing
 - Medicare Part D risk sharing



Health Care Receivables Overview

- **Pharmaceutical rebate receivables**
 - Arrangements between pharmaceutical companies and reporting entities
 - Based on drug utilization of subscribers at participating pharmacies
- **Claim overpayment receivables**
 - Generally a claim payment made in error to a provider
 - Specific identifiable payment that is an invoice, not an estimate
- **Loans and advances to providers**
 - Supported by legally enforceable contracts, generally at the request of provider
- **Capitation arrangement receivables**
 - Advanced payments to a provider under a capitation arrangement in anticipation of future services
- **Risk-sharing receivables**
 - Estimated monthly utilization is different from that used at settlement
 - If not collected within 90 days of billing, “shall be non-admitted” (from SSAP No. 84)
- **Other health care receivables**



Health Care Receivables Overview (cont.)

- SSAP No. 84 - Certain Health Care Receivables and Receivables Under Government Insured Plans
 - Establishes statutory accounting principles for the receivables
- SSAP No. 4 - Assets and Non-admitted Assets
 - Defined as “Ability to meet policyholder obligation is predicated on the existence of readily marketable assets available when both current and future obligations are due.”
 - Generally, an admitted asset is collected in 90 days
 - For government insured plans (SSAP No. 50), undisputed amounts over 90 days due that qualify as A&H contracts



Health Care Receivables Overview (cont.)

- SSAP No. 25 - Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties
- SSAP No. 64 - Offsetting and Netting of Assets and Liabilities
- SSAP No. 5R - Liabilities, Contingencies and Impairment of Assets
 - Evaluation of the ability to collect receivables



Health Care Receivables Overview (cont.)

Health Care Receivable	Exhibit 3	U&I Exhibit Part 2	U&I Exhibit Part 2B	Note 28	XR020 Credit Risk
Pharmaceutical Rebates	Line 0199999	Line 6 By LOB	Line 10	28.A	Line 26.1
Claim Overpayments	Line 0299999	Line 6 By LOB	Line 10		Line 26.2
Loans & Advances to Providers	Line 0399999				Line 26.3
Capitation Arrangements	Line 0499999	Line 6 By LOB	Line 10		Line 26.4
Risk Sharing	Line 0599999	Line 6 By LOB	Line 10	28.B	Line 26.5
Other	Line 0699999	Line 6 By LOB	Line 10		Line 26.6

Assets, page 2 - Line 24 insert matches the admitted portion of Health Care Receivables Exhibit 3, Column 7. Line 24 includes both admitted and non-admitted health care receivables and other receivables.

Source-NAIC Health Annual Statement and Health Risk-Based Capital (RBC) Form



Health Care Receivables Overview (cont.)

Exhibits	Admitted	Non-admitted	Reporting Basis	Loans & Advances
Exhibit 3	Y	Y, separate	Gross	Y
U&I Exhibit - Part 2	Y	Y, combined	Gross / Net	N
U&I Exhibit - Part 2B	Y	Y, combined	Net	N
Note 28 to Financial Statements	Y	Y, combined	Gross	N/A
XR020 - Credit Risk	Y	N	Gross	Y
Assets page 2 -Line 24 insert	Y	Y, separate	Gross	Y
NEW Exhibit 3A	Y	Y, combined	Gross	Y

Each type of receivable has its own requirements as outlined in SSAP No. 84, No. 4, No. 25, No. 64, No. 5R

Gross = Gross of Reinsurance, which includes the ceded reinsurance

Net = Net of Reinsurance, which includes the assumed reinsurance

Loans & advances = Excludes only the portion established as prepaid assets that are not expensed until the related claims have been received from the provider

Source-NAIC Health Annual Statement and Health RBC Form



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Purpose and Past Studies

- Data from Exhibit 3A will be used to determine appropriate factors for the Risk-Based Capital (RBC) formula
 - Credit risk (H3) portion of the RBC formula (page XR020)
 - Factor of 0.05 is the same for all types of health care receivables
 - Factor of 0.05 has been used since health RBC began

- Work group examined several years' worth of Orange Blank data
 - Only follow-up data is from Financial Statement Note 28, which covers only pharmaceutical rebates and risk sharing receivables
 - Data was inconsistent and, therefore, was not usable



