

Draft date: 4/15/26

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Thursday, April 23, 2026

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Ben Slutsker, Chair	Minnesota	William Leung	Missouri
Philip Barlow, Vice Chair	District of Columbia	Michael Muldoon	Nebraska
Sheila Travis	Alabama	Jennifer Li	New Hampshire
Thomas Reedy	California	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	William B. Carmello	New York
Hannah Howard	Florida	Andy Schallhorn	Oklahoma
Matt Cheung	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah

NAIC Committee Support: Kazeem Okosun/Maggie Chang

AGENDA

1. Receive Comments and Consider Adoption of Proposal 2025-14-L MOD (C-3 GOES Implementation)
—*Ben Slutsker (MN)* Attachment 1
Attachment 2A
Attachment 2B
A. Everlake Life
B. American Council of Life Insurers (ACLI)
2. Receive Comments on and Consider Re-Exposure of Proposal 2026-06-L MOD (LR027 Annual Statement Source)—*Ben Slutsker (MN)* Attachment 3
Attachment 4
A. ACLI
3. Receive a Referral from the Longevity Risk (E/A) Subgroup and Consider Adoption of Proposal 2026-07-L (Longevity Reinsurance)—*Ben Slutsker (MN)* Attachment 5A
Attachment 5B
4. Receive Comments on Proposal 2025-16-L MOD (Collateral Loans)
—*Ben Slutsker (MN)* Attachment 6A
Attachment 6B
Attachment 7A
Attachment 7B
A. ACLI
B. Alternative Credit Council (ACC)
5. Consider Exposure of 2026-09-L (LR008 Schedule BA Collateral Loans Annual Statement Source 2026 update)—*Ben Slutsker (MN)* Attachment 8
6. Receive Comments on and Consider Adoption of Proposal 2026-02-L Attachment 9

(BA Residential Mortgage Loans) —*Ben Slutsker (MN)*

ACLI

7. Discuss Comments Received on C-3 Alignment Specs—*Ben Slutsker (MN)*

A. ACLI

Attachment 10

Attachment 11

Attachment 12

8. Discuss Any Other Matters Brought Before the Working Group —*Ben Slutsker (MN)*

9. Adjournment

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>7/9/2025</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-14-L MOD</u></p> <p>Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>10-31-2025</u> <u>02-11-2026</u> <u>03-22-2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal addresses the referral from the GOES (E/A) Subgroup to the Life RBC (E) Working Group (Attachment A) to consider changes to the C3 Phase I calculation and C3 Phase II calculation and the necessary changes to the Life Risk-Based Capital Instructions.

This proposal implements the technical changes for C3 Phase I and C3 Phase II to update for the adoption of the GOES economic scenario generator.

The proposal scope was modified on 10-31-2025 to exclude “updates the C3 Phase II calculation to not rely on a deep tail CTE(98) metric”. The new proposed edits are highlighted in yellow.

Additional Staff Comments:

- 07-21-2025: Proposal was exposed with comments due 08-20-2025
- 10-31-2025: Proposal was re-exposed with comments due 01-09-2026
- 02-11-2026: Proposal was modified and re-exposed with comments due 03-10-2026
- 03-22-2026: Proposal was modified and re-exposed with comments due 04-13-2026.

**** This section must be completed on all forms.**

Revised 2-2023

Appendix 1a – Cash Flow Modeling for C-3 RBC Methodology

General Approach

1. The underlying asset and liability model(s) are those used for year-end Asset Adequacy Analysis cash flow testing, or a consistent model.
2. Run the 200 scenarios (12 or 50) subset selected from the 10,000 scenarios for interest rates produced from the interest-rate NAIC economic scenario generator, using significance values based on the 20-year US treasury rates.
3. The statutory capital and surplus position, S(t), should be captured for every scenario for each calendar year-end of the testing horizon. The capital and surplus position is equal to statutory assets less statutory liabilities for the portfolio.
4. For each scenario, the C-3 measure is the most negative of the series of present values S(t)*pv(t), where pv(t) is the accumulated discount factor for t years using 105 percent of the after-tax ~~one~~ten-year US Treasury rates for that scenario. In other words:

$$pv(t) = \prod_{1}^t 1/(1+i_t)$$

—Drafting Note: Language permitting discounting at the NAER was contemplated but ultimately removed while we work on what specifications are needed to go along with it. Comments are welcome on this item.—

5. Rank the scenario-specific C-3 measures in descending order, with scenario number 1’s measure being the positive capital amount needed to equal the very worst present value measure.
6. Taking the weighted average of a subset of the scenario specific C-3 scores derives the final C-3 after-tax factor. The C-3 scores are multiplied by the following series of weights:

For the 50 scenario set, the C-3 scores are multiplied by the following series of weights:

-----	Weighting Table														-----
Scenario Rank:	17	16	15	14	13	12	11	10	9	8	7	6	5		
Weight:	0.02	0.04	0.06	0.08	0.10	0.12	0.16	0.12	0.10	0.08	0.06	0.04	0.02		

The sum of these products is the C-3 charge for the product.

(a) For the 12 scenario set, the charge is calculated as the average of the C-3 scores ranked 2 and 3, but cannot be less than half the worst scenario score.

7. If multiple asset/liability portfolios are tested and aggregated, an aggregate C-3 charge can be derived by first summing the S(t)'s from all the portfolios (by scenario) and then following Steps 2 through 6 above. An alternative method is to calculate the C-3 score by scenario for each product, sum them by scenario, then order them by rank and apply the above weights.

8. Phase in: A company may elect to phase-in the effect of the new economic scenario requirements on C-3 RBC, using the following steps:

1. Begin with the C-3 RBC amount from sStep 7 for the Dec. 31, 2025 instructions for all business within the scope of the modeling requirements as of 12/31/25. Add to this the

amount of C-3 RBC computed in the same manner as the 2025 value for any reinsurance ceded that is expected to be recaptured in 2026 and in the scope of the modeling requirements. This amount is 2025 RBC.

- 2. Determine the C-3 RBC amount as of 12/31/25 using sSteps 2 - 7 for the same inforce business as in 1. This amount is 2025 RBC New.
- Determine the phase-in amount (PIA) as the excess of 2025 RBC New over 2025 RBC.
- For 12/31/2026, compute the C-3 RBC following sSteps 2 – 7 above, then subtract PIA times (2/3).
- For 12/31/2027, compute the C-3 RBC following sSteps 2 – 7 above, then subtract PIA times (1/3).

Single Scenario C-3 Measurement Considerations

1. GENERAL METHOD - This approach incorporates interim values, consistent with the approach used for bond, mortgage and mortality RBC factor quantification. The approach establishes the risk measure in terms of an absolute level of risk (e.g., solvency) rather than volatility around an expected level of risk. It also recognizes reserve conservatism, to the degree that such conservatism has not been used elsewhere.
2. INITIAL ASSETS = RESERVES - Consistent with appointed actuary practice, the cash flow models are run with initial assets equal to reserves; that is, no surplus assets are used.
3. AVR - Existing AVR-related assets should not be included in the initial assets used in the C-3 modeling. These assets are available for future credit loss deviations over and above expected credit losses. These deviations are covered by C-1 risk capital. Similarly, future AVR contributions should not be modeled. However, the expected credit losses should be in the cash flow modeling. (Deviations from expected are covered by both the AVR and the C-1 risk capital.)
4. IMR - IMR assets should be used for C-3 modeling. (Also see #9 – Disinvestment Strategy.)
5. INTERIM MEASURE - Retained statutory surplus (i.e., statutory assets less statutory liabilities) is used as the year-to-year interim measure.
6. TESTING HORIZONS - Surplus adequacy should be tested over a period that extends to a point at which contributions to surplus on a closed block are immaterial in relationship to the analysis. If some products are being cash flow tested for Asset Adequacy Analysis over a longer period than the 3100 years generated by the interest-rateeconomic scenario generator, the scenario rates should be held constant at the year 3100 level for all future years. A consistent testing horizon is important for all lines if the C-3 results from different lines of business are aggregated.
7. TAX TREATMENT - The tax treatment should be consistent with that used in Asset Adequacy Analysis. Appropriate disclosure of tax assumptions may be required.
8. REINVESTMENT STRATEGY - The reinvestment strategy should be that used in Asset Adequacy Analysis modeling.
9. DISINVESTMENT STRATEGY - In general, negative cash flows should be handled just as they are in the Asset Adequacy Analysis. The one caveat is, since the RBC scenarios are more severe, models that depend on borrowing need to be reviewed to be confident that loans in the necessary volume are likely to be available under these circumstances at a rate consistent with the model's assumptions. If not, adjustments need to be made.

If negative cash flows are handled by selling assets, then appropriate modeling of contributions and withdrawals to the IMR need to be reflected in the modeling.

10. STATUTORY PROFITS RETAINED - The measure is based on a profits retained model, anticipating that statutory net income earned one period is retained to support capital requirements in future periods. In other words, no stockholder dividends are withdrawn, but policyholder dividends, excess interest, declared rates, etc., are modeled realistically and assumed, paid or credited.
11. LIABILITY and ASSET ASSUMPTIONS - The liability and asset assumptions should be those used in Asset Adequacy Analysis modeling. Disclosure of these assumptions may be required.
12. SENSITIVITY TESTING - Key assumptions shall be stress tested (e.g., lapses increased by 50 percent) to evaluate sensitivity of the resulting C-3 requirement to the various assumptions made by the actuary. Disclosure of these results may be required.
13. USE OF NON-PRESCRIBED SCENARIO GENERATORS - At the option of the company, interest rates may be generated in part or in full using non-prescribed scenario generators in lieu of the prescribed economic generators, provided that the scenarios thus generated do not result in a C-3 charge for the product as calculated in Step 6 that is materially lower than the C-3 charge for the product as calculated in Step 6 resulting from the use of the scenarios from the prescribed NAIC economic scenario generator as defined in Step 2 above.

Appendix 1b - Frequently Asked Questions for Cash Flow Modeling for C-3 RBC

1. Where can the scenario generator be found? ~~What is needed to run it?~~

The scenario generator is ~~the Conning GEMS Economic Scenario Generator. Outputs may be found at the following website: <https://naic.conning.com/scenariofiles> a Microsoft Excel spreadsheet. By entering the Treasury yield curve at the date for which the testing is done, it will generate the sets of 50 or 12 scenarios. It requires Windows 95 or higher. This spreadsheet and instructions are available on the NAIC Web site at (http://www.naic.org/cmte_e_lrbc.htm). It is also available on diskette from the American Academy of Actuaries.~~

2. The results may include sensitive information in some instances. How can it be kept confidential?

As provided for in Section 8 of the Risk-Based Capital (RBC) For Insurers Model Act, all information in support of and provided in the RBC reports (to the extent the information therein is not required to be set forth in a publicly available annual statement schedule), with respect to any domestic or foreign insurer, which is filed with the commissioner constitute information that might be damaging to the insurer if made available to its competitors, and therefore shall be kept confidential by the commissioner. This information shall not be made public or be subject to subpoena, other than by the commissioner and then only for the purpose of enforcement actions taken by the commissioner under the Risk-Based Capital (RBC) For Insurers Model Act or any other provision of the insurance laws of the state.

3. The definition of the annuities category talks about “debt incurred for funding an investment account...” Could you give a specific description of what is intended?

One example is a situation where an insurer is borrowing under an advance agreement with a federal home loan bank, under which agreement collateral, on a current fair value basis, is required to be maintained with the bank. This arrangement has many of the characteristics of a GIC, but is classified as debt.

4. The instructions specify that assumptions consistent with those used for Asset Adequacy Analysis testing be used for C-3 RBC, but my company cash flow tests a combination of universal life and annuities for that analysis and using the same assumptions will produce incorrect results. What was intended in this situation?

Where this situation exists, assumptions should be used for the risk-based capital work that are consistent with those used for the Asset Adequacy Cash Flow Testing. In other words, the assumptions used should be appropriate to the annuity component being evaluated for RBC and consistent with the overall assumption set used for Asset Adequacy Analysis.

Line (35)

Enter the interest rate risk component from the Cash Flow Modeling for C-3 RBC Requirements Variable Annuities and Similar Products (see Line (37)). The interest rate risk component should be entered on a pre-tax basis using the enacted maximum corporate income tax rate.

Line (36)

Total interest rate risk. Equals Line (34) plus Line (35).

Line (37)**Cash Flow Modeling for C-3 RBC Requirements for Variable Annuities and Similar Products:***Overview*

The amount reported on Line (35) and Line (37) is calculated using the 7-step process defined below. This calculation applies to all policies and contracts that have been valued following the requirements of AG-43 or VM-21. For contracts whose reserve was determined using the Alternative Methodology (VM-21 Section 7) see step 3 while all other contracts follow steps 1 and 2, then all contracts follow steps 4 - 7.

Step 1 CTE98: The first step is to determine CTE98 by applying the one of the two methodologies described in paragraph A below.

Step 2 C-3 RBC: using the formulas in paragraph B, determine the C-3 RBC amount based on the amount calculated in step (1). Floor this amount at \$0.

Step 3: Determine the C-3 RBC using the Alternative Methodology for any business subject to that requirements as described in paragraph C.

Step 4: As described in paragraph D below, the C-3 RBC amount is the sum of the amounts determined in steps 2 and 3 above, but not less than zero. The Total Asset Requirement is the Reserve based on the requirements of VM-21 prior to the application of any phase-in, plus the C-3 RBC amount.

Step 5: For a company that has elected a Phase-in for reserves following VM-21 Section 2.B., the C-3 RBC amount is to be phased-in over the same time period following the requirements in paragraph E below.

Step 6: Apply the smoothing rules (if applicable) to the C-3 RBC amount in step (4) or (5) as applicable.

Step 7: Divide the amount from Step 4, 5, or 6 (as appropriate) by (1-enacted maximum federal corporate income tax rate). Split this amount into an interest rate risk portion and a market risk portion, as described in paragraph **GF**.

The interest rate portion of the risk should be included in Line (35) and the market risk portion in Line (37).

The C-3 RBC is calculated as follows:

A. CTE (98) is calculated as follows: Except for policies and contracts subject to the Alternative Methodology (See C. below), apply the CTE methodology described in NAIC Valuation Manual VM-21 and calculate the CTE (98) as the numerical average of the 2% largest values of the Scenario Reserves, as defined by Section 4 of VM-21. In performing this calculation, the process and methods used to calculate the Scenario Reserves use the requirements of VM-21 and should be the same as used for the reserve calculations. The effect of Federal Income Tax should be handled following one of the following two methods:

1. If using the Macro Tax Adjustment (MTA): The modeled cash flows will ignore the effect of Federal Income Tax. As a result, for each individual scenario, the numerical value of the scenario reserve used in this calculation should be identical to that for the same scenario in the Aggregate Reserve calculation under VM-21. Federal Income Tax is reflected later in the formula in paragraph B.1.
2. If using Specific Tax Recognition (STR): At the option of the company, CTE After-Tax (98) (CTEAT (98)) may be calculated using an approach in which the effect of Federal Income Tax is reflected in the projection of Accumulated Deficiencies, as defined in Section 4.A. of VM-21, when calculating the Scenario Reserve for each scenario. To reflect the effect of Federal Income Tax, the company should find a reasonable and consistent basis for approximating the evolution of tax reserves in the projection, taking into account restrictions around the size of the tax reserves (e.g., that tax reserve must equal or exceed the cash surrender value for a given contract). The Accumulated Deficiency at the end of each projection year should also be discounted at a rate that reflects the projected after-tax discount rates in that year. In addition, the company should add the Tax Adjustment as described below to the calculated CTEAT (98) value.
3. A company that has elected to calculate CTEAT (98) using STR may not switch back to using MTA in the projection of Accumulated Deficiencies without prominently disclosing that change in the certification and supporting memorandum. The company should also disclose the methodology adopted, and the rationale for its adoption, in the documentation required by paragraph J below.
4. Application of the Tax Adjustment: Under the U.S. IRC, the tax reserve is defined. It can never exceed the statutory reserve nor be less than the cash surrender value. If a company is using STR and if the company's actual tax reserves exceed the projected tax reserves at the beginning of the projection, a tax adjustment is required.

