

Statutory Issue Paper No. 116

Claim Adjustment Expenses, Amendments to SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses

STATUS

Finalized October 16, 2001

Current Authoritative Guidance for Claim Adjustment Expenses, Unpaid Claims, Losses and Loss Adjustment Expenses: SSAP No. 55

This issue paper may not be directly related to the current authoritative statement.

Original SSAP from Issue Paper: SSAP No. 85

Type of Issue:

Life and Health, Health Entities

SUMMARY OF ISSUE

1. *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55) prescribes the accounting treatment for recording unpaid claims and claim adjustment expenses for life insurance contracts and accident and health contracts and unpaid losses and loss adjustment expenses for property and casualty insurance contracts.
2. The purpose of this issue paper is to amend SSAP No. 55 to provide clarification regarding what costs should be classified as claim adjustment expenses on accident and health contracts. The conclusions outlined in the issue paper are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

RECOMMENDED CONCLUSION

3. Certain claim adjustment expenses reduce the number or cost of health services thereby resulting in lower premiums or lower premium increases. These claim adjustment expenses shall be classified as cost containment expenses.
4. This issue paper amends paragraph 6.c. of SSAP No. 55 to the following:
 - c. Claim Adjustment Expenses for Accident and Health Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraphs 6.a. and 6.b. Claim adjustment expenses, including legal expenses, can be subdivided into cost containment expenses and other claim adjustment expenses:
 - i. Cost containment expenses: Expenses that actually serve to reduce the number of health services provided or the cost of such services. The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services:
 - (a) Case management activities;
 - (b) Utilization review;

- (c) Detection and prevention of payment for fraudulent requests for reimbursement;
 - (d) Network access fees to Preferred Provider Organizations and other network-based health plans (including prescription drug networks), and allocated internal salaries and related costs associated with network development and/or provider contracting;
 - (e) Consumer education solely relating to health improvement and relying on the direct involvement of health personnel (this would include smoking cessation and disease management programs, and other programs that involve hands on medical education); and
 - (f) Expenses for internal and external appeals processes.
- ii. Other claim adjustment expenses: Claim adjustment expenses as defined in paragraph 6.c. that are not cost containment expenses. Examples of other claim adjustment expenses are:
- (a) Estimating the amounts of losses and disbursing loss payments;
 - (b) Maintaining records, general clerical, and secretarial;
 - (c) Office maintenance, occupancy costs, utilities, and computer maintenance;
 - (d) Supervisory and executive duties; and
 - (e) Supplies and postage.
5. This issue paper amends paragraph 7.b. of SSAP No. 55 to the following:
- b. Claim Adjustment Expenses for Managed Care Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraph 7.a. of this statement. Claim adjustment expenses, including legal expenses, can be subdivided into cost containment expenses and other claim adjustment expenses:
- i. Cost containment expenses: Expenses that actually serve to reduce the number of health services provided or the cost of such services. The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services:
- (a) Case management activities;
 - (b) Utilization review;
 - (c) Detection and prevention of payment for fraudulent requests for reimbursement;
 - (d) Network access fees to Preferred Provider Organizations and other network-based health plans (including prescription drug networks), and allocated internal salaries and related costs associated with network development and/or provider contracting;

- (e) Consumer education solely relating to health improvement and relying on the direct involvement of health personnel (this would include smoking cessation and disease management programs, and other programs that involve hands on medical education); and
 - (f) Expenses for internal and external appeals processes.
- ii. Other claim adjustment expenses: Claim adjustment expenses as defined in paragraph 7.b. that are not cost containment expenses. Examples of other claim adjustment expenses are:
- (a) Estimating the amounts of losses and disbursing loss payments;
 - (b) Maintaining records, general clerical, and secretarial;
 - (c) Office maintenance, occupancy costs, utilities, and computer maintenance;
 - (d) Supervisory and executive duties; and
 - (e) Supplies and postage.