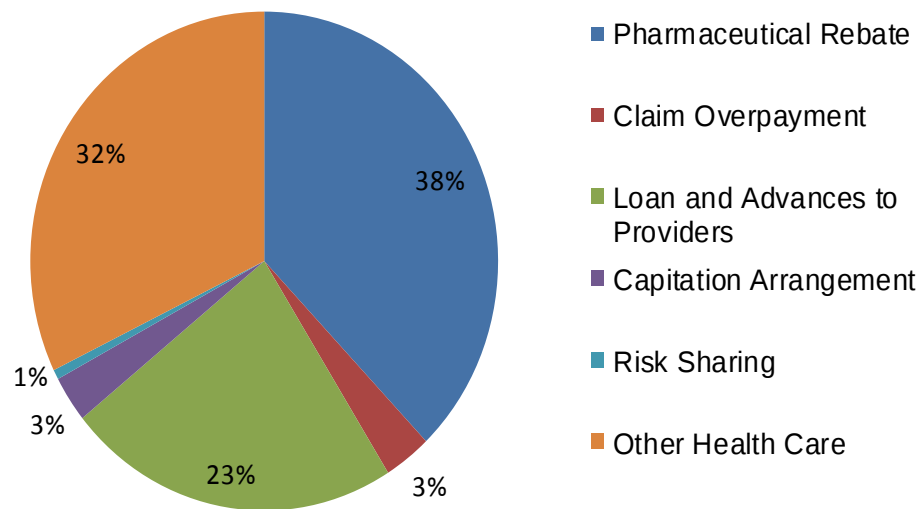
Purpose and Past Studies (cont.)

- The work group worked with the NAIC to propose additions to the Orange Blank, which the NAIC approved for year-end 2013, to capture information needed to determine RBC factors for health care receivables
- The NAIC plans to expose guidance on completing Exhibit 3A, which provides an opportunity to have questions answered prior to the filing deadline for the 2013 Health Annual Statement

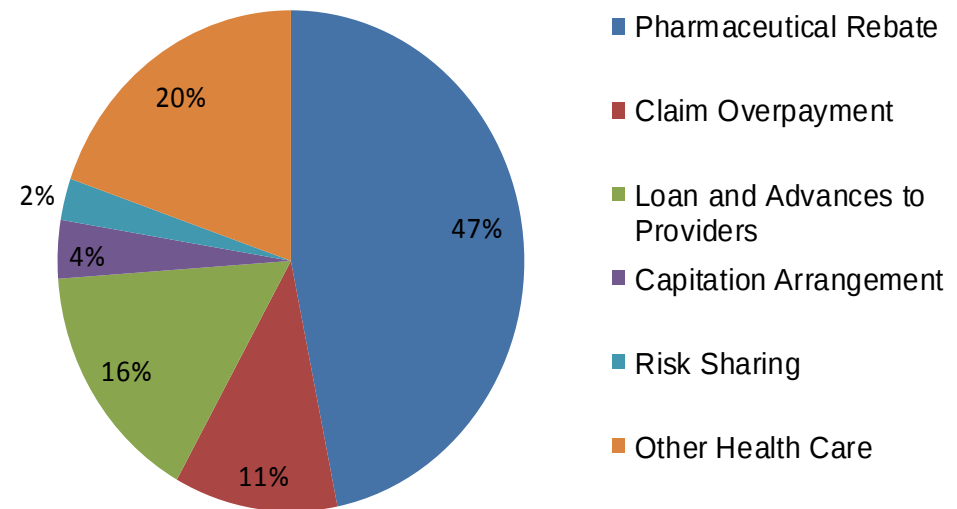


Purpose and Past Studies (cont.)