The CTEAT (98) must be increased on an approximate basis to correct for the understatement of modeled tax expense. The additional taxable income at the time of claim will be realized over the projection and will be approximated using the duration to worst, i.e., the duration producing the lowest present value for each scenario. The method of developing the approximate tax adjustment is described below.

The increase to CTEAT (98) may be approximated as the corporate tax rate times f times the difference between the company's actual tax reserves and projected tax reserves at the start of the projections. For this calculation, f is calculated as follows: For the scenarios reflected in calculating CTE (98), the scenario reserve is determined and its associated projection duration is tabulated. At each such duration, the ratio of the number of contracts in force (or covered lives for group contracts) to the number of contracts in force (or covered lives) at the start of the modeling projection is calculated. The average ratio is then calculated over all CTE (98) scenarios and f is one minus this average ratio. If the Alternative Method is used, f is approximated as 0.5.

B. Determination of RBC amount using stochastic modeling:

1. If using the MTA: Calculate the RBC Requirement by the following formula in which the statutory reserve is the actual reserve reported in the Annual Statement. ~~i~~In the second term – i.e., the difference between statutory reserves and tax reserves multiplied by the Federal Income Tax Rate – may not exceed the portion of the company's non-admitted deferred tax assets attributable to the same portfolio of contracts to which VM-21 is applied in calculating statutory reserves:

$$25\% \times ((\text{CTE (98)} + \text{Additional Standard Projection Amount} - \text{Statutory Reserve}) \times (1 - \text{Federal Income Tax Rate}) - (\text{Statutory Reserve} - \text{Tax Reserve}) \times \text{Federal Income Tax Rate})$$

If the company elects to use the STR: The C-3 RBC is determined by the following formula: $25\% \times (\text{CTEAT (98)} + \text{Additional Standard Projection Amount} - \text{Statutory Reserve})$
The Additional Standard Projection Amount is calculated using the methodology outlined in Section 6 of VM-21.

C. Determination of C-3 RBC using Alternative Methodology: This calculation applies to all policies and contracts that have been valued following the requirements of AG-43 or VM-21, for which the reserve was determined using the Alternative Methodology (VM-21 Section 7). The C-3 RBC amount is determined by applying the methodology as defined in Appendix 2 to these instructions.

D. The C-3 RBC amount is the sum of the amounts determined in paragraphs B and C above, but not less than zero. The TAR is defined as the Reserve determined according to VM-21 plus the C-3 RBC amount. All values are prior to any consideration of Phase-in allowances for either reserve or C-3 RBC, ~~or any C-3 RBC smoothing allowance~~. The RBC values are post-tax.

E. Phase in: A company that has elected to phase-in the effect of the new ~~reserve economic scenario generator~~ requirements following VM-21 Section 2.CB, shall phase in the effect on C-3 RBC ~~over the same time period~~, using the following steps:

- 1. Begin with the C-3 RBC amount from step 7 for Dec. 31, ~~2019-2025~~ LR027 Line (37) instructions for all business within the scope of the Variable Annuities modeling requirements as of 12/31/~~1925~~. ~~Add to this any voluntary reserves which were subtracted from TAR when the C-3 RBC amount reported for 2019 was determined. Also add to this the amount of C-3 RBC computed in the same manner as the 202519 value for any reinsurance ceded that is expected to be recaptured in 20260 and in the scope of the Variable Annuities modeling requirements. This amount is 201925 RBC.~~
- 2. Determine the C-3 RBC amount as of 12/31/~~1925~~ using paragraphs A, B, C, and D for the same inforce business as in 1. ~~Exclude any voluntary reserves in these calculations. Labeled as This amount is 201925 RBC New.~~
- Determine the phase-in amount (PIA) as the excess of ~~201925 RBC New~~ over ~~201925 RBC~~.
- For 12/31/2020~~6~~, compute the C-3 RBC following paragraphs A – ~~108~~D above, then subtract PIA times (2/3).
- For 12/31/2021~~7~~, compute the C-3 RBC following paragraphs A – D above, then subtract PIA times (1/3).

~~**Guidance Note:** For a company that has adopted a Phase in for reserves longer than 3 years, adjust the above formula to reflect the actual period with uniform amortization amounts during that period.~~

~~**Guidance Note:** An adjustment is made for voluntary reserves. Voluntary reserve means any reserve that is not required by AG-43, VM-21 and/or a state in which the company is doing business and was subtracted from TAR in 2019 to determine the RBC.~~

F. ~~Smoothing of C-3 RBC amount~~

~~A company should decide whether or not to smooth the C-3 RBC calculated in paragraph D or E above to determine the amount in Line (37). For any business reinsured under a coinsurance agreement that complies with all applicable reinsurance reserve credit “transfer of risk” requirements, the ceding company shall reduce the reserve in proportion to the business ceded while the assuming company shall use a reserve consistent with the business assumed.~~

~~A company may choose to smooth the C-3 RBC calculated in paragraph D or E above. A company is required to get approval from its domestic regulator prior to changing its decision about smoothing from the prior year. In addition, a company that has elected to smooth the risk-based capital is required to get approval from its domestic regulator prior to smoothing if it has experienced a material change in its Clearly Defined Hedging Strategy from the prior. For this purpose, a company’s Clearly Defined Hedging Strategy is considered to have experienced a material change if any of the items outlined in VM-21 Section 1.D.2 in the current year differs from that in the prior year.~~

~~To implement smoothing, use the following steps. If a company does not qualify to smooth or a decision has been made not to smooth, go to paragraph G.~~

- ~~1. Determine the C-3 RBC amount calculated in paragraph D or E above~~
- ~~2. Determine the aggregate reserve for the contracts covered by the Variable Annuity Stochastic modeling requirements.~~
- ~~3. Determine the ratio of the C-3 RBC / reserve for current year.~~
- ~~4. Determine the C-3 RBC as actually reported for the prior year Lines (35) plus (37) and adjust that amount to a post-tax amount by multiplying by (1 – enacted maximum federal corporate income tax rate). Restate the amount to remove the effect of any voluntary reserves held in prior years that materially differ in amount from the voluntary reserves held in the current year.~~

- ~~5. Determine the aggregate reserve for the contracts in scope of these requirements for the prior year end. Restate the aggregate reserve to remove any voluntary reserves held for the prior year end that materially differ in amount from the voluntary reserves held as of the current year end.~~
- ~~6. Determine the ratio of the C-3 RBC / reserve for prior year.~~
- ~~7. Determine a ratio as $0.4*(6) + 0.6*(3)$ {40% prior year ratio and 60% current year ratio}.~~
- ~~8. Determine the risk based capital for current year as the product of (7) and (2) {adjust (2) to be actual 12/31 reserve}.~~

~~G.F.~~ The amount determined in paragraphs D., ~~E.~~, or ~~FE.~~ above for the contracts shall be divided by (1-enacted maximum federal corporate income tax rate) to arrive at a pre-tax amount. This pre-tax amount shall be split into a component for interest rate risk and a component for market risk. Neither component may be less than zero. The provision for the interest rate risk, if any, is to be reported in Line (35). The market risk component is reported in Line (37).

The amount reported in Line (37) is to be combined with the C-1cs component for covariance purposes.

~~H.G.~~ The way grouping (of funds and of contracts), sampling, number of scenarios, and simplification methods are handled is the responsibility of the company. However, all these methods are subject to Actuarial Standards of Practice, supporting documentation and justification, and should be identical to those used in calculating the company's statutory reserves following VM-21.

~~I.H.~~ Certification of the work done to set the C-3 RBC amount for Variable Annuities and Similar products are the same as are required for reserves as part of VM-31. The certification should specify that the actuary is not opining on the adequacy of the company's surplus or its future financial condition.

The certification(s) should be submitted by hard copy with any state requiring an RBC hard copy.

~~J.I.~~ An actuarial memorandum should be constructed documenting the methodology and assumptions upon which the required capital for the variable annuities and similar products is determined. Since the starting point for the C-3 RBC calculation is the cash flow modeling used for the reserves, the documentation requirements for reserves (VM-31) should be followed for the C-3 RBC. The reserve report may be incorporated by reference, with this C-3 RBC memorandum focused on identifying differences and items unique to the C-3 RBC process, or at the company's option, the documentation of C-3 RBC may be merged into the VA Report with the differences for C-3 RBC discussed in a separate section of the Memorandum as outlined in VM-31.

These differences that would need to be identified either in the RBC Actuarial Memorandum or the VA Report will typically include:

- * The basis for considering federal income tax,
- * Whether or not smoothing was applied, and the effect of that smoothing,
- * Whether or not a phase in was used, and the impact on the reported values,
- * If the company elects to calculate CTEAT (98) using STR whereby the effect of Federal Income Tax is reflected in the projection of Accumulated Deficiencies, the company should still disclose in the memorandum the Total Asset Requirement and C-3 RBC that would be obtained if the company had elected to use the MTA method.
- * Documentation of the alternative methodology calculations, if applicable, and
- * Documentation of how the C-3 RBC values were allocated to the interest and market risk components.

This actuarial memorandum will be confidential and available to regulators upon request.

The lines on the alternative calculations page will not be required for 2019 or later.

The total of all annual statement reserves representing exposure to C-3 risk on Line (36) should equal the following:

- Exhibit 5, Column 2, Line 0199999
- Page 2, Column 3, Line 6
- + Exhibit 5, Column 2, Line 0299999
- + Exhibit 5, Column 2, Line 0399999
- + Exhibit 7, Column 1, Line 14
- + Separate Accounts Page 3, Column 3, Line 1 plus Line 2 after deducting (a) funds in unitized separate accounts with no underlying guaranteed minimum return and no unreinsured guaranteed living benefits; (b) non-indexed separate accounts that are not cash flow tested with guarantees less than 4%; (c) non-cash-flow-tested experience rated pension reserves/liabilities; and (d) guaranteed indexed separate accounts using a Class II investment strategy.
- Non policyholder reserves reported on Exhibit 7
- + Exhibit 5, Column 2, Line 0799997
- + Schedule S, Part 1, Section 1, Column 12
- Schedule S, Part 3, Section 1, Column 14

APPENDIX 2 – ALTERNATIVE METHOD FOR GMDB RISKS

{Drafting Note: the following is copied from the American Academy of Actuaries June 2005 Report to the NAIC Capital Adequacy Task Force
This Appendix describes the Alternative Method for GMDB exposure in significant detail; how it is to be applied and how the factors were developed. Factor tables have been developed using the Conditional Tail Expectation (“CTE”) risk measure at two confidence levels: 65% and 90%. The latter is determined on an “after tax” basis and is required for the RBC C3 Phase II standard for Total Asset Requirement (“TAR”). The former is a pre-tax calculation and should assist the Variable Annuity Reserve Working Group (“VARWG”) in formulating a consistent “alternative method” for statutory reserves.

General

1. It is expected that the Alternative Method (“AltM”) will be applied on a policy-by-policy basis (i.e., seriatim). If the company adopts a cell-based approach, only materially similar contracts should be grouped together. Specifically, all policies comprising a “cell” must display substantially similar characteristics for those attributes expected to affect risk-based capital (e.g., definition of guaranteed benefits, attained age, policy duration, years-to-maturity, market-to-guaranteed value, asset mix, etc.).
2. The Alternative Method determines the TAR as the sum of the Cash Surrender Value and the following three (3) provisions, collectively referred to as the *Additional Asset Requirement* (“AAR”):
 - Provision for amortization of the outstanding (unamortized) surrender charges – “Charge Amortization” or “CA”;
 - Provision for fixed dollar expenses/costs net of fixed dollar revenue – “Fixed Expenses” or “FE”; and
 - Provision for claims (in excess of account value) under the guaranteed benefits net of available spread-based revenue (“margin offset”) – “Guaranteed Cost” or “GC”.

All of these components reflect the impact of income taxes and are explained in more detail later in this Appendix.

The Risk-Based Capital amount (C-3 RBC) is determined in aggregate for the block of policies as the TAR less the reserve determined based on Section 7 of VM-21.

Note the following regarding income taxes:

The company determines the CA and FE amounts by projecting the inforce data and incorporating a 21% tax rate and a post-tax discount rate of 4.54% (= 5.75% x [1-21%]).

In determining the GC amounts, a “look-up” function is used which provides a GMDB Cost Factor “f” and Base Margin Offset Factor “g”. These factors (“f” and “g”) represent CTE90 factors on a post-tax basis where a 35% tax rates and 3.74% (= 5.75% x (1-35%)) discount rate has been used. The company needs to multiply these factors by (.79/.65) to adjust the factors for a 21% tax rate basis. It is noted that this adjustment overstates the impact of the lower tax rate as the impact of the higher discount rate has not been reflected.

3. The total AAR (in excess of cash surrender value) is the sum of the AAR calculations for each policy or cell. The result for any given policy (cell) may be negative, zero or positive.
4. For variable annuities without guarantees, the Alternative Method for capital uses the methodology which applied previously to all variable annuities. The charge is 11% of the difference between fund balance and cash surrender value if the current surrender charge is based on fund balance. If the current surrender charge is based on fund contributions, the charge is 2.4% of the difference for those contracts for which the fund balance exceeds the sum of premiums less withdrawals and 11% for those for which that is not the case. In all cases, the result is to be multiplied by 0.79 to adjust for Federal Income Tax. For in-scope contracts, such as many payout annuities with no cash surrender value and no performance guarantees, there is no capital charge.
5. For variable annuities with death benefit guarantees, the AAR for a given policy is equal to: $R \times (CA + FE) + GC$ where:

<i>CA (Charge Amortization)</i>	= Provision for amortization of the outstanding (unamortized) surrender charges
<i>FE (Fixed Expense)</i>	= Provision for fixed dollar expenses/costs net of fixed dollar revenue
<i>GC (Guaranteed Cost)</i>	= Provision for claims (in excess of account value) under the guaranteed benefits net of available spread-based revenue (“margin offset”)

The components CA , FE and GC are calculated separately. CA and FE are defined by deterministic “single-scenario” calculations which account for asset growth, interest, inflation and tax at prescribed rates. Mortality is ignored. However, the actuary determines the appropriate “prudent best estimate” lapses/withdrawal rates for the calculations. The components CA , FE and GC may be positive, zero or negative. $R=h(\sigma)$ is a “scaling factor” that depends on certain risk attributes $\bar{\theta}$ for the policy and the product portfolio.