Effective Date

6. This issue paper is effective for years ending on and after December 31, 2003.

DISCUSSION

7. In the past, no definitive statutory guidance existed addressing claim adjustment expenses and which expenses should be classified as claim adjustment expenses. In January 2000, the Statutory Accounting Principles Working Group requested assistance from the Accident and Health Working Group of the Life and Health Actuarial Task Force (A&HWG) in providing clarification as to what expenses should be classified as claim adjustment expenses and whether certain claim adjustment expenses should receive special treatment for reporting purposes. The A&HWG made its final recommendations at its March 23, 2001 meeting. The A&HWG determined that claim adjustment expenses shall be subdivided into cost containment expenses and other claim adjustment expenses. The A&HWG also developed a list of items that qualify as cost containment expenses. This issue paper adopts the recommendations of the A&HWG.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

8. SSAP No. 55, paragraph 6.c.:
- 6.c. Claim Adjustment Expenses for Accident and Health Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraphs 6.a. and 6.b. Examples of expenses incurred in these activities are estimating the amounts of losses, disbursing loss payments, maintaining records, general clerical, secretarial, office maintenance, occupancy costs, utilities, computer maintenance, supervisory and executive duties, supplies, and postage;
9. SSAP No. 55, paragraph 7.b.:
- 7.b. Claim Adjustment Expenses for Managed Care Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims

defined in subparagraph 7.a. of this statement. Examples of expenses incurred in these activities are estimating the amounts of losses, disbursing loss payments, maintaining records, general clerical, secretarial, office maintenance, occupancy costs, utilities, computer maintenance, supervisory and executive duties, supplies, and postage;

10. The Accident and Health Working Group of the Life and Health Actuarial Task Force (A&HWG) reviewed in detail the topics of claim adjustment expenses and medical cost containment expenses and whether certain claim adjustment expenses should be included in losses or loss adjustment expenses. The A&HWG made its final recommendations at its March 23, 2001 meeting. The conclusion of this issue paper is consistent with the A&HWG's recommendation. The applicable section of the minutes is included herein:

At the 2000 Spring National Meeting, a request for assistance concerning codification issues was received from the Statutory Accounting Principles (E) Working Group (pages 90-91 of the *Life and Health Actuarial Subscription*, February 2000). The Accident and Health Working Group sent preliminary recommendations to the Statutory Accounting (E) Principles Working Group at the Fall National Meeting (Attachment Seven-B of the Accident and Health Working Group's Sept. 8, 2000, minutes). The recommendations addressed whether cost containment expenses should be included in losses or loss adjustment expenses. The Codification Subteam of the Accident and Health Working Group continued work on addressing how the prior recommendations could be implemented into the Health Annual Statement and in the Life, Accident and Health Annual Statement. This was the focus of the Feb. 15 and March 2 conference calls.

At the 2001 Spring National Meeting, John Rink (NE), chair of the Codification Subteam, reviewed the proposed memorandum to the Statutory Accounting Principles (E) Working Group. Mr. Rink noted that the recommendations in the proposed memorandum were designed to generate minimal changes to the annual statements, but still implement the prior recommendations of the Accident and Health Working Group.

Mike Batte (NM) moved, John Hartnedy (AR) seconded and the working group agreed to forward the recommendations with the proposed revisions to the Statutory Accounting (E) Principles Working Group. The final memo to the Statutory Accounting Principles (E) Working Group is Attachment Twelve-A.

11. Applicable excerpts from Attachment Twelve-A to the minutes of the March 23, 2001, meeting of the Accident and Health Working Group of the Life and Health Actuarial Task Force are included herein:

The Accident and Health Working Group (A&HWG) addressed cost containment expenses in a Sept. 11, 2000, memorandum to the Statutory Accounting Principles Working Group. This document is Attachment Seven-B of the Sept. 8, 2000 minutes of the Accident and Health Working Group and may be found on pages 160-162 of the Sept. 2000 *Life & Health Actuarial Subscription*.