2008 Health Care Receivables - \$2.7B



2012 Health Care Receivables - \$4.7B



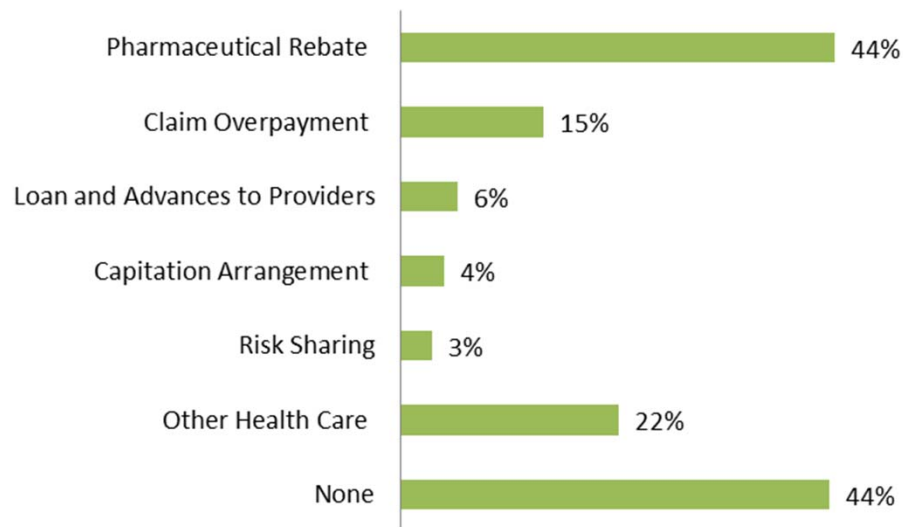
- Total dollars of health care receivables increased about 75 percent
- Increase in pharmaceutical rebates and claim overpayments receivable
- Decrease in loans and advances, and other health care receivables

Source-Data from the NAIC 2008 and 2012 Health Annual Statements

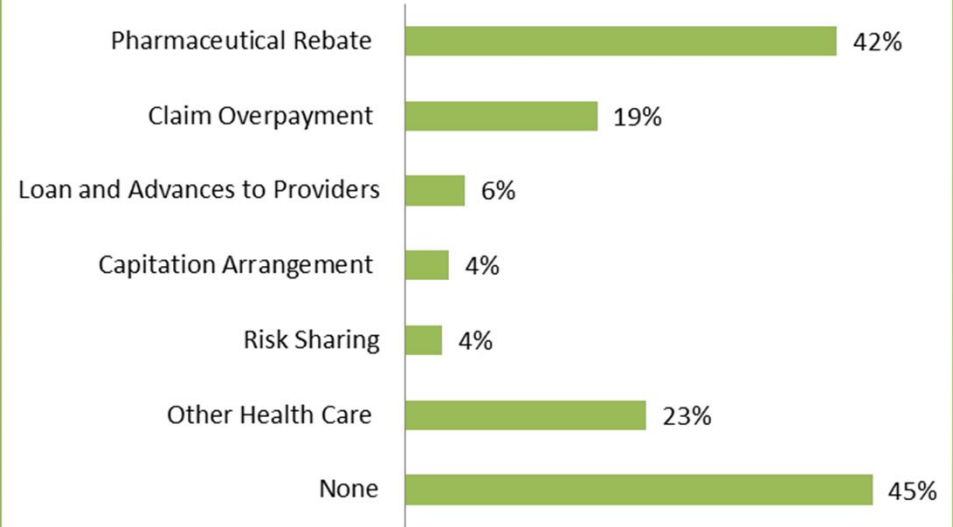


Purpose and Past Studies (cont.)

2008 Health Care Receivables 577 Companies



2012 Health Care Receivables 821 Companies



- Total company increase of 42 percent
- Consistent within categories

Source-Data from the NAIC 2008 and 2012 Health Annual Statements



Purpose and Past Studies (cont.)

Illustrative Example Developed by Work Group Member

Impact of Health Care Receivables on RBC ACL

Page				Example Current Factors	Example w/ 10% factor
XR022	Asset Risk - Affiliated w/RBC (H0)			21,397	21,397
XR022	Asset Risk - Other (H1)			499,226	499,226
XR022	Underwriting Risk (H2)			10,525,127	10,525,127
XR023	Credit Risk (H3)				
		28	Total Reinsurance RBC	151,213	151,213
		29	Intermediaries Credit Risk RBC	1,360,913	1,360,913
XR020	25 Investment Income Receivable			1,310	1,310
XR020	26 Health Care Receivables		\$-amount	0.05	
26.1	Pharmaceutical Rebate Receivables		0	0	0
26.2	Claim Overpayment Receivables		83,699	4,185	8,370
26.3	Loan and Advances to Providers		0	0	0
26.4	Capitation Arrangement Receivables		0	0	0
26.5	Risk Sharing Receivables		0	0	0
26.6	Other Heath Care Receivables		23,804,688	1,190,234	2,380,469
XR020	27 Amounts Receivable relating to uninsured accident and health plans			315,011	315,011
XR020	28 Amounts Due from Parents, Subs, and Affiliates			1,386	1,386
XR020	29 Aggregate Write-ins for other than invested assets			0	0
	30 Total Other Receivable RBC			1,512,126	2,706,545
	Credit Risk (H3)			3,024,252	4,218,671
XR023	Business Risk (H4)			911,309	911,309
XR023	Total Risk-Based Capital After Covariance				
			$(H0) + [(H1)^2 + (H2)^2 + (H3)^2 + (H4)^2]^{0.5}$	11,021,583	11,408,020
XR023	Authorized Control Level Risk-Based Capital (After Covariance Adjustment)				
			$0.50 * \text{RBC after Covariance}$	5,510,791	5,704,010
XR025	Total Adjusted Capital			11,665,415	11,665,415
	RBC Ratio			211.7%	204.5%
	%-Increase to Authorized Control Level Risk-Based Capital (After Covariance Adjustment)				3.5%