6. The “Alternative Method” factors and formulas for GMDB risks (component GC) have been developed from stochastic testing using the 10,000 “Pre-packaged” scenarios (March 2005). The pre-packaged scenarios have been fully documented under separate cover – see http://www.actuary.org/pdf/life/c3supp_march05.pdf at the American Academy of Actuaries’ website.
7. The model assumptions for the AltM Factors (component GC) are documented in the section of this Appendix entitled *Component GC*.
8. The table of GC factors that has been developed assumes male mortality at 100% of the MGDB 94 ALB table, and uses a 5-year age setback for female annuitants. Companies using the Alternative Method may use these factors, or may use the procedure described in Methodology Note C3-05 in the report “Recommended Approach for Setting Risk- Based Capital Requirements for Variable Annuities and Similar Products Presented by the American Academy of Actuaries’ Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioners’ Capital Adequacy (E) Task Force (June 2005)” to adjust for the actuary’s Prudent Best Estimate of mortality. If the company does not have a Prudent Best Estimate mortality assumption, the company may use the procedure described in Methodology Note C3-05 to adjust to the 2012 IAM as modified in VM-21 Section 11.C. Once a company uses the modified method for a block of business, the option to use the unadjusted table is no longer available for that part of its business.
9. There are five (5) major steps in using the GC factors to determine the “ GC ” component of the AAR for a given policy/cell:
 - a) Classifying the asset exposure;
 - b) Determining the risk attributes;
 - c) Retrieving the appropriate nodes from the factor grid;
 - d) Interpolating the nodal factors, where applicable (optional);
 - e) Applying the factors to the policy values.

Categorizing the asset value for the given policy or cell involves mapping the entire exposure to one of the eight (8) prescribed “fund classes”. Alternative Method factors are provided for each asset class.

The second step requires the company to determine (or derive) the appropriate attributes for the given policy or cell. These attributes are needed to calculate the required values and access the factor tables:

- Product form (“Guarantee Definition”), P .
- Adjustment to guaranteed value upon partial withdrawal (“GMDB Adjustment”), A .
- Fund class, F .
- Attained age of the annuitant, X .
- Policy duration since issue, D .
- Ratio of account value to guaranteed value, ζ .
- Total account charges, MER .

Other required policy values include:

- Account value, AV .
- Current guaranteed minimum death benefit, $GMDB$.

- Net deposit value (sum of deposits less sum of withdrawals), $NetDeposits^2$.
- Net spread available to fund guaranteed benefits (“margin offset”), α .

The next steps – retrieving the appropriate nodes from the factor grid and interpolation – are explained in the section entitled *Component GC* of this Appendix. Tools are provided to assist the company in these efforts (see Appendix 9), but their use is not mandatory. This documentation is sufficiently detailed to permit the company to write its own lookup and extraction routines. A calculation example to demonstrate the application of the various component factors to sample policy values is shown in the section *Component GC* of this Appendix.

10. The total account charges should include all amounts assessed against policyholder accounts, expressed as a level spread per year (in basis points). This quantity is called the Management Expense Ratio (“MER”) and is defined as the average amount (in dollars) charged against policyholder funds in a given year divided by average account value. Normally, the MER would vary by fund class and be the sum of investment management fees, mortality & expense charges, guarantee fees/risk premiums, etc. The spread available to fund the GMDB costs (“margin offset”, denoted by α) should be net of spread-based costs and expenses (e.g., net of maintenance expenses, investment management fees, trail commissions, etc.), but may be increased for Revenue Sharing as can be reflected in modeling (i.e., had the Alternative Method not been elected) by adhering to the requirements set forth in section 6 of the *Modeling Methodology*. The section of this Appendix on *Component GC* describes how to determine *MER* and α . ‘Time-to-maturity’ is uniquely defined in the factor modeling by $T = 95 - X$. (This assumes an assumed maturity age of 95 and a current attained age of X .) Net deposits are used in determining benefit caps under the GMDB Roll-up and Enhanced Death Benefit (“EDB”) designs.
11. The GMDB definition for a given policy/cell may not exactly correspond to those provided. In some cases, it may be reasonable to use the factors/formulas for a different product form (e.g., for a “roll-up” GMDB policy near or beyond the maximum reset age or amount, the company should use the “return-of-premium” GMDB factors/formulas, possibly adjusting the guaranteed value to reflect further resets, if any). In other cases, the company might determine the RBC based on two different guarantee definitions and interpolate the results to obtain an appropriate value for the given policy/cell. However, if the policy form (definition of the guaranteed benefit) is sufficiently different from those provided and there is no practical or obvious way to obtain a good result from the prescribed factors/formulas, the company must select one of the following options:
 - a) Model the “C3 Phase II RBC” using stochastic projections according to the approved methodology;
 - b) Select factors/formulas from the prescribed set such that the values obtained conservatively estimate the required capital; or
 - c) Calculate company-specific factors or adjustments to the published factors based on stochastic testing of its actual business. This option is described more fully in the section of this Appendix on *Component GC*.
12. The actuary must decide if existing reinsurance arrangements can be accommodated by a straight-forward adjustment to the factors and formulas (e.g., quota-share reinsurance without caps, floors or sliding scales would normally be reflected by a simple pro-rata adjustment to the “gross” *GC* results). For more complicated forms of reinsurance, the company will need to justify any adjustments or approximations by stochastic modeling. However, this modeling need not be performed on the whole portfolio but can be undertaken on an appropriate set of representative policies. See the section of this Appendix on *Component GC*.

² Net deposits are required only for certain policy forms (e.g., when the guaranteed benefit is capped as a multiple of net policy contributions).

Component CA

Component CA provides for the amortization of the unamortized surrender charges using the actual surrender charge schedule applicable to the policy. Over time, the surrender charge is reduced and a portion of the charges in the policy are needed to fund the resulting increase in surrender value. This component can be interpreted as the “amount needed to amortize the unamortized surrender charge allowance for the *persisting* policies plus an implied borrowing cost”. By definition, the amortization for non-persisting lives in each time period is exactly offset by the collected surrender charge revenue (ignoring timing differences and any waiver upon death). The company must project the unamortized balance to the end of the surrender charge period and discount the year-by-year amortization under the following assumptions. All calculations should reflect the impact of income taxes.

- Net asset return (i.e., after fees) as shown in Table 1 below. These rates roughly equate to an annualized 5th percentile return over a 10-year horizon³. The 10-year horizon was selected as a reasonable compromise between the length of a typical surrender charge period and the longer testing period usually needed to capture all the costs on "more expensive" portfolios (i.e., lower available spread, lower AV/GV ratio, older ages, etc.). Note, however, that it may not be necessary to use these returns if surrender charges are a function of deposits/premiums.
- Income tax and discount rates (after-tax) as defined in Table 9 of this Appendix.
- The “Dynamic Lapse Multiplier” calculated at the valuation date (a function of Account Value (AV) — Guaranteed Value (GV) ratio) is assumed to apply in each future year. This factor adjusts the lapse rate to reflect the antiselection present when the guarantee is in-the-money. Lapse rates may be lower when the guarantees have more value.
- Surrender charges and free partial withdrawal provisions should be reflected as per the contract specifications.
- “Prudent best estimate” lapse and withdrawal rates. Rates may vary according to the attributes of the business being valued, including, but not limited to, attained age, policy duration, etc.
- For simplicity, mortality may be ignored in the calculations.

Unlike the GC component, which requires the actuary to map the entire contract exposure to a single “equivalent” asset class, the CA calculation separately projects each fund (as mapped to the 8 prescribed categories) using the net asset returns in Table 2-1.

Table 2-1: Net Asset Returns for “CA” Component

Asset Class/Fund	Net Annualized Return
Fixed Account	Guaranteed Rate
Money Market and Fixed Income	0%
Balanced	-1%
Diversified Equity	-2%
Diversified International Equity	-3%
Intermediate Risk Equity	-5%
Aggressive or Exotic Equity	-8%

³ A 5th percentile return is consistent with the CTE90 risk measure adopted in the C3 Phase II RBC methodology.

Component *FE*

Component *FE* establishes a provision for fixed dollar costs (i.e., allocated costs, including overhead *and* those expenses defined on a “per policy” basis) less any fixed dollar revenue (e.g., annual administrative charges or policy fees). The company must project fixed expenses net of any “fixed revenue” to the earlier of contract maturity or 30 years and discount the year-by-year amounts under the following assumptions. All calculations should reflect the impact of income taxes.

- Income tax and discount rates (after-tax) as defined in Table 9 of this Appendix.
- The “Dynamic Lapse Multiplier” calculated at the valuation date (a function of MV—GV ratio) is assumed to apply in each future year. This factor adjusts the lapse rate to reflect the antiselection present when the guarantee is in-the-money. Lapse rates may be lower when the guarantees have more value.
- Per policy expenses are assumed to grow with inflation starting in the second projection year. The ultimate inflation rate of 3% per annum is reached in the 8th year after the valuation date. The company must grade linearly from the current inflation rate (“CIR”) to the ultimate rate. The CIR is the higher of 3% and the inflation rate assumed for expenses in the company’s most recent asset adequacy analysis for similar business.
- “Prudent best estimate” for policy termination (i.e., total surrender). Rates may vary according to the attributes of the business being valued, including, but not limited to, attained age, policy duration, etc. Partial withdrawals should be ignored as they do not affect survivorship.
- For simplicity, mortality may be ignored in the calculations.

Component *GC*

The general format for *GC* may be written as: $GC = GV \times f(\tilde{\theta}) - AV \times \hat{g}(\tilde{\theta}) \times h(\tilde{\theta})$ where GV = current guaranteed minimum death benefit, AV = current account value and $= \frac{AV}{R} \times g(\tilde{\theta})$. The functions $f(\circ)$, $g(\circ)$, and $h(\circ)$ depend on the risk attributes of the policy $\tilde{\theta}$ and product portfolio $\hat{\theta}$. $h(\circ) = R$ was introduced in the “General” section as a “scaling factor”. α is the company-determined net spread (“margin offset”) available to fund the guaranteed benefits and $\hat{\alpha} = 100$ basis points is the margin offset assumed in the development of the “Base” tabular factors. The functions $f(\circ)$, $g(\circ)$ and $h(\circ)$ are more fully described later in this section.

Rearranging terms for *GC*, we have $GC = f(\tilde{\theta}) \times [GV - AV \times z(\tilde{\theta})]$. Admittedly, $z(\tilde{\theta})$ is a complicated function that depends on the risk attribute sets $\tilde{\theta}$ and $\hat{\theta}$, but conceptually we can view $AV \times z(\tilde{\theta})$ as a shock to the current account value (in anticipation of the adverse investment return scenarios that typically comprise the CTE(90) risk measure for the AAR) so that the term in the square brackets is a “modified net amount at risk”. Accordingly, $f(\tilde{\theta})$ can be loosely interpreted as a factor that adjusts for interest (i.e., discounting) and mortality (i.e., the probability of the annuitant dying).

In practice, $f(\circ)$, $g(\circ)$, and $h(\circ)$ are not functions in the typical sense, but values interpolated from the factor grid. The factor grid is a large pre-computed table developed from stochastic modeling for a wide array of combinations of the risk attribute set. The risk attribute set is defined by those policy and/or product portfolio characteristics that affect the risk profile (exposure) of the business: attained age, policy duration, AV/GV ratio, fund class, etc.

Fund Categorization

The following criteria should be used to select the appropriate factors, parameters and formulas for the exposure represented by a specified guaranteed benefit. When available, the volatility of the long-term annualized total return for the fund(s) – or an appropriate benchmark – should conform to the limits presented. This calculation should be made over a reasonably long period, such as 25 to 30 years.

Where data for the fund or benchmark are too sparse or unreliable, the fund exposure should be moved to the next higher volatility class than otherwise indicated. In reviewing the asset classifications, care should be taken to reflect any additional volatility of returns added by the presence of currency risk, liquidity (bid-ask) effects, short selling and speculative positions.

All exposures/funds must be categorized into one of the following eight (8) asset classes:

1. Fixed Account
2. Money Market
3. Fixed Income
4. Balanced
5. Diversified Equity
6. Diversified International Equity
7. Intermediate Risk Equity
8. Aggressive or Exotic Equity

Fixed Account. The fund is credited interest at guaranteed rates for a specified term or according to a ‘portfolio rate’ or ‘benchmark’ index. The funds offer a minimum positive guaranteed rate that is periodically adjusted according to company policy and market conditions.

Money Market/Short-Term. The fund is invested in money market instruments with an average remaining term-to-maturity of less than 365 days.

Fixed Income. The fund is invested primarily in investment grade fixed income securities. Up to 25% of the fund within this class may be invested in diversified equities or high- yield bonds. The expected volatility of the fund returns will be lower than the Balanced fund class.

Balanced. This class is a combination of fixed income securities with a larger equity component. The fixed income component should exceed 25% of the portfolio and may include high yield bonds as long as the total long-term volatility of the fund does not exceed the limits noted below. Additionally, any aggressive or ‘specialized’ equity component should not exceed one-third (33.3%) of the total equities held. Should the fund violate either of these constraints, it should be categorized as an equity fund. These funds usually have a long-term volatility in the range of 8% – 13%.

Diversified Equity. The fund is invested in a broad-based mix of U.S. and foreign equities. The foreign equity component (maximum 25% of total holdings) must be comprised of liquid securities in well-developed markets. Funds in this category would exhibit long-term volatility comparable to that of the S&P500. These funds should usually have a long-term volatility in the range of 13% – 18%.

Diversified International Equity. The fund is similar to the Diversified Equity class, except that the majority of fund holdings are in foreign securities. These funds should usually have a long-term volatility in the range of 14% – 19%.

Intermediate Risk Equity. The fund has a mix of characteristics from both the Diversified and Aggressive Equity Classes. These funds have a long-term volatility in the range of 19% – 25%.

Aggressive or Exotic Equity. This class comprises more volatile funds where risk can arise from: (a) underdeveloped markets, (b) uncertain markets, (c) high volatility of returns, (d) narrow focus (e.g., specific market sector), etc. The fund (or market benchmark) either does not have sufficient history to allow for the calculation of a long-term expected volatility, or the volatility is very high. This class would be used whenever the long-term expected annualized volatility is indeterminable or exceeds 25%.

THE SELECTION OF AN APPROPRIATE INVESTMENT TYPE SHOULD BE DONE AT THE LEVEL FOR WHICH THE GUARANTEE APPLIES. FOR GUARANTEES APPLYING ON A DEPOSIT-BY-DEPOSIT BASIS, THE FUND SELECTION IS STRAIGHTFORWARD. HOWEVER, WHERE THE GUARANTEE APPLIES ACROSS DEPOSITS OR FOR AN ENTIRE CONTRACT, THE APPROACH CAN BE MORE COMPLICATED. IN SUCH INSTANCES, THE APPROACH IS TO IDENTIFY FOR EACH POLICY WHERE THE “GROUPED FUND HOLDINGS” FIT WITHIN THE CATEGORIES LISTED AND TO CLASSIFY THE ASSOCIATED ASSETS ON THIS BASIS.