In that memorandum, nine items were identified that could be considered cost containment expenses. Those nine items were further divided into two groupings. One grouping included the following expenses:

1. Clinical quality assurance and other types of medical care quality improvement efforts.
2. Provider contracting and credentialing costs.
3. Consumer education not exclusively relating to health improvement, such as newsletters and e-mails designed to provide health improvement ideas.

Another grouping identified in the Sept. 11 memorandum included the following expenses:

1. Case management activities.
2. Concurrent utilization review.
3. Prospective utilization review.
4. Detection and prevention of payment for fraudulent requests for reimbursement.

5. Network access fees to Preferred Provider Organizations and other network-based health plans, including prescription drug networks.
6. Consumer education solely relating to health improvement and relying on the direct involvement of health personnel. This would include smoking cessation and disease management programs, and other programs that involve hands on medical education.

These expenses reduce the number or cost of health services, which results in lower premiums or lower premium increases. These six expenses will be the only expenses referenced as “cost containment expenses” in this memorandum.

In the Sept. 11 memorandum, the A&HWG recommended that cost containment expenses, as identified above, be included as losses for statutory reporting purposes, and that quality assurance expenses not be included as losses for statutory reporting. The remainder of this memorandum addresses how the Sept. 11 recommendations may be implemented in the Health Blank and in the Life, Accident and Health Blank.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- SSAP No. 55—*Unpaid Claims, Losses and Loss Adjustment Expenses*

EXHIBIT A: Illustration of Marked Changes to Amended SSAPs

The following depicts the amendments made by this issue paper as “marked changes” (new text underlined and deleted text struck-through):

SSAP No. 55 paragraph 6.c.:

- c. Claim Adjustment Expenses for Accident and Health Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraphs 6.a. and 6.b. Claim adjustment expenses, including legal expenses, can be subdivided into cost containment expenses and other claim adjustment expenses.~~Examples of expenses incurred in these activities are:~~
- i. Cost containment expenses: Expenses that actually serve to reduce the number of health services provided or the cost of such services. The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services:
- (a) Case management activities;
 - (b) Utilization review;
 - (c) Detection and prevention of payment for fraudulent requests for reimbursement;
 - (d) Network access fees to Preferred Provider Organizations and other network-based health plans (including prescription drug networks), and allocated internal salaries and related costs associated with network development and/or provider contracting;
 - (e) Consumer education solely relating to health improvement and relying on the direct involvement of health personnel (this would include smoking cessation and disease management programs, and other programs that involve hands on medical education); and
 - (f) Expenses for internal and external appeals processes.
- ii. Other claim adjustment expenses: Claim adjustment expenses as defined in paragraph 6.c. that are not cost containment expenses. Examples of other claim adjustment expenses are:
- (a) Estimating the amounts of losses and,~~;~~ disbursing loss payments;~~;~~
 - (b) Maintaining records, general clerical, and secretarial;~~;~~
 - (c) Office maintenance, occupancy costs, utilities, and computer maintenance;~~;~~
 - (d) Supervisory and executive duties;~~;~~ and
 - (e) Supplies; and postage.

SSAP No. 55 paragraph 7.b.:

- b. Claim Adjustment Expenses for Managed Care Reporting Entities: Costs expected to be incurred in connection with the adjustment and recording of accident and health claims defined in subparagraph 7.a. of this statement. Claim adjustment expenses, including legal expenses, can be subdivided into cost containment expenses and other claim adjustment expenses. Examples of expenses incurred in these activities are
- i. Cost containment expenses: Expenses that actually serve to reduce the number of health services provided or the cost of such services. The following are examples of items that shall be considered “cost containment expenses” only if they result in reduced levels of costs or services:
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 - (c) Office maintenance, occupancy costs, utilities, and computer maintenance;
 - (d) Supervisory and executive duties; and
 - (e) Supplies, and postage;

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