Purpose and Past Studies (cont.)

- Support for the H3 health care receivable factors to be used in the RBC formula would be demonstrated
 - Factors by receivable type could vary from 0.05
- Effect on RBC would be minor
 - H2 underwriting risk usually dominates the other health risk factors, including H3
 - The work group study and past annual statements showed that doubling the 0.05 factor would increase the industry-wide aggregate authorized control level RBC by 0.05 percent
 - There was wide variation among companies
- More attention would be focused on health care receivables
 - As an exhibit in the annual statement, the follow-up study in Exhibit 3A would garner more attention than the current Financial Statement Note 28



Exhibit 3A Instructions

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)						

Note that the accrued amounts in columns 3, 4, and 6 are the total health care receivables, not just the admitted portion



Exhibit 3A Instructions (cont.)

- Columns 1 and 2 split amounts collected during the year between those accrued prior to the current year and those accrued during the current year
 - “Accrued” for the split between Columns 1 and 2 is analogous to “incurred” in U&I Exhibit Part 2B
- Columns 3 and 4 split the current year’s accounting accrual amount between those accrued prior to the current year and those accrued during the year
 - “Accrued” for the split between Columns 3 and 4 is analogous to “incurred” in U&I Exhibit Part 2B

Note that while the prescribed wording in the appointed actuary’s statement of opinion says that the data used was reconciled to U&I Exhibit Part 2B (the follow-up study for claims), there is no prescribed wording regarding Exhibit 3A (the follow-up study for receivables).



Exhibit 3A Instructions (cont.)

- Column 5 is the sum of Columns 1 and 3
 - Amount collected during the current year on health care receivables that were accrued/incurred prior to the current year
 - + The current year-end accounting accrual for health care receivables that were accrued/incurred prior to the current year
 - = Retrospective measure of the health care receivables as of the prior year-end

- Column 6 is the prior year-end accounting accrual for health care receivables
 - The comparison between Columns 5 and 6 is to the total accrued receivable, not just the portion that is an admitted asset
 - Looking for the retrospective measure being *greater* than the original amount accrued



Exhibit 3A Instructions (cont.)

- For determination of the factors to be used in the RBC formula for the H3 credit risk, the comparison will be the amount in Column 5 to the admitted health care receivable
- The entire retrospective receivable (including any amount collected on the non-admitted portion of the receivable) compared to the admitted portion of the receivable in the prior year's annual statement



Exhibit 3A Instructions (cont.)

How Exhibit 3A Ties to Other Parts of the Annual Statement

- Columns 1 and 2 on U&I Exhibit Part 2B include the claims paid during the year all split by line of business on Lines 1 through 8
 - Per the instructions, also included are pharmaceutical rebates collected and risk-sharing amounts collected, split by line of business
 - Claim overpayments collected likely are included as well, imbedded in the claims data, split by line of business
- Columns 1 and 2 on U&I Exhibit Part 2B, Line 10, have the current health care receivables balance related to claims paid in the current year
 - Does not include those footnote (a) health care receivables, such as loans or advances to non-related party hospitals, established as prepaid assets that are not expensed until the related claims have been received from the provider as the claims have not been paid as of the statement date



Exhibit 3A Instructions (cont.)

