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All organizations, both health care and non-health care, that record liabilities net of insurance coverage purchased should be aware that auditors are increasingly requiring the recording of gross liabilities offset by insurance receivable

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Accounting Change for Health Care Organizations (Accounting Standards Update No. 2010-24)

Historically, accounting rules relating to the handling of expected insurance recoveries for health care organizations have differed from those in other industries. The health care industry was explicitly allowed to report insurance liabilities on a net basis. This means they could report liabilities as one figure that takes into account anticipated insurance recoveries. For example, if a hospital faced gross medical professional liability losses of \$1,000,000 but had purchased a commercial insurance policy covering \$750,000 of those losses, the hospital could simply report a net liability of \$250,000. This was in contrast to other industries, which in theory were required to report in more detail. In the above example, a non-health care organization should report a gross liability of \$1,000,000 and an insurance receivable asset of \$750,000. In practice, this more detailed reporting method is not always used, especially when the insurance receivable asset is not large enough to be of material financial concern.

The current trend is moving away from different accounting treatment by industry, including health care entities, and towards consistency with [International Financial Reporting Standards \(IFRS\)](#). In August of last year, the Financial Accounting Standards Board (FASB) issued [Accounting Standards Update No. 2010-24 for Health Care Entities \(Topic 954\)](#) entitled "Presentation of Insurance Claims and Related Insurance Recoveries." Under this

update, self-insured health care organizations will no longer be allowed to report liabilities on a net basis for fiscal years beginning after December 15, 2010. In order to accommodate the more detailed reporting of liabilities, all actuarial reports for health care organizations need to include projections that are both gross and net of anticipated insurance recoveries. This could represent a change since previous actuarial reports may have provided only projections on a net basis. This change does not impact the entities profit or loss (P&L) statement since this newly reported insured layer liability will be offset by a new insurance receivable asset on the balance sheet.

It appears that auditors may focus more on the implementation of this accounting update with regards to medical professional liability than for other liability lines such as workers' compensation and general liability. Regardless of the line of business, the materiality of the insurance receivable asset will likely determine whether auditors will require the more detailed accounting discussed above.

All organizations, both health care and non-health care, that record liabilities net of insurance coverage purchased should be aware that auditors are increasingly requiring the recording of gross liabilities offset by insurance receivable assets.

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