Accounting for the Three Rs of PPACA
What you need to know
Learning Objectives

• Review of the risk sharing provisions of the PPACA.
• Review of the development of SSAP No. 107.
• Determine the impact of SSAP No. 107 on the industry and regulators.
Patient Protection and Affordable Care Act institutes significant health care reform, including

1. Accessibility & Affordability
2. Premiums & Cost-Sharing Limitations
3. Individual Coverage Mandates
Three Risk Sharing Provisions of PPACA

- **Section 1341**: Reinsurance
- **Section 1342**: Risk Corridor
- **Section 1343**: Risk Adjustment
Reinsurance

Program Administration
Operated within each state, either by the State or HHS.
Effective for years 2014 through 2016.

Purpose
Compensate issuers who enroll high-risk individuals.
Considered an Involuntary Pool.

Assessments
Payment based on an annual national per-capita rate.
Used to provide reinsurance coverage and cover administrative costs.

Distributions
Made to issuers with medical costs of enrollees above a determined attachment point.
Risk Corridor

Program Administration
Federal program operated by HHS.
Effective for years 2014 through 2016.

Purpose
Protect against inaccurate rate setting through risk sharing of allowable costs between issuers and HHS.

Assessments
Liability of issuer when allowable costs are less than 97% of target amount.

Distributions
Receivable from HHS when allowable costs are greater than 103% of target amounts.
Risk Adjustment

Program Administration
Established in each individual state.
Permanent program effective in 2014

Purpose
Protect against the risk of adverse selection.
Transfers funds from issuers with lower risk members to plans with greater amounts of high risk members.

Assessments
Liability of issuer with average actuarial risk of members below the overall market.

Distributions
Receivable of issuer with average actuarial risk of members in excess of the overall market.
Development Timeline of Three Rs Accounting

- **Mar. 2010**: PPACA Signed into Law
- **Feb. 2014**: EAIWG Exposure of INT13-04
- **May 2014**: SAPWG Draft ISS No. 150
- **Aug. 2014**: SAPWG Hearing
- **Sept. 2014**: Fall 2014 NAIC Meeting
- **Nov. 2014**: Re-draft of ISS No. 150
- **Dec. 2014**: Adoption of SSAP No. 107
First Draft:
> Reinsurance considered involuntary pool with assessments and
distributions reported as ceded and assumed premiums.
> Net receivables for risk adjustment and risk corridor will be reported as
non-admitted assets.

Interested Party Comments:
> Current draft nullifies intentions of the Three Rs
> Hinders ability to compare financial statements of issuers
> Estimates will be within scope of Actuarial Opinion
> Conflicts with current accounting guidance:
  - Reserve Accounting
  - Disclosures
  - Asset Admission/Non-admission
  - Government receivables
Re-Draft Instructions:
> Replace the non-admission guidance with new criteria.
> Remove 90-day aging guidance
> Interested Parties input on Balance Sheet presentation.

Adoption of SSAP No. 107:
> Re-draft meet with insignificant comments & minor changes
> SSAP No. 107 adopted in Dec. 2014
  - SAPWG
  - Accounting Practices and Procedures (E) Task Force
  - Effective for Y/E December 15, 2014
  - Nullifies INT 13-04
### What’s documented within SSAP No. 107

<table>
<thead>
<tr>
<th>SSAP No. 107</th>
<th>Date: December 12, 2014</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>I</th>
<th>Accounting treatment for reinsurance (3 Products, 3 Assessments, Distributions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>Accounting treatment for risk corridor (Assets and Liability)</td>
</tr>
<tr>
<td>III</td>
<td>Accounting treatment for risk adjustments (Assets and Liability)</td>
</tr>
<tr>
<td>IV</td>
<td>Financial Statement disclosure of risk sharing provision estimates.</td>
</tr>
</tbody>
</table>
Product Groups subject to Reinsurance:
> Subject Individual Insured Products – subject to ACA market reform
> Other Insured Health Products – not subject to ACA market reform (ex. individual grandfathered products)
> Self-Insured Health Products

Three Assessments, One Distribution:
> Assessments for Reinsurance
> Administrative Cost Assessments
> U.S. Treasury Assessments
> Reinsurance Distributions
Subject Individual Insured Products

Payments

- Assessments for Reinsurance
- Administrative Cost Assessments
- U.S. Treasury Assessments
- Reinsurance Distributions

Reasoning

- Satisfy risk transfer and timely reimbursement requirements
- Traditional Reinsurance considers Admin. Expenses
- Taxes, Licenses and Fees Category
- Reduction to the reported benefits paid

Add’l Guidance

- SSAP No. 61R
- SSAP No. 35R
- SSAP No. 61R Par. 27
Other Insured Health Products

Assessments

> Issuers not considered as “Participating”
> All Assessments reported as Expense.

Distributions

> Not eligible for distribution.
Self Insured Health Products

Assessments
- Responsibility of the self-insured plan.
- Treated as Pass-through by the reporting entity.