How Exhibit 3A Ties to Other Parts of the Annual Statement

- Column 6 on Exhibit 3A is from the prior year's health care receivable on Exhibit 3 Column 6 (non-admitted) plus Column 7 (admitted)
- Columns 3 and 4 on Exhibit 3A (their sum) match the current year's health care receivable on Exhibit 3 Columns 6 and 7 (their sum)
 - Split between Columns 3 and 4 is on the accrued/incurred split between prior years and the current year
- Columns 1 and 2 on Exhibit 3A, as well as all of Exhibit 3A, are *gross* of reinsurance, but these amounts also appear on U&I Part 2B as *net* of reinsurance



Exhibit 3A Examples

- Pharmaceutical rebate receivables (less complicated)
- Pharmaceutical rebate receivables (more complicated)
- Claim overpayment receivables
- Risk sharing receivables

Including crosswalks to Exhibit 3 and U&I Exhibit Part 2B



Illustrative Example – Pharmaceutical Rebates Receivables (less complicated)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoiced/Confirmed	Rebates Collected within 90 days of invoicing/confirmation	Rebates collected within 91 to 180 days of invoicing/confirmation	Rebates Collected More Than 180 Days After Invoicing/Confirmation	Total Collected
12/31/2014	8,290	8,290				0
9/30/2014	8,166	8,166	8,166	Collected in 2015 for 2014		8,166
6/30/2014	9,632	9,632	9,632			9,632
3/31/2014	8,399	8,399	8,399	Collected in 2014 for 2014		8,399
12/31/2013	8,166	8,166	8,166			8,166
9/30/2013	7,854	7,854	7,854	Collected in 2014 for 2013		7,854
6/30/2013	9,853	9,853	9,853			9,853
3/31/2013	6,633	6,633	6,633	Collected in 2013 for 2013		6,633
12/31/2012	7,077	7,077	7,077			7,077
9/30/2012	8,472	8,472	8,472	Collected in 2013 for 2012		8,472
6/30/2012	8,659	8,659	8,659			8,659
3/31/2012	8,798	8,798	8,798	Collected in 2012 for 2012		8,798

Assumptions: All pharmacy rebates are collected in 30 days.

All pharmaceutical rebates receivables relate to the comprehensive line of business.

There is no reserve for pharmacy claims.



Illustrative Example – Pharmaceutical Rebate Receivables (less complicated)

See Excel spreadsheet for Exhibit 3 and U&I Exhibit Part 2B

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

ANNUAL STATEMENT FOR THE YEAR 2013

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5 Health Care Receivables in Prior Years (Columns 1 + 3)	6 Estimated Health Care Receivables Accrued as of December 31 of Prior Year
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year		
1. Pharmaceutical rebate receivables	7,077	24,340	0	8,166	7,077	7,077
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	7,077	24,340	0	8,166	7,077	7,077

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

ANNUAL STATEMENT FOR THE YEAR 2014

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5 Health Care Receivables in Prior Years (Columns 1 + 3)	6 Estimated Health Care Receivables Accrued as of December 31 of Prior Year
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year		
1. Pharmaceutical rebate receivables	8,166	26,197	0	8,290	8,166	8,166
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	8,166	26,197	0	8,290	8,166	8,166



Illustrative Example – Pharmaceutical Rebates Receivables (more complicated)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Estimated Pharmaceutical Rebates Receivables on Financial Statements Exhibit 3A	Date	Estimated Pharmacy Rebates as Reported on Financial Statements Note 28 per SSAP 84	Pharmacy Rebates as Invoiced/Confirmed	Rebates Collected within 90 days of invoicing/ confirmation	Rebates collected within 91 to 180 days of invoicing/ confirmation	Rebates Collected More Than 180 Days After Invoicing/ Confirmation	Total Collected
227	12/31/2014	150	147				0
229	9/30/2014	130	133	62			62
247	6/30/2014	142	143	70	55		125
240	3/31/2014	157	152	65	42	20	127
220	12/31/2013	125	132	70	27	20	117
199	9/30/2013	123	129	62	31	14	107
183	6/30/2013	112	120	54	20	16	90
158	3/31/2013	110	118	57	39	20	116
107	12/31/2012	68	75	34	20	10	64
91	9/30/2012	60	59	27	17	10	54
80	6/30/2012	57	60	31	15	10	56
45	3/31/2012	45	50	25	18	7	50

Assumptions:

- All pharmacy rebates are collected within 3 quarters, evenly distributed over each quarter, with no reserve.
- After 1Q, 90% of remaining rebates will be collected.
- After 2Q, 75% of remaining rebates will be collected.
- All pharmaceutical rebates receivables relate to the comprehensive line of business