A seriatim process is used to identify the “grouped fund holdings”, to assess the risk profile of the current fund holdings (possibly calculating the expected long-term volatility of the funds held with reference to the indicated market proxies), and to classify the entire “asset exposure” into one of the specified choices. Here, “asset exposure” refers to the underlying assets (separate and/or general account investment options) on which the guarantee will be determined. For example, if the guarantee applies separately for each deposit year within the contract, then the classification process would be applied separately for the exposure of each deposit year.

In summary, mapping the benefit exposure (i.e., the asset exposure that applies to the calculation of the guaranteed minimum death benefits) to one of the prescribed asset classes is a multi-step process:

1. Map each separate and/or general account investment option to one of the prescribed asset classes. For some funds, this mapping will be obvious, but for others it will involve a review of the fund’s investment policy, performance benchmarks, composition and expected long-term volatility.
2. Combine the mapped exposure to determine the expected long-term “volatility of current fund holdings”. This will require a calculation based on the expected long-term volatilities for each fund and the correlations between the prescribed asset classes as given in Table 2-2.
3. Evaluate the asset composition and expected volatility (as calculated in step 2) of current holdings to determine the single asset class that best represents the exposure, with due consideration to the constraints and guidelines presented earlier in this section.

In step 1., the company should use the fund’s actual experience (i.e., historical performance, inclusive of reinvestment) only as a guide in determining the expected long-term volatility. Due to limited data and changes in investment objectives, style and/or management (e.g., fund mergers, revised investment policy, different fund managers, etc.), the company may need to give more weight to the expected long-term volatility of the fund’s benchmarks. In general, the company should exercise caution and not be overly optimistic in assuming that future returns will consistently be less volatile than the underlying markets.

In step 2., the company should calculate the “volatility of current fund holdings” (σ for the exposure being categorized) by the following formula using the volatilities and correlations in Table 2.

$$\sigma = \sqrt{\sum_{i=1}^n \sum_{j=1}^n w_i w_j \rho_{ij} \sigma_i \sigma_j}$$

where $w_i = \frac{AV_i}{\sum_k AV_k}$ is the relative value of fund i expressed as a proportion of total contract value, ρ_{ij} is the correlation between asset classes i and j and σ_i is the volatility of asset class i (see Table 2). An example is provided at the end of this section.

Table 2-2: Volatilities and Correlations for Prescribed Asset Classes

ANNUAL VOLATILITY		FIXED ACCOUNT	MONEY MARKET	FIXED INCOME	BALANCED	DIVERSE EQUITY	INTL EQUITY	INTERM EQUITY	AGGR EQUITY
1.0%	FIXED ACCOUNT	1	0.50	0.15	0	0	0	0	0
1.5%	MONEY MARKET	0.50	1	0.20	0	0	0	0	0
5.0%	FIXED INCOME	0.15	0.20	1	0.30	0.10	0.10	0.10	0.05
10.0%	BALANCED	0	0	0.30	1	0.95	0.60	0.75	0.60
15.5%	DIVERSE EQUITY	0	0	0.10	0.95	1	0.60	0.80	0.70
17.5%	INTL EQUITY	0	0	0.10	0.60	0.60	1	0.50	0.60
21.5%	INTERM EQUITY	0	0	0.10	0.75	0.80	0.50	1	0.70
26.0%	AGGR EQUITY	0	0	0.05	0.60	0.70	0.60	0.70	1

As an example, suppose three funds (Fixed Income, diversified U.S. Equity and Aggressive Equity) are offered to clients on a product with a contract level guarantee (i.e., across all funds held within the policy). The current fund holdings (in dollars) for five sample contracts are shown in Table 2-3.

TABLE 2-3: FUND CATEGORIZATION EXAMPLE

	1	2	3	4	5
MV Fund X (Fixed Income):	5,000	4,000	8,000	-	5,000
MV Fund Y (Diversified Equity):	9,000	7,000	2,000	5,000	-
MV Fund Z (Aggressive Equity):	1,000	4,000	-	5,000	5,000
Total Market Value:	15,000	15,000	10,000	10,000	10,000
Total Equity Market Value:	10,000	11,000	2,000	10,000	5,000
Fixed Income % (A):	33%	27%	80%	0%	50%
Fixed Income Test (A>75%):	No	No	Yes	No	No
Aggressive % of Equity (B):	10%	36%	n/a	50%	100%
Balanced Test (A>25% & B<33.3%):	Yes	No	n/a	No	No
Volatility of Current Fund Holdings:	10.9%	13.2%	5.3%	19.2%	13.4%
Fund Classification:	Balanced	Diversified*	Fixed Income	Intermediate	Diversified

* Although the volatility suggests “Balanced Fund”, the Balanced Fund criteria were not met. Therefore, this ‘exposure’ is moved “up” to Diversified Equity. For those funds classified as Diversified Equity, additional analysis would be required to assess whether they should be instead designated as “Diversified International Equity”.

As an example, the “Volatility of Current Fund Holdings” for policy #1 is calculated as $\sqrt{A + B}$ where:

$$A = \left(\frac{5}{15} \times 0.05\right)^2 + \left(\frac{9}{15} \times 0.155\right)^2 + \left(\frac{1}{15} \times 0.26\right)^2$$

$$B = 2 \cdot \left(\frac{5}{15} \cdot \frac{9}{15}\right)(0.1 \times 0.05 \times 0.155) + 2 \cdot \left(\frac{5}{15} \cdot \frac{1}{15}\right)(0.05 \times 0.05 \times 0.26) + 2 \cdot \left(\frac{9}{15} \cdot \frac{1}{15}\right)(0.7 \times 0.155 \times 0.26)$$

So, the volatility for contract #1 = $\sqrt{0.0092 + 0.0026} = 0.109$ or 10.9%.

Derivation of Total Equivalent Account Charges (MER) and Margin Offset (α)

The total equivalent account charge (“MER”) is meant to capture *all* amounts that are deducted from policyholder funds, not only those that are commonly expressed as spread-based fees. The MER, expressed as an equivalent annual basis point charge against account value, should include (but not be limited to) the following: investment management fees, mortality & expense charges, administrative loads, policy fees and risk premiums. In light of the foregoing, it may be necessary to estimate the “equivalent MER” if there are fees withdrawn from policyholder accounts that are not expressed as basis point charges against account value.

The margin offset, α , represents the total amount available to fund the guaranteed benefit claims and amortization of the unamortized surrender charge allowance after considering most other policy expenses (including overhead). The margin offset, expressed as an equivalent annual basis point charge against account value, may include the effect of Revenue Sharing in the same manner as would be done for modeling as described in section 6 of the Modeling Methodology, except as may be thereby permitted, should be deemed “permanently available” in all future scenarios. However, the margin offset should not include per policy charges (e.g., annual policy fees) since these are included in *FE*. It is often

helpful to interpret the margin offset as $\alpha = MER - X + RS$, where X is the sum of:

- Investment management expenses and advisory fees;
- Commissions, bonuses (dividends) and overrides;
- Maintenance expenses, other than those included in *FE*; and
- Unamortized acquisition costs not reflected in *CA*.

And *RS* is the Revenue Sharing to the extent permitted as described above.

Product Attributes and Factor Tables

The tabular approach for the *GC* component creates a multi-dimensional grid (array) by testing a very large number of combinations for the policy attributes. The results are expressed as factors. Given the seven (7) attributes for a policy (i.e., P, A, F, X, D, ρ, MER), two factors are returned for $f(\circ)$ and $g(\circ)$. The factors are determined by looking up (based on a “key”) into the large, pre-computed multi-dimensional tables and using multi-dimensional linear interpolation.

The policy attributes for constructing the test cases and the lookup keys are given in Table 2-4.

As can be seen, there are $6 \times 2 \times 8 \times 8 \times 5 \times 7 \times 3 = 80,640$ “nodes” in the factor grid. Interpolation is only permitted across the last four (4) dimensions: Attained Age (X), Policy Duration (D), AV—GV Ratio (ρ) and MER. The “MER Delta” is calculated based on the difference between the actual MER and that assumed in the factor testing (see Table 10), subject to a cap (floor) of 100 bps (–100 bps).

Functions are available to assist the company in applying the Alternative Method for GMDB risks. These functions perform the factor table lookups and associated multi-dimensional linear interpolations. Their use is not mandatory. Based on the information in this document, the company should be able to write its own lookup and retrieval routines. Interpolation in the factor tables is described further later in this section.

Table 2-4: Nodes of the Factor Grid

Policy Attribute	Key: Possible Values & Description	
Product Definition, <i>P</i> .	0 : 0	Return-of-premium.
	1 : 1	Roll-up (3% per annum).
	2 : 2	Roll-up (5% per annum).
	3 : 3	Maximum Anniversary Value (MAV).
	4 : 4	High of MAV and 5% Roll-up.
	5 : 5	Enhanced Death Benefit (excl. GMDB)
GV Adjustment Upon Partial Withdrawal, <i>A</i> .	0 : 0	Pro-rata by market value.
	1 : 1	Dollar-for-dollar.
Fund Class, <i>F</i> .	0 : 0	Fixed Account.
	1 : 1	Money Market.
	2 : 2	Fixed Income (Bond).
	3 : 3	Balanced Asset Allocation.
	4 : 4	Diversified Equity.
	5 : 5	International Equity.
	6 : 6	Intermediate Risk Equity.
	7 : 7	Aggressive / Exotic Equity.
Attained Age (Last Birthday), <i>X</i> .	0 : 35	4 : 65
	1 : 45	5 : 70
	2 : 55	6 : 75
	3 : 60	7 : 80
Policy Duration (years-since-issue), <i>D</i> .	0 : 0.5	
	1 : 3.5	
	2 : 6.5	
	3 : 9.5	
	4 : 12.5	
Account Value-to-Guaranteed Value Ratio, $\frac{V}{G}$.	0 : 0.25	4 : 1.25
	1 : 0.50	5 : 1.50
	2 : 0.75	6 : 2.00
	3 : 1.00	
Annualized Account Charge Differential from Table 2-10 Assumptions (“MER Delta”)	0 : -100 bps	
	1 : +0	
	2 : +100	

A test case (i.e., a node on the multi-dimensional matrix of factors) can be uniquely identified by its key, which is the concatenation of the individual ‘policy attribute’ keys, prefixed by a leading ‘1’. For example, the key ‘12034121’ indicates the factor for a 5% roll-up GMDB, where the GV is adjusted pro-rata upon partial withdrawal, balanced asset allocation, attained age 65, policy duration 3.5, 75% AV/GV ratio and “equivalent” annualized fund based charges equal to the ‘base’ assumption (i.e., 250 bps p.a.).

The factors are contained in the file “C3-II GMDB Factors 100%Mort CTE(90) (2005-03-29).csv”, a comma-separated value text file. Each “row” represents the factors/parameters for a test policy as identified by the lookup keys shown in Table 2-4. Rows are terminated by new line and line feed characters.

Each row consists of 5 entries, described further below.

1	2	3	4	5
Test Case Identifier (Key)	Base GMDDB Cost Factor	Base Margin Offset Factor	Scaling Adjustment (Intercept)	Scaling Adjustment (Slope)

GMDDB Cost Factor. This is the term $f(\tilde{\theta})$ in the formula for GC . The parameter set $\tilde{\theta}$ is defined by $(P, A, F, X, D, \varphi, MER)$. Here, φ is the AV/GV ratio for the benefit exposure (e.g., policy) under consideration. The values in the factor grid represent CTE(90) of the sample distribution⁴ for the present value of guaranteed benefit cash flows (in excess of account value) in all future years (i.e., to the earlier of contract maturity and 30 years), normalized by guaranteed value.

Base Margin Offset Factor. This is the term $g(\tilde{\theta})$ in the formula for GC . The parameter set $\tilde{\theta}$ is defined by $(P, A, F, X, D, \varphi, MER)$. Here, φ is the AV/GV ratio for the benefit exposure (e.g., policy) under consideration. The values in the factor grid represent CTE(90) of the sample distribution for the present value of margin offset cash flows in all future years (i.e., to the earlier of contract maturity and 30 years), normalized by account value. Note that the Base Margin Offset Factors assume $\hat{\alpha} = 100$ basis points of “margin offset” (net spread available to fund the guaranteed benefits).

All else being equal, the margin offset α has a profound effect on the resulting AAR. In comparing the Alternative Method against models for a variety of GMDDB portfolios, it became clear that some adjustment factor would be required to “scale” the results to account for the diversification effects⁵ of attained age, policy duration and AV/GV ratio. The testing examined $W_1 = \frac{\alpha}{MER} = 0.20$ and $W_2 = \frac{\alpha}{MER} = 0.60$, where α = available margin offset and MER = total “equivalent” account based charges, in order to understand the interaction between the margin ratio (“ W ”) and AAR.

Based on this analysis, the *Scaling Factor* is defined as:

$$h(\hat{\theta}) = R = \beta_0 + \beta_1 \times W$$

β_0 and β_1 are respectively the intercept and slope for the linear relationship, defined by the parameter set $\hat{\theta} = (P, F, \hat{\varphi})$. Here, $\hat{\varphi}$ is 90% of the aggregate AV/GV for the *product form* (i.e., not for the individual policy or cell) under consideration. In calculating the *Scaling Factor* directly from this linear function, the margin ratio “ W ” must be constrained⁶ to the range [0.2,0.6].

It is important to remember that $\hat{\varphi} = 0.90 \times \frac{\sum AV}{\sum GV}$ for the product form being evaluated (e.g., all 5% Roll-up policies). The 90% factor is meant to reflect the fact that the cost (payoff structure) for a basket of otherwise identical put options (e.g., GMDDB) with varying degrees of in-the-moneyness (i.e., AV/GV ratios) is more left-skewed than the cost for a

⁴ Technically, the sample distribution for “present value of net cost” = PV[GMDDB claims] – PV[Margin Offset] was used to determine the scenario results that comprise the CTE90 risk measure. Hence, the “GMDDB Cost Factors” and “Base Margin Offset Factors” are calculated from the same scenarios.

⁵ By design, the Alternative Methodology does not directly capture the diversification benefits due to a varied asset profile and product mix. This is not a flaw of the methodology, but a consequence of the structure. Specific assumptions would be required to capture such diversification effects. Unfortunately, such assumptions might not be applicable to a given company and could grossly overestimate the ensuing reduction in required capital.

⁶ The scaling factors were developed by testing “margin ratios” $W_1 = 0.2$ and $W_2 = 0.6$. Using values outside this range could give anomalous results.

single put option at the “weighted average” asset-to-strike ratio.

