Bulletin 01-007 **May 25, 2001**

ACCOUNTING FOR HEALTH CARE RECEIVABLES
REPORTING RECEIVABLES ON THE QUARTERLY STATEMENTS

The Department of Business and Industry, Division of Insurance (DOI), adopted by regulation "The Accounting Practices and Procedures Manual" issued by the National Association of Insurance Commissioners (NAIC). The new manual provides the industry with a codified set of Statements of Statutory Accounting Principles (SSAPs), effective January 1, 2001.

Under SSAP #4, Assets are evaluated to determine whether they are admitted or non-admitted on the balance sheet in the Annual Statement. The criteria for determining whether an asset will or will not be admitted is fully outlined in SSAP #4.

Primarily, an asset is admitted, if the asset has been addressed in "The Accounting Practices and Procedures Manual" and it has been determined that the asset has an economic value, that the company can benefit from the asset, and that the benefit can be collected in a timely manner.

An asset is non-admitted, if:

(a) It has been specifically addressed in "The Accounting Practices and Procedures Manual" and it is determined that the economic value, the benefits to the company or the timely receipt of the benefits, is in question; or

(b) An asset that has not been specifically addressed within "The Accounting Practices and Procedures Manual" is determined to be non-admitted by default.

"If an asset meets one of these criteria (a) or (b), the asset shall be reported as a non-admitted asset, and charged against surplus unless otherwise specifically addressed in "The Accounting Practice and Procedures Manual."

To date, health care receivables have not been specifically addressed as assets, and according to the definition in SSAP #4, they are non-admitted. This includes and may not be limited to the following:

Pharmaceutical Rebates Receivable
Claim Overpayment Receivable
Capitation Arrangement Receivable
Risk Sharing Receivable
Loans and Advances to Providers

In the absence of an SSAP addressing such receivables, any of these receivables would be considered non-admitted on January 1, 2001, and charged against the surplus of the company.

The NAIC has addressed these issues in the Statutory Issue Paper No. 107, "Health Care Receivables," which was the subject of a hearing at the NAIC Spring 2001 National Meeting. The issue was tabled to be addressed at the NAIC Summer 2001 National Meeting. The NAIC Accounting Practices and Procedures Task Force is still working on a final issue paper that will provide guidance and instructions regarding the admissibility of these health care receivables. The SSAP guidelines and instructions are expected to be completed prior to December 31, 2001.

The NAIC Accounting Practices and Procedures Task Force has stated that until the NAIC's guidelines and instructions are in the form of an SSAP and the SSAP is formally adopted by the NAIC plenary, entities (insurance regulators and companies) may not apply or rely upon the provisions of the draft Issue Paper No. 107.

The Nevada Division of Insurance recognizes the potential impact on a health plan's or insurer's financial statements and surplus. **Therefore, the accounting principles and procedures relating to health care receivables in effect prior to January 1, 2001, will be allowed until the NAIC plenary has formally adopted an SSAP addressing the health care receivables.** This applies only to those health care receivables not addressed by specific SSAPs in "The Accounting Practices and Procedures Manual."

Until the issue is decided by the NAIC, the Division of Insurance is requesting that insurers identify and disclose any health care receivable that has not been specifically addressed by the SSAPs. Any such receivable should be identified and disclosed in Note #1 of the Notes to the Financial Statements on the Quarterly Statements. The Note, Summary of Significant Accounting Policies, requires a company to disclose those areas where their reporting deviates from those described by "The Accounting Practices and Procedures Manual" and the SSAPs. The differences may have several origins, including changes adopted by state regulators. The differences must be disclosed to the extent that the statutory surplus or risk-based capital is affected. The note should include a brief description of the accounting practice, how that practice deviates from the statutory accounting practices and procedures, and identify the monetary effect on the statutory surplus.

The procedures outlined in this bulletin are temporary and will be immediately withdrawn when the resolution of health care receivables is finalized and adopted by the NAIC.

When the resolution is adopted, which is anticipated prior to December 31, 2001, the Division will not require the company(s) to restate or amend the 2001 Quarterly Statements previously filed. As a final reminder, the 2001 Annual Statement must be in compliance with the SSAPs as outlined in "The Accounting Practices and Procedures Manual" of the NAIC and the Annual Statement instructions. It is the company's responsibility to identify and disclose any of the receivables in question, and to maintain the records in an identifiable manner, in preparation for the finalization of this issue.

If you need further assistance or information regarding health care receivables, please contact the Division staff at The Nevada Division of Insurance, Corporate and Financial Affairs, (775) 687-4270, or visit the NAIC website for additional information and updates at www.naic.org.

ALICE A. MOLASKY-ARMAN
Commissioner of Insurance

H:\dept\bulletin\01-007