Illustrative Example – Pharmaceutical Rebates Receivables (more complicated)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Estimated Pharmaceutical Rebates Receivables on Financial Statements Exhibit 3A	Date	Estimated Pharmacy Rebates as Reported on Financial Statements Note 28 per SSAP 84	Pharmacy Rebates as Invoiced/Confirmed	Rebates Collected within 90 days of invoicing/confirmation	Rebates collected within 91 to 180 days of invoicing/confirmation	Rebates Collected More Than 180 Days After Invoicing/Confirmation	Total Collected
220	12/31/2013	125	132	70	27	20	117
199	9/30/2013	123	129	62	31	14	107
183	6/30/2013	112	120	54	20	16	90
158	3/31/2013	110	118	57	39	20	116

Assumptions: All pharmacy rebates are paid within 3 quarters, evenly distributed over each quarter.

After 1Q, 90% of remaining rebates will be collected.

After 2Q, 75% of remaining rebates will be collected.

$$\text{Column 4: } 220 = 125 + .90 (129 - 62) + .75 (120 - 54 - 20)$$



Illustrative Example – Pharmaceutical Rebates Receivables (more complicated)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
220	12/31/2013	125	132	70	27	20	117
199	9/30/2013	123	129	62	31	14	107
183	6/30/2013	112	120	54	20	16	90
158	3/31/2013	110	118	57	39	20	116
107	12/31/2012	68	75	34	20	10	64
91	9/30/2012	60	59	27	17	10	54
80	6/30/2012	57	60	31	15	10	56

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED					ANNUAL STATEMENT FOR THE YEAR 2013	
Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables	101	252	0	220	101	107

Column 1: $101 = 34 + 20 + 17 + 10 + 10 + 10$

Column 2: $252 = 62 + 54 + 57 + 20 + 39 + 20$

12/31/2012 estimated receivable was overstated by 5.6% = $(101/107 - 1 = -5.6\%)$



Illustrative Example – Pharmaceutical Rebates Receivables (more complicated)

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

ANNUAL STATEMENT FOR THE YEAR 2013

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables	101	252	0	220	101	107
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	101	252	0	220	101	107

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

ANNUAL STATEMENT FOR THE YEAR 2014

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables	178	314	0	227	178	220
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	178	314	0	227	178	220



Illustrative Example – Claim Overpayment Receivables

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sequestration	Reported Claim Overpayment Exhibit 3A	Invoiced Claim Overpayment	Collected within 90 days	91 to 180 days	181 to 270 days	271 to 360 days	More Than 360 Days	Total Collected \$
12/31/2014	\$90	\$0						\$0
9/30/2014	\$265	\$0						\$0
6/30/2014	\$956	\$342	\$291	\$34				\$325
3/31/2014	\$1,592	\$684	\$513	\$55	\$55			\$623
12/31/2013	\$3,128	\$1,368	\$958	\$137	\$137	\$68		\$1,300
9/30/2013	\$4,241	\$2,394	\$1,436	\$718	\$120	\$48	\$48	\$2,370
6/30/2013	\$3,420	\$3,420	\$1,368	\$855	\$684	\$171	\$68	\$3,146
3/31/2013	\$0							\$0

Assumptions

All overpayments are collected within 5 quarters, evenly distributed over each quarter

After 1Q, 90% of remaining rebates will be collected

After 2Q, 75% of remaining rebates will be collected

After 3Q, 70% of remaining rebates will be collected

After 4Q, 50% of remaining rebates will be collected



Illustrative Example – Claim Overpayment Receivables (cont.)

See Excel spreadsheet for Exhibit 3 and U&I Exhibit Part 2B

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED					ANNUAL STATEMENT FOR THE YEAR 2013	
Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables	0	3,659	0	3,128	0	0
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	0	3,659	0	3,128	0	0

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED					ANNUAL STATEMENT FOR THE YEAR 2014	
Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables	3,157	948	34	56	3,191	3,128
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	3,157	947	34	56	3,191	3,128



Illustrative Example – Claim Overpayment Receivables

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sequestration	Reported Claim Overpayment Exhibit 3A	Invoiced Claim Overpayment	Collected within 90 days	91 to 180 days	181 to 270 days	271 to 360 days	More Than 360 Days	Total Collected \$
12/31/2014	\$90	\$0						\$0
9/30/2014	\$265	\$0						\$0
6/30/2014	\$956	\$342	\$291	\$34				\$325
3/31/2014	\$1,592	\$684	\$513	\$55	\$55			\$623
12/31/2013	\$3,128	\$1,368	\$958	\$137	\$137	\$68		\$1,300