To appreciate the foregoing comment, consider a basket of two 10-year European put options as shown in Table 2-5. These options are otherwise identical except for their “market-to-strike price” ratios. The option values are calculated assuming a 5% continuous risk-free rate and 16% annualized volatility. The combined option value of the portfolio is \$9.00,

equivalent to a single put option with $S = \$180.92$ and $X = \$200$. The market-to-strike (i.e., AV/GV) ratio is 0.905, which is less than the average $AV/GV = 1 = \frac{\$75 + \$125}{\$100 + \$100}$

Table 2-5: Equivalent Single European Put Option

	Equivalent Single Put Option	Put Option A (“in-the-money”)	Put Option B (“out-of-the-money”)
Market value (AV)	\$180.92	\$75	\$125
Strike price (GV)	\$200.00	\$100	\$100
Option Value	\$9.00	\$7.52	\$1.48

Scaling Adjustment (Intercept). The scaling factor $h(\hat{\theta}) = R$ is a linear function of W , the ratio of margin offset to MER. This is the intercept β_0 that defines the line.

Scaling Adjustment (Slope). The scaling factor $h(\hat{\theta}) = R$ is a linear function of W , the ratio of margin offset to MER. This is the slope β_1 that defines the line.

Table 2-6 shows the “Base Cost” and “Base Margin Offset” values from the factor grid for some sample policies. As mentioned earlier, the Base Margin Offset factors assume 100 basis points of “available spread”. The “Margin Factors” are therefore scaled by the ratio $\frac{\alpha}{100}$, where α = the actual margin offset (in basis points per annum) for the policy being valued. Hence, the margin factor for the 7th sample policy is exactly half the factor for node 12044121 (the 4th sample policy in Table 6). That is, $0.02160 = 0.5 \times 0.04319$.

Table 2-6: Sample Nodes on the Factor Grid

KEY	GMDB TYPE	GV ADJUST	FUND CLASS	AGE	POLICY DUR	AV/GV	MER (bps)	OFFSET	COST FACTOR	MARGIN FACTOR
10132031	ROP	\$-for-\$	Balanced Allocation	55	0.5	1.00	250	100	0.01073	0.04172
10133031	ROP	\$-for-\$	Balanced Allocation	60	0.5	1.00	250	100	0.01619	0.03940
10134031	ROP	\$-for-\$	Balanced Allocation	65	0.5	1.00	250	100	0.02286	0.03634
12044121	5% Rollup	Pro-rata	Diverse Equity	65	3.5	0.75	250	100	0.18484	0.04319
12044131	5% Rollup	Pro-rata	Diverse Equity	65	3.5	1.00	250	100	0.12931	0.03944
12044141	5% Rollup	Pro-rata	Diverse Equity	65	3.5	1.25	250	100	0.08757	0.03707
12044121	5% Rollup	Pro-rata	Diverse Equity	65	3.5	0.75	250	50	0.18484	0.02160

Interpolation in the Factor Tables

Interpolation is only permitted across the last four (4) dimensions of the risk parameter set θ : Attained Age (X), Policy Duration (D), AV—GV Ratio (λ) and MER. The “MER Delta” is calculated based on the difference between the actual MER and that assumed in the factor testing (see Table 2-10), subject to a cap (floor) of 100 bps (–100 bps). In general, the calculation for a single policy will require *three* applications of multi-dimensional linear interpolation between the $16 = 2^4$ factors/values in the grid:

- (1) To obtain the *Base Factors* $f(\theta)$ and $g(\theta)$.
- (2) To obtain the *Scaling Factor* $h(\hat{\theta}) = R$.

Based on the input parameters, the supplied functions (see Appendix 9) will automatically perform the required lookups, interpolations and calculations for $h(\hat{\theta}) = R$, including the constraints imposed on the margin ratio W . Use of the tools noted in Appendix 9 is not mandatory.

Multi-dimensional interpolation is an iterative extension of the familiar two-dimensional linear interpolation for a discrete function $V(x)$:

$$\bar{V}(x_k + \delta) = (1 - \xi) \times V(x_k) + \xi \times V(x_{k+1})$$

and

$$\xi = \frac{\delta}{x_{k+1} - x_k}$$

In the above formulation, $\bar{V}(x)$ is assumed continuous and x_k and x_{k+1} are defined values (“nodes”) for $V(x)$. By definition, $x_k \leq (x_k + \delta) \leq x_{k+1}$ so that $0 \leq \xi \leq 1$. In effect, multi-dimensional interpolation repeatedly applies simple linear interpolation one dimension at a time until a single value is obtained.

Multi-dimensional interpolation across all four dimensions is not required. However, simple linear interpolation for $AV-GV$ Ratio (δ) is mandatory. In this case, the company must choose nodes for the other three (3) dimensions according to the following rules:

Risk Attribute (Dimension)	Node Determination
Attained Age	Use next higher attained age.
Policy Duration	Use nearest.
MER Delta	Use nearest (capped at +100 & floored at -100 bps).

For example, if the actual policy/cell is attained age 62, policy duration 4.25 and MER Delta = +55 bps, the company should use the nodes defined by attained age 65, policy duration 3.5 and MER Delta = +100.

Table 2-7 provides an example of the fully interpolated results for a 5% Roll-up “Pro Rata” policy mapped to the Diversified Equity class (first row). While Table 2-7 does not demonstrate how to perform the multi-dimensional interpolation, it does show the required 16 nodes from the *Base Factors*. The margin offset is assumed to be 100 basis points.

Table 2-7: Base Factors for a 5% Rollup GMDB Policy, Diversified Equity

Key	Age	Policy Dur	Policy Av/Gv	Mer (Bps)	Base Cost Factor	Base Margin Factor
INTERPOLATED	62	4.25	0.80	265	0.15010	0.04491
12043121	60	3.5	0.75	250	0.14634	0.04815
12043122	60	3.5	0.75	350	0.15914	0.04511
12043131	60	3.5	1.00	250	0.10263	0.04365
12043132	60	3.5	1.00	350	0.11859	0.04139
12043221	60	6.5	0.75	250	0.12946	0.04807
12043222	60	6.5	0.75	350	0.14206	0.04511
12043231	60	6.5	1.00	250	0.08825	0.04349
12043232	60	6.5	1.00	350	0.10331	0.04129
12044121	65	3.5	0.75	250	0.18484	0.04319
12044122	65	3.5	0.75	350	0.19940	0.04074
12044131	65	3.5	1.00	250	0.12931	0.03944
12044132	65	3.5	1.00	350	0.14747	0.03757
12044221	65	6.5	0.75	250	0.16829	0.04313
12044222	65	6.5	0.75	350	0.18263	0.04072
12044231	65	6.5	1.00	250	0.11509	0.03934
12044232	65	6.5	1.00	350	0.13245	0.03751

The interpolations required to compute the *Scaling Factor* are slightly different from those needed for the *Base Factors*. Specifically, the user should *not* interpolate the intercept and slope terms for each surrounding node, but rather interpolate the *Scaling Factors* applicable to each of the nodes.

Table 2-8 provides an example of the *Scaling Factor* for the sample policy given earlier in Table 2-7 (i.e., a 5% Roll-up “Pro Rata” policy mapped to the Diversified Equity class) as well as the nodes used in the interpolation. The aggregate AV/GV for the product portfolio (i.e., all 5% Roll-up policies combined) is 0.75; hence, 90% of this value is 0.675 as shown under “Adjusted Product AV/GV”. As before, the margin offset is 100 basis points per annum.

Table 2-8: Interpolated Scaling Factors for a 5% Rollup GMDB Policy, Diversified Equity

Key	Age	Policy Dur	Adjusted Product Av/Gv	Mer (Bps)	Intercept	Slope	Scaling Factor
INTERPOLATED	62	4.25	0.675	265	n/a	n/a	0.871996
12043111	60	3.5	0.50	250	0.855724	0.092887	0.892879
12043112	60	3.5	0.50	350	0.855724	0.092887	0.882263
12043121	60	3.5	0.75	250	0.834207	0.078812	0.865732
12043122	60	3.5	0.75	350	0.834207	0.078812	0.856725
12043211	60	6.5	0.50	250	0.855724	0.092887	0.892879
12043212	60	6.5	0.50	350	0.855724	0.092887	0.882263
12043221	60	6.5	0.75	250	0.834207	0.078812	0.865732
12043222	60	6.5	0.75	350	0.834207	0.078812	0.856725
12044111	65	3.5	0.50	250	0.855724	0.092887	0.892879
12044112	65	3.5	0.50	350	0.855724	0.092887	0.882263
12044121	65	3.5	0.75	250	0.834207	0.078812	0.865732
12044122	65	3.5	0.75	350	0.834207	0.078812	0.856725
12044211	65	6.5	0.50	250	0.855724	0.092887	0.892879
12044212	65	6.5	0.50	350	0.855724	0.092887	0.882263
12044221	65	6.5	0.75	250	0.834207	0.078812	0.865732
12044222	65	6.5	0.75	350	0.834207	0.078812	0.856725

Adjustments to GC for Product Variations & Risk Mitigation/Transfer

In some cases, it may be necessary for the company to make adjustments to the published factors due to:

1. A variation in product form wherein the definition of the guaranteed benefit is materially different from those for which factors are available (see Table 2-9); and/or
2. A risk mitigation / management strategy that cannot be accommodated through a straight-forward and direct adjustment to the published values.

Any adjustments to the published factors must be fully documented and supported through stochastic modeling. Such modeling may require stochastic simulations but would not ordinarily be based on full inforce projections. Instead, a representative “model office” should be sufficient. In the absence of material changes to the product design, risk management program and Alternative Method (including the published factors), the company would not be expected to redo this modeling each year.

Note that minor variations in product design do not necessarily require additional effort. In some cases, it may be reasonable to use the factors/formulas for a different product form (e.g., for a “roll-up” GMDB policy near or beyond the maximum reset age or amount, the company should use the “return-of-premium” GMDB factors/formulas, possibly adjusting the guaranteed value to reflect further resets, if any). In other cases, the company might determine the RBC based on two different guarantee definitions and interpolate the results to obtain an appropriate value for the given policy/cell. Likewise, it may be possible to adjust the Alternative Method results for certain risk transfer arrangements without significant additional work (e.g., quota-share reinsurance without caps, floors or sliding scales would normally be reflected by a simple pro-rata adjustment to the “gross” *GC* results).

However, if the policy design is sufficiently different from those provided and/or the risk mitigation strategy is non-linear in its impact on the AAR, and there is no practical or obvious way to obtain a good result from the prescribed factors/formulas, the company must justify any adjustments or approximations by stochastic modeling. Notably this modeling need not be performed on the whole portfolio but can be undertaken on an appropriate set of representative policies.

The remainder of this section suggests a process for adjusting the published “Cost” and “Margin Offset” factors due to a variation in product design (e.g., a “step-up” option at every 7th anniversary whereby the guaranteed value is reset to the account value, if higher). Note that the “Scaling Factors” (as determined by the slope and intercept terms in the factor table) would not be adjusted.

The steps for adjusting the published *Cost* and *Margin Offset* factors for product design variations are:

1. Select a policy design in the published tables that is similar to the product being valued. Execute cashflow projections using the documented assumptions (see Tables 2-9 and 2-10) and the scenarios from the prescribed generators for a set of representative cells (combinations of attained age, policy duration, asset class, AV/GV ratio and MER). These cells should correspond to nodes in the factor grid. Rank (order) the sample distribution of results for the present value of net cost⁷. Determine those scenarios which comprise CTE(90).
2. Using the results from step 1., average the present value of cost for the CTE(90) scenarios and divide by the current guaranteed value. For a the J^{th} cell, denote this value by F_J . Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For the J^{th} cell, denote this value by G_J .

⁷ Present value of net cost = PV[guaranteed benefit claims in excess of account value] – PV[margin offset]. The discounting includes cashflows in all future years (i.e., to the earlier of contract maturity and the end of the horizon).

3. Extract the corresponding factors from the published grid. For each cell, calibrate to the published tables by defining a “model adjustment factor” (denoted by asterisk) separately for the “cost” and “margin offset” components:

$$F_j^* = \frac{f(\theta)}{F_j} \text{ and } G_j^* = \frac{g(\theta)}{G_j}$$

4. Execute “product specific” cashflow projections using the documented assumptions and scenarios from the prescribed generators for the same set of representative cells. Here, the company should model the actual product design. Rank (order) the sample distribution of results for the present value of net cost. Determine those scenarios which comprise CTE(90).
5. Using the results from step 4., average the present value of cost for the CTE(90) scenarios and divide by the current guaranteed value. For a the J^{th} cell, denote this value by \bar{F}_j . Similarly, average the present value of margin offset revenue for the same subset of scenarios and divide by account value. For a the J^{th} cell, denote this value by \bar{G}_j .
6. To calculate the AAR for the specific product in question, the company should implement the Alternative Method as documented, but use $\bar{F}_j \times F_j^*$ in place of $f(\theta)$ and $\bar{G}_j \times G_j^*$ instead of $g(\theta)$. The company must use the “Scaling Factors” for the product evaluated in step 1. (i.e., the product used to calibrate the company’s cashflow model).

Assumptions for the Alternative Method Published GMDB Factors

This subsection reviews the model assumptions used to develop the Alternative Method factors. Each node in the factor grid is effectively the modeled result for a given “cell”.

Table 2-9: Model Assumptions & Product Characteristics

Account Charges (MER)	Vary by fund class. See Table 2-10 later in this section.
Base Margin Offset	100 basis points per annum
GMDB Description	<ol style="list-style-type: none"> 1. ROP = return of premium ROP. 2. ROLL = 5% roll-up, capped at 2.5 ξ premium, frozen at age 80. 3. MAV = annual ratchet (maximum anniversary value), frozen at age 80. 4. HIGH = Higher of 5% roll-up and annual ratchet frozen at age 80. 5. EDB = ROP + 40% Enhanced Death Benefit (capped at 40% of deposit).
Adjustment to GMDB Upon Partial Withdrawal	“Pro-Rata by Market Value” and “Dollar-for-Dollar” are tested separately.
Surrender Charges	Ignored (i.e., zero). Reflected in the “CA” component of the AAR.
Single Premium/Deposit	\$100,000. No future deposits; no intra-policy fund rebalancing.
Base Policy Lapse Rate	<ul style="list-style-type: none"> • Pro-rata by MV: 10% p.a. at all policy durations (before dynamics) • Dollar-for-dollar: 2% p.a. at all policy durations (no dynamics)
Partial Withdrawals	<ul style="list-style-type: none"> • Pro-rata by MV: None (i.e., zero) • Dollar-for-dollar: Flat 8% p.a. at all policy durations (as a % of AV).

	No dynamics or anti-selective behavior.
Mortality	100% of MGDB 94 ALB.
Gender/Age Distribution	100% male. Methodology accommodates different attained ages and policy durations. A 5-year age setback will be used for female annuitants.
Max. Annuitization Age	All policies terminate at age 95.
Fixed Expenses, Annual Fees	Ignored (i.e., zero). Reflected in the “FE” component of the AAR.
Income Tax Rate	21%
Discount Rate	4.54% (after-tax) effective = 5.75% pre-tax.
Dynamic Lapse Multiplier (Applies only to policies where GMDB is adjusted “pro-rata by MV” upon withdrawal)	$U=1, L=0.5, M=1.25, D=1.1$ <ul style="list-style-type: none"> ■ Applied to the ‘Base Policy Lapse Rate’ (not withdrawals).