Distributions
- Issuers not considered as “Participating”
- Not eligible for distribution.
Risk Corridor & Risk Adjustment

**ASSET**
Admissible based on criteria documented within SSAP No. 107.

**LIABILITY**
Meets the definition of a liability as outlined in SSAP No. 5R.
## Criteria for Risk Corridor asset admission:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate Assumptions</td>
<td>Assumptions used for these retrospective premium adjustments must be consistent with similar assets and liabilities with impact on underwriting results. Related expenses must be reported in the same period as the effect on premium.</td>
</tr>
<tr>
<td>Effects on Premiums</td>
<td>Effects of premiums (additions or reductions) are recognized over the entire period. Methods used for estimates must be reasonable and consistent each period. Being conservative, experience to date, and sufficient data must be used, as well as consideration of the impact of other risk-sharing programs.</td>
</tr>
<tr>
<td>Aging</td>
<td>Receivables are not reported as non-admitted based solely on aging greater than 90 days.</td>
</tr>
<tr>
<td>Impairment</td>
<td>Receivables are considered admitted assets until impairment or payment denial is received from the governmental entity.</td>
</tr>
<tr>
<td>Collectability</td>
<td>Collectability shall be evaluated each reporting period. (SSAP No. 5R)</td>
</tr>
</tbody>
</table>

Aging: "Impairment" and "collectability" shall be evaluated each reporting period. (SSAP No. 5R)
## Asset Admissibility – Risk Adjustment

### Criteria for Risk Adjustment asset admission:

<table>
<thead>
<tr>
<th>Estimate Assumptions</th>
<th>Estimates are based on experience to date and the method used must be applied consistently between reporting periods. The SSAP notes issuer be aware of significant uncertainty, conservative, and have sufficient data.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects on Premiums</td>
<td>Estimates are determined for the expired portion of the policy period as an immediate adjustment to premiums.</td>
</tr>
<tr>
<td>Aging</td>
<td>Receivables are not reported as non-admitted based solely on aging greater than 90 days.</td>
</tr>
<tr>
<td>Impairment</td>
<td>Receivables are considered admitted assets until impairment or payment denial is received from the governmental entity.</td>
</tr>
<tr>
<td>Collectability</td>
<td>Collectability shall be evaluated each reporting period. (SSAP No. 5R)</td>
</tr>
</tbody>
</table>
SSAP No. 107 - Disclosure

Includes assets, liabilities, and revenue elements and whether policies were written.

Beginning First Quarter 2014

Example of disclosure within SSAP No. 107, Par. 57
### APPENDIX 2 - ACA RISK-SHARING PROVISIONS ROLL-FORWARD ILLUSTRATION

Receivables are reflected gross of any nonadmission for this illustration.

<table>
<thead>
<tr>
<th></th>
<th>Accrued During the Prior Year on Business Written Before December 31 of the Prior Year</th>
<th>Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year</th>
<th>Differences</th>
<th>Adjustments</th>
<th>Unsettled Balances as of the Reporting Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prior Year Accrued Less Payments (Col 1 - 3)</td>
<td>Prior Year Accrued Less Payments (Col 2 - 4)</td>
<td>To Prior Year Balances</td>
<td>To Prior Year Balances</td>
<td>Cumulative Balance from Prior Years (Col 1 – 3 + 7)</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>a. Permanent ACA Risk Adjustment Program</td>
<td>4,000,000</td>
<td>3,000,000</td>
<td>1,000,000</td>
<td>-800,000</td>
<td>A</td>
</tr>
<tr>
<td>1. Premium adjustments payable</td>
<td>8,000,000</td>
<td>9,000,000</td>
<td>-1,000,000</td>
<td>1,000,000</td>
<td>B</td>
</tr>
<tr>
<td>2. Subtotal ACA Permanent Risk Adjustment Program</td>
<td>4,000,000</td>
<td>8,000,000</td>
<td>9,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>b. Transitional ACA Reinsurance Program</td>
<td>22,000,000</td>
<td>15,000,000</td>
<td>7,000,000</td>
<td>-7,000,000</td>
<td>C</td>
</tr>
<tr>
<td>1. Amounts recoverable for claims paid</td>
<td>8,000,000</td>
<td>9,000,000</td>
<td>-1,000,000</td>
<td>990,000</td>
<td>D</td>
</tr>
<tr>
<td>2. Amounts recoverable for claims unpaid (contra liability)</td>
<td>3,000,000</td>
<td>2,800,000</td>
<td>200,000</td>
<td>-100,000</td>
<td>E</td>
</tr>
<tr>
<td>3. Total for ACA Risk Sharing Provisions</td>
<td>33,000,000</td>
<td>215,100</td>
<td>26,800,000</td>
<td>90,200</td>
<td>6,200,000</td>
</tr>
<tr>
<td>c. Temporary ACA Risk Corridors Program</td>
<td>12,000,000</td>
<td>14,000,000</td>
<td>-2,000,000</td>
<td>1,750,000</td>
<td>K</td>
</tr>
<tr>
<td>1. Accrued retrospective premium</td>
<td>150,000</td>
<td>250,000</td>
<td>-100,000</td>
<td>100,000</td>
<td>L</td>
</tr>
<tr>
<td>2. Reserve for rate credits or policy experience rating refunds</td>
<td>12,000,000</td>
<td>150,000</td>
<td>1,000,000</td>
<td>1,750,000</td>
<td>M</td>
</tr>
<tr>
<td>d. Total for ACA Risk Sharing Provisions</td>
<td>49,000,000</td>
<td>8,365,100</td>
<td>43,800,000</td>
<td>9,340,200</td>
<td>N</td>
</tr>
</tbody>
</table>

**Explanation of Adjustments**
- a. Adjusted due to federal audit
- b. Adjusted because of revised participant count
- c. Adjusted due to poor experience of other participants in the reinsurance pool
- d. Revised risk score information in the state of substantially impacted risk scores
Industry & Regulators:
> Familiarity with nuances and requirements of the 3Rs.

Industry:
> Guidelines established for reporting and disclosing
> Processes for the collection of data necessary.
> Ensure controls over recording of estimates are appropriate

Regulators:
> Ensuring conservatism is applied to estimates.
> Focus on consistency in methods for estimates.
> Over time, data/trends will be available to compare estimates to actual
Questions???

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