Receivables for 12/31/2014 = \$90 = 0 + 0 +13 + 43 +34

3Q2014 = $0 * 0.90 = 0$ (current year/ column 4)

2Q2014 = $(342 - 291 - 34) * 0.75 = 13$ (current year/ column 4)

1Q2014 = $(684 - 513 - 55 - 55) * 0.70 = 43$ (current year/ column 4)

4Q2013 = $(1,368 - 958 - 137 - 137 - 68) * 0.5 = 34$ (prior year / column 3)



Illustrative Example – Claim Overpayment Receivables

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sequestration	Reported Claim Overpayment Exhibit 3A	Invoiced Claim Overpayment	Collected within 90 days	91 to 180 days	181 to 270 days	271 to 360 days	More Than 360 Days	Total Collected \$
12/31/2014	\$90	\$0						\$0
9/30/2014	\$265	\$0						\$0
6/30/2014	\$956	\$342	\$291	\$34				\$325
3/31/2014	\$1,592	\$684	\$513	\$55	\$55			\$623
12/31/2013	\$3,128	\$1,368	\$958	\$137	\$137	\$68		\$1,300
9/30/2013	\$4,241	\$2,394	\$1,436	\$718	\$120	\$48	\$48	\$2,370
6/30/2013	\$3,420	\$3,420	\$1,368	\$855	\$684	\$171	\$68	\$3,146

Health Care Receivables Collected

On amounts accrued prior to January 1 of current year (Col. 1)

$$\$3,157 = 958 + 137 + 137 + 68 + 718 + 120 + 48 + 48 + 684 + 171 + 68$$

On amounts accrued during the year (Col. 2)

$$\$948 = 291 + 34 + 513 + 55 + 55$$



Illustrative Example – Claim Overpayment Receivables (cont.)

See Excel spreadsheet for Exhibit 3 and U&I Exhibit Part 2B

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED					ANNUAL STATEMENT FOR THE YEAR 2013	
Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables	0	3,659	0	3,128	0	0
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)	0	3,659	0	3,128	0	0

EXHIBIT 3 – HEALTH CARE RECEIVABLES						
1 Name of Debtor	2 1 – 30 Days	3 31 – 60 Days	4 61 – 90 Days	5 Over 90 Days	6 Non-admitted	7 Admitted
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables	456	456	456	1,760	1,760	1,368
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
Gross health care receivables	456	456	456	1,760	1,760	1,368

$$1760 = (2,394 - 1,436) * 0.9 + (3,420 - 1,368 - 855) * 0.75$$



Illustrative Example – Risk Sharing Receivables

- Per SSAP No. 84, to be an admitted asset, risk sharing receivables and payables:
 - Shall be recorded only when reasonably estimated
 - Must be based on at least 6 months of actual claim experience for each risk-sharing contract
 - Contractual terms must provide for the evaluation of the experience at least annually
 - Determination of the risk sharing balance to commence no later than 6 months following the close of the period
 - Balance to be invoiced no later than 8 months following the close of the period



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – rating group is the population newly eligible for Medicaid effective 1/1/2014 under the Affordable Care Act
 - States have option to expand eligibility to 138 percent of the federal poverty level
 - Federal government pays 100 percent of the cost of this expansion group in 2014 and 2015, instead of its usual match rate of 50 percent to around 80 percent
 - CMS could be concerned that states might be overly generous with federal money; managed care organizations could be concerned that premium rates might be inadequate, since there is no historical claim experience to be used for rate development
 - Contract between the state and Managed Care Organization (MCO) calls for the state to pay the MCO 75 percent of incurred claims in excess of 102 percent of the target level and for the MCO to return to the state 75 percent of the difference between incurred claims and 98 percent of the target



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – Receivables for 2014 and 2015
 - The state's contracts with its MCOs run on a state fiscal year (ending June 30) basis
 - Contract Period 1 is January through June 2014, with runout through December 2014 to be used to determine incurred claims, with invoicing by February 28, 2015
 - Contract Period 2 is July 2014 through June 2015, with runout through December 2015 to be used to determine incurred claims, with invoicing by February 28, 2016
 - No other risk sharing contracts for this line of business