Notes on GMDB Factor Development

- The roll-up is continuous (not simple interest, not stepped at each anniversary) and is applied to the previous roll-up guaranteed value (i.e., not the contract guaranteed value under HIGH).
- The Enhanced Death Benefit (“EDB”) is floored at zero. It pays out 40% of the gain in the policy upon death at time t :

$$B_t = \text{MIN}[0.40 \times \text{Deposit}, 0.40 \times \text{MAX}(0, AV_t - \text{Deposit})]$$
The test policy also has a 100% return-of-premium GMDB, but the EDB Alternative Factors will be net of the GMDB component. That is, the EDB factors are ‘stand-alone’ and applied *in addition to* the GMDB factors.
- The “Base Policy Lapse Rate” is the rate of policy termination (total surrenders). Policy terminations (surrenders) are assumed to occur throughout the policy year (not only on anniversaries).
- Partial withdrawals (if applicable) are assumed to occur at the end of each time period (quarterly).
- Account charges (“MER”) represent the total amount (annualized, in basis points) assessed against policyholder funds (e.g., sum of investment management fees, mortality and expense charges, risk premiums, policy/administrative fees, etc.). They are assumed to occur throughout the policy year (not only on anniversaries).

Table 2-10: Account-Based Fund Charges (bps per annum)

Asset Class / Fund	Account Value Charges (MER)
Fixed Account	0
Money Market	110
Fixed Income (Bond)	200
Balanced	250
Diversified Equity	250
Diversified International Equity	250
Intermediate Risk Equity	265
Aggressive or Exotic Equity	275

Calculation Example

Continuing the previous example (see Tables 2-7 and 2-8) for a 5% Roll-up GMDB policy mapped to Diversified Equity, suppose we have the policy/product parameters as specified in Table 2-11.

Table 2-11: Sample Policy Results for 5% Roll-up GMDB, Diversified Equity

Parameter	Value	Description
Deposit Value	\$100.00	Total deposits adjusted for partial withdrawals.
Account Value	\$98.43	Total account value at valuation date, in dollars.
GMDB	\$123.04	Current guaranteed minimum death benefit, in dollars.
Attained Age	62	Attained age at the valuation date (in years).
Policy Duration	4.25	Policy duration at the valuation date (in years).
GV Adjustment	Pro-Rata	GMDB adjusted pro-rata by MV upon partial withdrawal.
Fund Class	Diversified Equity	Contract exposure mapped to Diversified Equity as per the Fund Categorization instructions in the section of this Appendix on Component GC.
MER	265	Total charge against policyholder funds (bps).
ProductCode	2	Product Definition code as per lookup key in Table 4.
GVAdjust	0	GV Adjustment Upon Partial Withdrawal as per key in Table 2-4.

FundCode	4	Fund Class code as per lookup key in Table 2-4.
PolicyMVG	0.800	Contract account value divided by GMDB.
AdjProductMVG	0.675	90% of the aggregate AV/GV for the Product portfolio.
RC	150	Margin offset (basis points per annum).

Using the usual notation, $GC = GV \times f(\bar{\theta}) - AV \times \hat{g}(\bar{\theta}) \times h(\bar{\theta})$.

$$f(\bar{\theta}) = 0.150099 = \text{GetCostFactor}(2, 0, 4, 62, 4.25, 0.8, 265)$$

$$\hat{g}(\bar{\theta}) = 0.067361 = \text{GetMarginFactor}(2, 0, 4, 62, 4.25, 0.8, 265, 150)$$

$$h(\bar{\theta}) = 0.887663 = \text{GetScalingFactor}(2, 0, 4, 62, 4.25, 0.675, 265, 150)$$

Hence, $GC = \$12.58 = (123.04 \times 0.150099) - (98.43 \times 0.067361 \times 0.887663)$. As a normalized value, this quantity is 12.78% of account value, 10.23% of guaranteed value and 51.1% of the current net amount at risk (Net amount at risk = GV – AV).

Note that $\hat{g}(\bar{\theta}) = \frac{\alpha}{\bar{\alpha}} \times g(\bar{\theta}) = \frac{150}{100} \times 0.044907$ where $g(\bar{\theta})$ is “per 100 basis points” of available margin offset.

$$g(\bar{\theta}) = 0.044907 = \text{GetMarginFactor}(2, 0, 4, 62, 4.25, 0.8, 265, 100)$$

April 13, 2026

Mr. Ben Slutsker, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Agenda Item 2025-14-L — GOES Implementation; C-3 Phase I & II Amendments — Proposed Closed Ultra-Long SSA Portfolio Carve-Out

Dear Chair Slutsker:

I am writing on behalf of Everlake Life Insurance Company to share our comments on the March 22, 2026, re-exposure of Agenda Item 2025-14-L. We support adopting the NAIC Global Conning Economic Scenario Generator (GOES) in the C-3 Phase I and Phase II risk-based capital frameworks. Our feedback focuses on one specific technical issue: the application of the standard GOES framework to a closed, long structured settlement annuity block for which it produces results that are not representative of the block's actual interest rate risk.

Background

Everlake administers and retains the economics of a closed block of structured settlement annuities (SSAs). SSAs are single premium immediate annuities (SPIAs) arising primarily from legal settlements and are designed to fund long-term medical and living needs. The scheduled benefit payments are combinations of certain and life contingent benefits with COLA. A majority of the life contingent payments are to impaired lives including individuals with perinatal neurological injury, severe traumatic brain injury, spinal cord injury, and catastrophic workplace and motor vehicle accidents. These policies have no cash surrender values. To the best of our knowledge, we are the only block of this type of business that remains subject to US statutory accounting and NAIC RBC requirements. The block was underwritten from 1998 until 2014 and has been closed to new business since 2014. It is in orderly runoff under the direct supervision of the Illinois Department of Insurance and has satisfied asset adequacy testing and Illinois regulatory requirements across every major interest rate environment over more than two decades.

The long duration of these liabilities creates real reinvestment risk as assets mature, and proceeds must be reinvested over time. For very long-dated liabilities such as this block, prescribed reinvestment assumptions can materially magnify the measured risk in a way that is not aligned with the company's actual reinvestment strategy. Companies should be permitted to project reinvestment risk using their own asset allocation strategy and prudent assumptions, subject to appropriate governance and actuarial support, rather than prescribed assumptions that can produce overly punitive results for ultra-long liabilities.

Proposed Amendments

To address this issue, Everlake proposes targeted modifications to the C-3 calculation for this narrow class of liabilities, referred to below as the "SSA Portfolio Framework." The framework would apply only to closed SSA blocks issued before January 1, 2017. A proposed markup is attached.

Everlake respectfully requests that the Working Group take actions such that these amendments are effective for 2026 C-3 testing and reporting.



Amendment	What It Does	Why It Is Necessary
Own Company Moderately Adverse Assumptions	Reflects the company's asset allocation, reinvestment strategies, credit spreads, and default assumptions.	Any broadly developed guardrail considered in the context of our long duration liabilities will not be representative of the actual risk and, furthermore, becomes amplified
NAER Discounting	Permits use of the Net Asset Earned Rate as the discount rate in lieu of 105% of the after-tax 1–10-year Treasury rate.	Treasury-based discounting introduces sensitivity to short-to-medium yields that is economically irrelevant to the portfolio.
25% of CTE (95) Capital Scalar	Sets the C-3 capital charge at 25% of CTE (95) Scenario Deficiency when the RBC ratio exceeds a certain level of CAL.	Modernizes the C3 metric while muting the GOES leverage issue by recognizing capital is targeted at 400% RBC.

The proposed Framework is not an exemption from capital oversight. All other aspects of the C3 testing framework, including the certifications, and supporting actuarial reports, continue to apply.

Closing

Everlake acknowledges the substantial technical investment the Working Group and NAIC Staff have made in developing the GOES implementation framework, and we support its adoption for the broad population of C-3 Phase I products. The issues raised here are specific and narrow. They concern a small but distinct population of closed SSA blocks, only one by our best estimate, serving catastrophically disabled individuals whose long-term financial security depends on the continued solvency of their insurers.

Everlake has made the deliberate choice to follow US statutory accounting and NAIC RBC for this business, under Illinois regulatory oversight, in an environment where others have chosen to move comparable blocks to jurisdictions following different reserves and capital requirements.

In our view, the capital framework should be able to accommodate this liability profile in a way that produces a risk measure that is both prudent and appropriately reflective of the underlying risks. The targeted amendments proposed here recognize this mission while preserving the overall structure and discipline of the C-3 framework.

Everlake is available to provide additional technical analysis, scenario modeling output, or drafting assistance, and would welcome the opportunity to present these findings in a technical session.

Respectfully submitted,



Larry Chadwick
Chief Government Affairs Officer

EVERLAKE

3100 Sanders Road, Suite 303
Northbrook, IL 60062



Cc: Illinois Department of Insurance



ATTACHMENT TO COMMENT LETTER OF EVERLAKE LIFE INSURANCE COMPANY**Re: Agenda Item 2025-14-L — GOES Implementation; C-3 Phase I & II Amendments
Proposed SSA Portfolio Framework — Redlined Amendments**

April 1, 2026

This attachment sets forth the proposed targeted amendments to Appendix 1 and Appendix 1(a) of the NAIC Life Risk-Based Capital Instructions (2025) as submitted by Everlake Life Insurance Company. Tracked changes reflect insertions (underlined) and deletions (strikethrough) proposed under the SSA Portfolio Framework applicable to closed blocks of structured settlement annuities (SSAs) issued prior to January 1, 2017. All other provisions of the C-3 testing framework remain unchanged.

APPENDIX 1 – CASH FLOW MODELING FOR C-3 RBC

This appendix is applicable for all companies who do Cash Flow Testing for C-3 RBC for Certain Annuities and Single Premium Life products.

The method of developing the C-3 component for these products is building on the work of the asset adequacy modeling but using interest scenarios designed to help approximate the 95th percentile C-3 risk.

The C-3 component is to be calculated as the sum of four amounts, but subject to a minimum. The calculation is:

- (a) For Certain Annuities or Single Premium Life Insurance products other than equity-indexed products, whether written directly or assumed through reinsurance, that the company tests for asset adequacy analysis using cash flow testing, an actuary should calculate the C-3 requirement based on the same cash flow models and assumptions used and same "as-of" date as for asset adequacy, but with a different set of interest scenarios and a different measurement of results. A weighted average of a subset of the scenario-specific results is used to determine the C-3 requirement. The result is to be divided by (1-enacted maximum federal corporate income tax rate) to put it on a pre-tax basis for LR027 Interest Rate Risk and Market Risk Column (2) Line (33).

If the "as-of" date of this testing is not Dec. 31, the ratio of the C-3 requirement to reserves on the "as-of" date is applied to the year-end reserves, similarly grouped, to determine the year-end C-3 requirement for this category.

- (b) Equity-indexed products are to use the existing C-3 RBC factors, not the results of cash flow testing.
- (c) For all other products (either non-cash-flow-tested or those outside the product scope defined above) the C-3 requirements are calculated using current existing C-3 RBC factors and instructions.
- (d) **SSA Portfolio Framework. Notwithstanding the foregoing, a company that maintains a closed block of structured settlement annuities (SSAs) issued prior to January 1, 2017 (an "SSA Portfolio") may elect to calculate the C-3 requirement for such SSA Portfolio using the SSA Portfolio Framework set forth below. For purposes of this paragraph, a closed SSA block means a block that has been closed to new business and is subject to orderly runoff under the supervision of the domiciliary insurance department. The SSA Portfolio Framework consists of the following four components, each of which applies in lieu of the corresponding standard methodology otherwise prescribed in this Appendix and Appendix 1(A):**



- (i) **Own Company Moderately Adverse Assumptions.** In lieu of any broadly developed moderately adverse asset assumption guardrails, the actuary shall use company-specific moderately adverse assumptions that reflect the SSA Portfolio's actual asset allocation, reinvestment strategy, and moderately adverse credit spread and default assumptions, consistent with Asset Adequacy Analysis.
 - (ii) **NAER Discounting.** In lieu of discounting using 105% of the after-tax 1–10 year U.S. Treasury rate as prescribed in Appendix 1(A), the actuary may use the Net Asset Earned Rate (NAER) as the discount rate.
 - (iii) **25% of CTE (95) Capital Scalar.** The C-3 capital charge for the SSA Portfolio shall be set at 25% of the CTE (95) Scenario Deficiency when the RBC ratio exceeds a certain level of CAL; otherwise, the charge shall be 100% of the CTE (90) Scenario Deficiency.
- (e) For callable/pre-payable assets (including IOs and similar investments other than those used for testing in component a) above, the after-tax C-3 requirement is 50.0% of the excess, if any, of book/adjusted carrying value above current call price. The calculation is to be done on an asset-by-asset basis. For callable/pre-payable assets used for testing in component a) above as well as those used in C-3P2 testing, the C-3 factor requirement is zero.

The total C-3 component is the sum of (a), (b), (c), (d) and (e), but not less than half the C-3 component based on current factors and instructions.

- For this C-3 calculation, “Certain Annuities” means products with the characteristics of deferred and immediate annuities, structured settlements, guaranteed separate accounts (excluding guaranteed indexed separate accounts following a Class II investment strategy) and GICs (including synthetic GICs and funding agreements). Debt incurred for funding an investment account is included if cash flow testing of the arrangement is required by the insurer's state of domicile for asset adequacy analysis. Variable annuity products are not to be included, including guaranteed fixed options within such products, as they are separately tested under the requirements for Variable Annuities and Similar Products. See Appendix 1b for further discussion.
- The company may use either a standard 50 scenario set of interest rates or an alternative, but more conservative, 12 scenario set (for part a, above). It may use the smaller set for some products and the larger one for others. Details of the cash flow testing for C-3 RBC methodology are contained in Appendix 1a.
- In order to allow time for the additional work effort, an estimated value is permitted for the year-end annual statement. For the RBC electronic filing, the actual results of the cash flow testing for C-3 RBC will be required. If the actual RBC value exceeds that estimated earlier in the blanks filing by more than 5%, or if the actual value triggers regulatory action, a revised filing with the NAIC and the state of domicile is required by June 15; otherwise, re-filing is permitted but not required.
- The risk-based capital submission is to be accompanied by a statement from the appointed actuary certifying that in his or her opinion the assumptions used for these calculations are not unreasonable for the products, scenarios and purpose being tested. This C-3 Assumption Statement is required from the appointed actuary even if the cash flow testing for C-3 RBC is done by a different actuary.
- The cash flow testing used for this purpose will use assumptions as to cash flows, assets associated with tested liabilities, future investment strategy, rate spreads, “as-of” date and how negative cash flow is reflected consistent with those used for cash flow testing for asset adequacy purposes (except that if negative cash flow is modeled by borrowing, the actuary needs to make sure that the amount and cost of borrowing are reasonable for that particular scenario of the C-3



testing). The other differences are the interest scenarios assumptions and how the results are used.

It is important that assumptions be reviewed for reasonableness under the severe scenarios used for C-3 RBC cash flow testing. The assumptions used for cash flow testing may need to be modified so as to produce reasonable results in severe scenarios.

