

## Interpretation of the Emerging Accounting Issues Working Group

### INT 00-31: Application of SSAP No. 55 Paragraph 13 to Health Entities

#### ISSUE NULLIFIED BY SSAP NO. 55

#### INT 00-31 Dates Discussed

September 12, 2000; December 4, 2000

#### INT 00-31 References

*SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55)

#### INT 00-31 Issue

1. The following guidance is included in paragraph 13 of SSAP No. 55:

13. If a reporting entity chooses to anticipate salvage and subrogation recoverables (including amounts recoverable from second injury funds, other governmental agencies, or quasi-governmental agencies, where applicable), the recoverables shall be estimated in a manner consistent with paragraphs 8-10 of this statement and shall be deducted from the liability for unpaid claims or losses.

2. Although SSAP No. 55 is a “common” paper, it is unclear as to whether the Statutory Accounting Principles Working Group (SAPWG) intended the accounting guidance for anticipating salvage and subrogation recoverables to be applicable to Individual and Group Accident and Health Contracts. Furthermore, the difference between subrogation and coordination of benefits (COB) needs to be defined and accounting guidance needs to be clarified.

3. The issues are:

Issue 1 - Does paragraph 13 and the accounting guidance for anticipating salvage and subrogation recoverables extend to Individual and Group Accident and Health Contracts?

Issue 2 - Should COB and subrogation recoverables be accounted for consistently?

#### INT 00-31 Discussion

4. The working group reached a consensus upon the definition of subrogation and COB:

Subrogation - Assuming the legal rights of a person for whom expenses or a debt has been paid. Typically, subrogation occurs when an insurance company which pays its insured client for injuries and losses then sues the party which the injured person contends caused the damages to him/her.

Coordination of benefits (COB) - COB provisions eliminate overinsurance and establish a prompt and orderly claims payment system when a person is covered by more than one group insurance and/or group service plan. Plans are permitted, but not required to include a COB provision. However, if a plan elects to use a COB provision, it must follow the standard COB rules.

5. The working group reached a consensus that the accounting guidance for subrogation contained in paragraph 13 of SSAP No. 55 be applied to Individual and Group Accident and

Health Contracts and that if a reporting entity chooses to anticipate COB recoverables, the recoverables should be estimated in a manner consistent with paragraphs 9-11 of SSAP No. 55 and shall be deducted from the liability for unpaid claims or losses. A separate receivable shall not be established for these recoverables. In addition, these recoverables are also subject to the impairment guidelines established in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R)* and an entity shall not reduce its reserves for any recoverables deemed to be impaired.

**INT 00-31 Status**

6. No further discussion is planned.