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – Receivable for 2014 for Contract Period 1
 - Target for Period 1 (January through June 2014) is \$10,000,000
 - Incurred claims are determined to be \$10,600,000 (final determination made in January 2015 using \$10,480,000 of claims paid through December 2014)
 - Receivable of \$300,000 = $0.75 \times \text{Max}(0, (10,600,000 - 10,200,000))$
 - Paid portion of \$210,000 = $0.75 \times \text{Max}(0, (10,480,000 - 10,200,000))$
 - Incurred but not paid (IBNP) portion of \$90,000 = $300,000 - 210,000$
 - MCO accrues the full known \$300,000 risk sharing receivable for Contract Period 1 on its 12/31/2014 annual statement
 - MCO receives the full \$300,000 in June 2015



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – Receivable for 2014 for Contract Period 2
 - Target for Period 2 (July through December 2014 portion) is \$12,000,000
 - Estimated \$12,120,000 of incurred claims (MCO estimate using claims paid through December 2014)
 - Receivable of \$0 = $0.75 \times \text{Max}(0, 12,120,000 - 12,240,000)$
 - Requirement to use at least 6 months of claims experience is satisfied, but incurred and paid claims are likely about 4.5 or 5 months' worth out of the entire 12 months for Contract Period 2
 - MCO puts a \$0 receivable for Contract Period 2 on its 12/31/2014 annual statement (The contract met the requirements to establish a risk sharing receivable, but it was measured to be \$0.)



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – Receivable for 2015 for Contract Period 2
 - Target for Period 2 (full July 2014 through June 2015) is \$25,000,000
 - Estimated \$26,300,000 of incurred claims (MCO estimate using \$26,140,000 of claims paid through December 2015, \$12,300,000 of which was incurred in 2014 and \$13,840,000 incurred in 2015. The state's final determination **not** available in time for use in the annual statement.)
 - Receivable of \$600,000 = $0.75 \times \text{Max}(0, (26,300,000 - 25,500,000))$
 - Paid portion of \$480,000 = $0.75 \times \text{Max}(0, (26,140,000 - 25,500,000))$
 - Portion incurred in 2014 \$45,000 = $0.75 \times \text{Max}(0, (12,300,000 - 12,240,000))$
 - Portion incurred in 2015 \$435,000 = $0.75 \times \text{Max}(0, (13,840,000 - 13,260,000))$
 - IBNP portion (all incurred in 2015) is \$120,000 = $600,000 - 480,000$
 - MCO records a \$600,000 receivable for Contract Period 2 on its 12/31/2015 annual statement



Illustrative Example – Risk Sharing Receivables (cont.)

- Medicaid line of business – Receivable for 2016 for Contract Period 2
 - Target for Period 2 (full July 2014 through June 2015) is \$25,000,000
 - Incurred claims were determined to be \$26,296,000 (final determination made in late February 2016, too late to have been used on the 12/31/2015 annual statement)
 - Receivable of \$597,000 = $0.75 \times \text{Max}(0, (26,296,000 - 25,500,000))$
 - A little lower than the MCO's estimate made in January 2016
 - All claims incurred through June 2015 are assumed to be paid by 12/31/2016
 - Although the MCO has not received payment by 12/31/2016, the state Medicaid agency assures the MCO that full payment will be made, so the MCO holds the full \$597,000 accrual as an admitted asset as of 12/31/2016
 - MCO receives the full \$597,000 in January 2017



References

- Instructions for the Health Annual Statement for U&I Exhibit Part 2, U&I Exhibit Part 2B, Exhibit 3, and Exhibit 3A (published by the NAIC)
<http://www.naic.org/documents/2013-12BWG.doc> (Exhibit 3A and Exhibit 3A Instructions only)
- Statement of Statutory Accounting Principles No. 84 Certain Health Care Receivables and Receivables Under Government Insured Plans (published by the NAIC)
- Report of the American Academy of Actuaries Health Practice Financial Reporting Committee Presented to the National Association of Insurance Commissioners Accident and Health Working Group January 2002
http://www.actuary.org/files/publications/comments%20on%20NAIC%20accounting_jan02.pdf
- Revised Actuarial Statement of Opinion Instructions for the NAIC Health Annual Statement Effective December 31, 2010
http://actuary.org/files/publications/Health_Actuarial_Opinion_Practice_Note_Jan2011.pdf



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