- The actuary must also ensure that the cash flow testing used for the 50 or 12 scenarios does not double-count cash flow offsets to the interest rate risks. That is, that the calculations do not reduce C-3 and another RBC component for the same margins. For example, certain reserve margins on some guaranteed separate account products serve an AVR role and are credited against the C-1o requirement. To that degree, these margins should be removed from the reserve used for C-3 RBC cash flow testing.



This is a new appendix only applicable to the SSA framework and is intended to emulate, and not replace, the existing Appendix 1(A).

APPENDIX 1(A).i – CASH FLOW MODELING FOR C-3 RBC METHODOLOGY (applicable for the SSA framework)

General Approach

1. The underlying asset and liability model(s) are those used for year-end Asset Adequacy Analysis cash flow testing, or a consistent model.
2. Run the 200 scenarios subset selected from the 10,000 scenarios for interest rates produced from the NAIC economic scenario generator, using significance values based on the 20-year US treasury rates.
3. The C-3 charge represents the CTE (95) Scenario Deficiency. Such deficiency is determined using the Greatest Present Value of Accumulation Deficiencies (GPVAD), also referred to as the Asset Metric, discounting with the Net Asset Earned Rate (NAER). The final C-3 capital charge for the SSA Portfolio shall equal 25% of that CTE (95) Scenario Deficiency.

For purposes of this step, the NAER for a given scenario and projection year shall be determined as the portfolio-level net investment earned rate projected in the cash flow model for that scenario, net of investment expenses and expected credit losses, consistent with the reinvestment strategy used in the Asset Adequacy Analysis modeling. The actuary shall document the NAER determination in the supporting actuarial documentation.

Single Scenario C-3 Measurement Considerations

2. **INITIAL ASSETS = RESERVES** - Consistent with appointed actuary practice, the cash flow models are run with initial assets equal to reserves; that is, no surplus assets are used.
3. **AVR** - Existing AVR-related assets should not be included in the initial assets used in the C-3 modeling. These assets are available for future credit loss deviations over and above expected credit losses. These deviations are covered by C-1 risk capital. Similarly, future AVR contributions should not be modeled. However, the expected credit losses should be in the cash flow modeling. (Deviations from expected are covered by both the AVR and the C-1 risk capital.)
4. **IMR** - IMR assets should be used for C-3 modeling. (Also see #9 – Disinvestment Strategy.)
5. N/A.
6. **TESTING HORIZONS** - Surplus adequacy should be tested over a period that extends to a point at which contributions to surplus on a closed block are immaterial in relationship to the analysis. If some products are being cash flow tested for Asset Adequacy Analysis over a longer period than the 100 years generated by the interest-rate scenario generator, the scenario rates should be held constant at the year 100 level for all future years. A consistent testing horizon is important for all lines if the C-3 results from different lines of business are aggregated.
7. **TAX TREATMENT** - The tax treatment should be consistent with that used in Asset Adequacy Analysis. Appropriate disclosure of tax assumptions may be required.
8. **REINVESTMENT STRATEGY** - The reinvestment strategy should be that used in Asset Adequacy Analysis modeling.



9. **DISINVESTMENT STRATEGY** - In general, negative cash flows should be handled just as they are in the Asset Adequacy Analysis. The one caveat is, since the RBC scenarios are more severe, models that depend on borrowing need to be reviewed to be confident that loans in the necessary volume are likely to be available under these circumstances at a rate consistent with the model's assumptions. If not, adjustments need to be made.

If negative cash flows are handled by selling assets, then appropriate modeling of contributions and withdrawals to the IMR need to be reflected in the modeling.

10. **STATUTORY PROFITS RETAINED** - The measure is based on a profits retained model, anticipating that statutory net income earned one period is retained to support capital requirements in future periods. In other words, no stockholder dividends are withdrawn, but policyholder dividends, excess interest, declared rates, etc., are modeled realistically and assumed, paid or credited.
11. **LIABILITY and ASSET ASSUMPTIONS** – The liability and asset assumptions should be those used in Asset Adequacy Analysis modeling. Disclosure of these assumptions may be required.
12. **SENSITIVITY TESTING** - Key assumptions shall be stress tested (e.g., lapses increased by 50%) to evaluate sensitivity of the resulting C-3 requirement to the various assumptions made by the actuary. Disclosure of these results may be required.

Proposed amendments submitted by Everlake Life Insurance Company, April 1, 2026. Re: Agenda Item 2025-14-L. Underlined text represents proposed insertions; strikethrough text represents proposed deletions. All other provisions of the C-3 framework remain unchanged.



Okosun, Kazeem

From: Colin Masterson <ColinMasterson@acli.com>
Sent: Friday, April 3, 2026 2:31 PM
To: Slutsker, Ben; Barlow, Philip; Weber, Peter; Hemphill, Rachel; Yanacheak, Mike; O'Neal, Scott; Okosun, Kazeem
Cc: Brian Bayerle; Carrie Haughawout
Subject: Exposure: Life Risk-Based Capital (E) Working Group Ending 4/13/26

Follow Up Flag: Follow up
Flag Status: Flagged

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hello, all!

Our internal deadline for feedback just passed EOD yesterday and we did not receive any comments from ACLI members other than support for the latest GOES capital exposure from LRBC. As such, we will not be submitting a formal letter but we did want to take some time and thank everyone for all the work and dedication put into this effort over the last several years. It is also our plan to verbally support the latest exposure's adoption at the public meeting where it will be discussed.

We are proud to have been a part of such a project that was as extensive and impactful to the industry as this and we look forward to additional cooperation with regulators and NAIC staff in the future once all the reserve (and now capital) components of the Generator are in place.

Much appreciated,

Brian and Colin



Colin Masterson, ALMI
 Senior Policy Analyst
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From: Ball, Amy <aball@naic.org>
Sent: Wednesday, March 25, 2026 10:17 AM
To: Okosun, Kazeem <kokosun@naic.org>
Subject: Exposure: Life Risk-Based Capital (E) Working Group Ending 4/13/26

Distributed to Members, Interested Regulators, and Interested Parties of the Life Risk-Based Capital (E) Working Group

The following document is exposed for a 23-day comment period ending **April 13, 2026**, please submit comments to [Kazeem Okosun](#).

- [2025-14-L C-3 GOES Implementation](#)
- [2025-16-L MOD Collateral Loans](#)

NAIC Support Staff Contact

Name: Kazeem Okosun

Phone number: 816.783.8981

Email: kokosun@naic.org

Amy Ball (she, her, hers)

Financial Regulatory Coordinator

Financial Regulatory Affairs / Financial Regulatory Services



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Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>02-18-2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2026-06-L MOD</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>02-25-2026</u> _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
---	--

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal intends to propose editorial changes to LR027 Interest Rate Risk and Market Risk Page (e.g. refresh Annual Statement Source / Source guidance).

The modified proposal was based on the comment received. The changes are highlighted in BLUE

Additional Staff Comments:

- 02-25-2026: Proposal was exposed with comments due 03-20-2026. 1 comment letter received.

** This section must be completed on all forms.

Revised 2-2023

Company Name

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INTEREST RATE RISK AND MARKET RISK

		(1)		(2)	(3)
				Statement Value	RBC Requirement
				Value	Requirement
(1.1) Did the Company Submit an Unqualified Actuarial Opinion Based on Asset Adequacy Testing or One Qualified Due Solely to the Direction Provided in Actuarial Guideline XLVIII?	["Yes" or "No" in Column (1)]				
(1.2) C-3 RBC Cash Flow Testing on Certain Products? (See the instructions for specific details)	["Yes" or "No" in Column (1)]				
(1.3) If Line (1.2) is "Yes", is the Appointed Actuary C-3 Assumption Statement Attached?	["Yes" or "No" in Column (1)]				
(1.4) If applicable, have the appropriate certifications been attached?	["Yes" or "No" or "N/A" in Column (1)]				
RESERVES THAT WERE CASH FLOW TESTED FOR ASSET ADEQUACY (See Appendix 1 of the instructions for more details.)					
	<u>Annual Statement Source</u>				
<u>Low Risk Category</u>					
(2) Annuity Reserve with Fair Market Value Adjustment (excluding unitized separate accounts)*	Notes to Financial Statements Item 32 Line A1a, B1a and C1a, in part ‡		X	0.0095 or 0.0063 †	=
(3) Annuity Reserve not Withdrawable (excluding structured settlements)*	Notes to Financial Statements Item 32 Line A2, B2 and C2, in part ‡		X	0.0095 or 0.0063 †	=
(4) Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity ‡	Notes to Financial Statements Item 32 Various Lines, in part ‡		X	0.0095 or 0.0063 †	=
(5.1) Single Premium Life Insurance Reserves Net of Reinsurance	Exhibit 5 Column 2 Line 0199999, in part				
(5.2) Less Single Premium Life Insurance Reserves Policy Loans	Page 2 Line 6, in part				
(5.3) Plus Modified Coinsurance Assumed Single Premium Life Reserves net of Modified Coinsurance Assumed Policy Loans	Schedule S Part 1 Section 1 Column 12, in part ‡				
(5.4) Less Modified Coinsurance Ceded Single Premium Life Reserves net of Modified Coinsurance Ceded Policy Loans	Schedule S Part 3 Section 1 Column 14, in part ‡				
(5.5) Single Premium Life Insurance Reserves	Line (5.1) - (5.2) + (5.3) - (5.4)		X	0.0095 or 0.0063 †	=
(6) Total Low Risk	Lines (2) + (3) + (4) + (5.5)				
<u>Medium Risk Category</u>					
(7) Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More*	Notes to Financial Statements Item 32 Line A1b, B1b and C1b, in part ‡		X	0.0190 or 0.0127 †	=
(8) Exhibit 7 Reserve not Included Elsewhere §	Exhibit 7 Line 14 amounts not included elsewhere in Interest Rate Risk (C-3) ‡		X	0.0190 or 0.0127 †	=
(9) Structured Settlements	Notes to Financial Statements Item 32, in part ‡		X	0.0190 or 0.0127 †	=
(10) Additional Actuarial Reserves for Annuities and Single Premium Life - Asset/Liability Analysis	Exhibit 5 Column 2 Line 0799997, in part		X	0.0190 or 0.0127 †	=
(11) Total Medium Risk	Sum of Lines (7) through (10)				

† The factors are decreased by one-third if the company submits an unqualified actuarial opinion based on asset adequacy testing or one qualified due solely to the direction provided in Actuarial Guideline XLVIII.

The RBC software automatically recalculates the factor, depending on the answer to Line (1.1).

‡ Net of reinsurance, less policy loans, plus modified coinsurance assumed reserves, less modified coinsurance ceded reserves.

§ Excluding any non-policyholder reserves (e.g., reserves that are not related to specific policies).

* Excluding GICs within 1 year of maturity.

‡ Includes GICs within 1 year of maturity subtracted elsewhere.

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INTEREST RATE RISK AND MARKET RISK (CONTINUED)

	<u>Annual Statement Source</u>	(2) Statement Value	Factor	(3) RBC Requirement
(12) Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)*	Notes to Financial Statements Item 32 Line A1e, B1e and C1e, in part‡	[]	X 0.0380 or 0.0253†	[]
(13) Debt with GIC-like Characteristics (see Appendix 1 & 1b instructions)	Company records (enter a pre-tax amount)	[]		[]
(14) Total High Risk	Line (12) + (13)	[]		[]
<u>Synthetic GIC's</u>				
(15) Synthetic GIC's C-3 Requirement	Company records (enter a pre-tax amount)	[]		[]
<u>Callable/Pre-Payable Assets</u>				
(16) Callable/Pre-Payable Assets Assigned to Products Categorized Above	Company records (enter a pre-tax amount)	[]		[]
(17) Subtotal of Factor Based RBC For Products Categorized Above	Lines (6) + (11) + (14) + (15)	[]		[]
ALL OTHER RESERVES (exclude statement amounts included in Lines (2) to (17) above)				
<u>Low Risk Category</u>				
(18) Annuity Reserve with Fair Market Value Adjustment (excluding unitized separate accounts and eligible experience rated pension and separate accounts with guarantees)*	Notes to Financial Statements Item 32 Line A1a, B1a and C1a, in part‡	[]	X 0.0095 or 0.0063†	[]
(19) Annuity Reserve not Withdrawable (excluding structured settlements and eligible experience rated pension and separate accounts with guarantees)*	Notes to Financial Statements Item 32 Line A2, B2 and C2, in part‡	[]	X 0.0095 or 0.0063†	[]
(20) Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity£	Notes to Financial Statements Item 32 Various Lines, in part‡	[]	X 0.0095 or 0.0063†	[]
(21.1) Life Insurance Reserves Net of Reinsurance	Exhibit 5 Column 2 Line 0199999, in part	[]		[]
(21.2) Less Life Insurance Reserves Policy Loans	Page 2 Line 6, in part	[]		[]
(21.3) Plus Modified Coinsurance Assumed Reserves net of Modified Coinsurance Assumed Policy Loans	Schedule S Part 1 Section 1 Column 12, in part‡	[]		[]
(21.4) Less Modified Coinsurance Ceded Reserves net of Modified Coinsurance Ceded Policy Loans	Schedule S Part 3 Section 1 Column 14, in part‡	[]		[]
(21.5) Life Insurance Reserves	Line (21.1) - (21.2) + (21.3) - (21.4)	[]	X 0.0095 or 0.0063†	[]
(22) Total Low Risk	Lines (18) + (19) + (20) + (21.5)	[]		[]

† The factors are decreased by one-third if the company submits an unqualified actuarial opinion based on asset adequacy testing or one qualified due solely to the direction provided in Actuarial Guideline XLVIII.

The RBC software automatically recalculates the factor, depending on the answer to Line (1.1).

‡ Net of reinsurance, less policy loans, plus modified coinsurance assumed reserves, less modified coinsurance ceded reserves.

§ Excluding any non-policyholder reserves (e.g., reserves that are not related to specific policies).

* Excluding GICs within 1 year of maturity.

£ Includes GICs within 1 year of maturity subtracted elsewhere.

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NAIC Company Code

INTEREST RATE RISK AND MARKET RISK (CONTINUED)

	<u>Annual Statement Source</u>	(2) Statement Value	Factor	(3) RBC Requirement
<u>Medium Risk Category</u>				
(23) Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More*	Notes to Financial Statements Item 32 Line A 1b , B 1b and C 1b , in part‡	[Redacted] X	0.0190 or 0.0127†	= [Redacted]
(24) Exhibit 7 Reserve not Included Elsewhere §	Exhibit 7 Line 14 amounts not included elsewhere in Interest Rate Risk (C-3)‡	[Redacted] X	0.0190 or 0.0127†	= [Redacted]
(25) Structured Settlements	Notes to Financial Statements Item 32 in part‡	[Redacted] X	0.0190 or 0.0127†	= [Redacted]
(26) Additional Actuarial Reserves - Asset/Liability Analysis	Exhibit 5 Column 2 Line 0799997, in part	[Redacted] X	0.0190 or 0.0127†	= [Redacted]
(27) Total Medium Risk	Sum of Lines (23) through (26)			[Redacted]
<u>High Risk Category</u>				
(28) Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)*	Notes to Financial Statements Item 32 Line A 1e , B 1e and C 1e , in part‡	[Redacted] X	0.0380 or 0.0253†	= [Redacted]
(29) Total High Risk	Line (28)			[Redacted]
<u>Synthetic GIC's</u>				
(30) Synthetic GIC's C-3 Requirement	Company records (enter a pre-tax amount)		RBC x 1.000 (less "haircut")	[Redacted]
<u>Callable/Pre-Payable Assets</u>				
(31) Callable/Pre-Payable Assets Not Allocated to Line (16). Include Callable/Pre-Payable Assets Allocated to Surplus	Company records (enter a pre-tax amount)			[Redacted]
(32) Interest Rate Risk Based Completely on Factors	Lines (16) + (17) + (22) + (27) + (29) + (30) + (31)			[Redacted]
(33) C-3 RBC Cash Flow Testing Interest Rate Risk (If Line 1.2 = "Yes")	Company records (enter a pre-tax amount)		C-3 RBC Cash Flow Testing	[Redacted]
(34) Sub-Total Interest Rate Risk	If Line (33) = 0, then Line (34) = Line (32). Otherwise, Line (34) = Line (32) + (33) - (16) - (17), subject to a minimum of 0.5 times Line (32)			[Redacted]
(35) Interest Rate Risk Component (See the instructions for specific detail.)	Company Records (enter the pre-tax amount)			[Redacted]
(36) Total Interest Rate Risk	Lines (34) + (35)			[Redacted]
(37) Total Market Risk	Company Records (enter a pre-tax amount)			[Redacted]

† The factors are decreased by one-third if the company submits an unqualified actuarial opinion based on asset adequacy testing or one qualified due solely to the direction provided in Actuarial Guideline XLVIII. The RBC software automatically recalculates the factor, depending on the answer to Line (1.1).
‡ Net of reinsurance, less policy loans, plus modified coinsurance assumed reserves, less modified coinsurance ceded reserves.
§ Excluding any non-policyholder reserves (e.g., reserves that are not related to specific policies).
* Excluding GICs within 1 year of maturity.
£ Includes GICs within 1 year of maturity subtracted elsewhere.

[Redacted] Denotes items that must be manually entered on the filing software.

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INTEREST RATE RISK AND MARKET RISK (Alternative)
C-3 RBC Cash Flow Testing Alternative Calculations
(For Informational Purposes Only)

(1)

	<u>Source</u>	<u>RBC Requirement</u>
(1) C-3 RBC Cash Flow Testing Interest Rate Risk	LR027 Interest Rate Risk and Market Risk Column (3) Line (33)	_____
(2) C-3 RBC Cash Flow Testing Interest Rate Risk	The Line (1) Equivalent Calculated Using Version 7.1.201406 of the the NAIC Generator of Economic Scenarios †† §§ American Academy of Actuaries Scenario Generator	_____
(3) C-3 RBC Cash Flow Testing Interest Rate Risk	The Line (1) Equivalent Calculated Using a Proprietary Generator ‡‡ §§	_____
(4) Please Describe Proprietary Generator Used, Calibration Criteria, and Number of Scenarios:		

†† This information is not required for 2026.
 ‡‡ This information is requested, if applicable, on a voluntary basis.
 §§ This information is not required for 2026.
 Denotes items that must be manually entered on the filing software.



[Brian Bayerle](#)

Chief Life Actuary
202-624-2169

[Colin Masterson](#)

Sr. Policy Analyst
202-624-2463

March 26, 2026

Ben Slutsker
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Philip Barlow
Vice Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: RBC Proposal Form 2026-06-L (LR027)

Dear Chair Slutsker and Vice Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the recently exposed RBC Proposal Form 2026-06-L which proposes editorial changes to the LR027 Interest Rate Risk and Market Risk Page.

We have reviewed the form and we have observations on the exclusion of Section C from the proposal that we would like to flag since this is an area where additional clarification may help ensure consistent interpretation and reporting.

Under the current LR027 instructions, we have interpreted references to Note 32 lines to map across all sections of Note 32. For example, we have interpreted "Item 32 Line A1" to mean Line 1a across each of the three sections (A, B, and C). This interpretation is consistent with earlier versions of Note 32. The proposed language now explicitly references Sections A and B, implying that Note 32 Section C amounts (Exhibit 7 reserves) would not be included in LR027 Lines 2, 3, 7, 12, 18, 19, 23, and 28.

If Section C is excluded from those lines, ACLI is unclear where Exhibit 7 reserves would be reported on LR027. It appears they may default to the medium-risk category (Lines 8 and 24), but we see two concerns with that approach:

1. It would not recognize the withdrawal characteristics reflected in Note 32 (i.e., not subject to withdrawal, with market value adjustment, etc.).
2. Lines 8 and 24 include footnotes indicating that non-policyholder reserves should be excluded. Exhibit 7 may include certain reserves that are not traditional policyholder liabilities (e.g. FHLB reserves), so clarification on their intended placement would be helpful. There does not appear to be a clear alternative category.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

Therefore, to preserve consistency with the existing treatment for deposit-type contracts, we recommend revising the proposed editorial changes as shown below in blue:

- (2) – Notes to Financial Statements Item 32 Line A1a, ~~and B1a,~~ and C1a, in part
- (3) – Notes to Financial Statements Item 32 Line A2, ~~and B2,~~ and C2, in part
- (7) – Notes to Financial Statements Item 32 Line A1b, ~~and B1b,~~ and C1b, in part
- (12) – Notes to Financial Statements Item 32 Line A1e, ~~and B1e,~~ and C1e, in part
- (18) – Notes to Financial Statements Item 32 Line A1a, ~~and B1a,~~ and C1a, in part
- (19) – Notes to Financial Statements Item 32 Line A2, ~~and B2,~~ and C2, in part
- (23) – Notes to Financial Statements Item 32 Line A1b, ~~and B1b,~~ and C1b, in part
- (28) – Notes to Financial Statements Item 32 Line A1e, ~~and B1e,~~ and C1e, in part

ACLI would also stress as a final consideration that regulators should remain mindful of the proper placement of Section C reserves in the RBC framework throughout the amending process.

Thank you once again for the opportunity to provide this commentary and we look forward to additional discussion on this topic at LRBC soon.

Sincerely,

Handwritten signature of Colin Masterson in cursive script.

cc: Kazeem Okosun, NAIC

TO: Ben Slutsker, Chair, Life Risk-Based Capital (E) Working Group

FROM: Seong-min Eom, Chair, Longevity Risk (A/E) Subgroup

DATE: March 22, 2026

RE: Recommendation for incorporating an RBC charge for longevity risk for longevity reinsurance

The NAIC's Longevity Risk (A/E) Subgroup was formed in 2016 with the charge to provide recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate. The Subgroup has worked closely with the American Academy of Actuaries' (Academy) Longevity Risk Task Force (Task Force) over the past ten years to focus efforts on addressing RBC for longevity risk after determining that statutory reserves would be addressed through the work of other NAIC groups. The Task Force conducted a field study in 2018 to quantify longevity risk coverage at an appropriate confidence level. The results of that field study were presented to the Life Risk-Based Capital (E) Working Group at the 2018 Summer National Meeting. Those results were reflected in proposals 2019-13-L, 2020-06-L, and 2021-13-L for RBC C-2 longevity risk. The adopted proposals excluded longevity reinsurance from scope since the statutory reserve framework was under revision.

The Subgroup resumed work after the 2025 adoption of the new statutory reserve framework for longevity reinsurance products under VM-22, Requirements for Principle-Based Reserves (PBR) For Non-Variable Annuities. The methodology outlined in the *2026 Valuation Manual* allows companies to apply the requirements to contracts issued on or after January 1, 2026, and requires implementation for all in scope products for contracts issued on or after January 1, 2029.

The Subgroup revisited the RBC C-2b longevity risk methods for longevity reinsurance transactions (LRT). In July 2025, the Subgroup requested proposals for approaches for calculating C-2b longevity risk for LRT. As a result, three options were exposed at the 2025 Fall National Meeting. On February 9th, 2026, the Subgroup decided to move forward with a principle-based approach proposed by the American Academy of Actuaries. Such proposal, 2026-07-L Longevity Reinsurance, was email exposed by the Subgroup Chair on Feb 20, for a 35-day public comment period ending March 27, 2026.

The Academy recommendation is a principle-based approach of calculating the RBC C-2b capital amount for LRT. This differs from the current factor-based approach used for other C-2b products in scope of LR025-A. Under this recommendation, a company will use its PBR model for LRT in scope of PBR and cash-flow testing model for non-PBR LRT. This approach

reflects the impact of longevity stresses (e.g., shocks to mortality level and mortality trend) to benefits over the entire projection period.

While a principle-based structure for calculating C-2 has been proposed for longevity reinsurance contracts, there is more work to be done. The mortality stress parameters in the Academy's proposal reference the prior analysis and calibration from 2019. While the Academy has deemed the mortality stress factors suitable for short-term use, the Subgroup recommends that the mortality stress factors be reevaluated to determine whether updates are needed. Additionally, the Subgroup recommends revisiting how the stresses are applied to measure the impact on Longevity Reinsurance. Given the additional work still required, the Subgroup recommends setting the longevity reinsurance capital amount to zero for year 2026.

On April 9, the Subgroup adopted the recommendation and the proposed changes for the 2026 RBC blanks and instructions for longevity reinsurance. See attachments.

Capital Adequacy (E) Task Force RBC Proposal Form

- | | | |
|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input checked="" type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & valuation (E) Working Group |

<p style="text-align: right;">DATE: <u>02-19-2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Longevity Risk (A/E) Subgroup</u></p> <p>NAME: <u>Seong-min Eom, Chair</u></p> <p>TITLE: <u>Managing Actuary</u></p> <p>AFFILIATION: <u>New Jersey Department of Banking and Insurance</u></p> <p>ADDRESS: <u>P.O. Box 325,</u> <u>Trenton, NJ 08625-0325</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2026-07-L</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) _____ <u>4/9/2026</u></p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input checked="" type="checkbox"/> SUBGROUP(SG) _____ <u>2/9/2026</u></p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
--	--

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The Longevity Risk (E/A) Subgroup was charged with providing recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate.

This proposal added structural and instructional changes to LR025-A Longevity Risk Page to consider RBC treatment for Longevity Reinsurance products, as recommended by the Longevity Risk (E/A) Subgroup.

Additional Staff Comments:

2/20/2026 – SG chair exposed via email distribution the proposal for 35-day public comment ending 3/27/26. (mkc)
4/9/2026 – SG met in public session. SG directed NAIC staff to refer a revised proposal to LRBCWG. (mkc)

**** This section must be completed on all forms.**

Revised 2-2023

LONGEVITY RISK

LR025-A

Basis of Factors

The factors chosen represent surplus needed to provide for claims in excess of reserves resulting from increased policyholder longevity calibrated to a 95th percentile level. For the purpose of this calibration aggregate reserves were assumed to provide for an 85th percentile outcome.

Longevity risk was considered over the entire lifetime of the policies since these annuity policies are generally not subject to repricing. Calibration of longevity risk considered both trend risk based on uncertainty in future population mortality improvements, as well as level or volatility risk which derives from misestimation of current population mortality rates or random fluctuations. Trend risk applies equally to all populations whereas level and volatility risk factors decrease with larger portfolios consistent with the law of large numbers.

Except for longevity reinsurance, statutory reserve was chosen as the exposure base as a consistent measure of the economic exposure to increased longevity. Factors were also scaled by reserve level since number of insured policyholders is a less accessible measure of company specific volatility risk. Factors provided are pre-tax and were developed assuming a 21% tax adjustment would be subsequently applied.

Specific Instructions for Application of the Formula

Excluding longevity reinsurance, annual statement reference is for the total reserve for the products in scope. The scope includes annuity products with life contingent payments where benefits are to be distributed in the form of an annuity. The entire reserve amount for contracts in scope that include any life contingent payments are in scope. For example, under a certain-and-life style annuity, the entire reserve for both the certain payments and life contingent payments are in scope. Variable immediate annuity reserves under VM-21 are also in scope where there are life contingent payments. Scope does not include annuity products that are not life contingent, or deferred annuity products where the policyholder has a right but not an obligation to annuitize. A certain-and-life style annuity, where only certain payments remain (such as following the death of the annuitant), is out of scope. Variable deferred annuity contract reserves under VM-21 are out of scope, including reserves valued under VM-21 for any contracts where policyholder account value has reached zero, but a lifetime benefit may still be payable by the insurer. Line (3) for General Account Life Contingent Miscellaneous reserves is included in the event there are any reserves for products in scope reported on Exhibit 5 line 0799999; it is not meant to include cash flow testing reserves reported on this line. Included in scope are:

- Single Premium Immediate Annuities (SPIA) and other payout annuities in pay status
- Deferred Income Annuities which will enter annuity pay status in the future

- Structured Settlements for annuitants with any life contingent benefits
- Group Annuities, such as those associated with pension liabilities with both immediate and deferred benefits

The total reserve exposure is then further broken down by size as in a tax table. This breakdown will not appear on the RBC filing software or on the printed copy, as the application of factors to reserves is completed automatically. The calculation is as follows:

<u>Line (5)</u>	<u>(1)</u>	<u>Factor</u>	<u>(2)</u>
<u>Life Contingent Annuity Reserves Excluding Longevity Reinsurance</u>	<u>Statement Value</u>		<u>RBC Requirement</u>
First 250 Million	_____	X 0.0171 =	_____
Next 250 Million	_____	X 0.0108 =	_____
Next 500 Million	_____	X 0.0095 =	_____
Over 1,000 Million	_____	X 0.0089 =	_____
 Total Life Contingent Annuity Reserves <u>Excluding Longevity Reinsurance</u>	 =====		 =====

Line (6)

For 2026 RBC calculation purpose, input value of zero for “Longevity Reinsurance Longevity Risk Capital Requirement” in Column (2).

Line (7)

The Total Longevity Risk Capital Requirement is the sum of Lines (5) and (6).

The amount ultimately included in the authorized control level will be subject to a guardrail factor of 0 and a correlation factor of -.25.

Company Name

Confidential when Completed

LONGEVITY RISK

	Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
<u>Life Contingent Annuity Reserves, excluding Longevity Reinsurance</u>				
(1) General Account Life Contingent Annuity Reserves	Exhibit 5 Column 2 Line 0299999, in part ‡			
(2) General Account Life Contingent Supplemental Contract Reserves	Exhibit 5 Column 2 Line 0399999, in part ‡			
(3) General Account Life Contingent Miscellaneous Reserves	Exhibit 5 Column 2 Line 0799999, in part ‡			
(4) Separate Account (SA) Life Contingent Annuity Reserves	S/A Exhibit 3 Column 2 Line 0299999, in part ‡			
(5) Total Life Contingent Annuity Reserves, excluding Longevity Reinsurance	Lines (1) + (2) + (3) + (4)		X † =	
<u>Longevity Reinsurance</u>				
(6) Longevity Reinsurance Longevity Risk Capital Requirement	Company Records (enter a pre-tax amount)			
(7) Total Longevity Risk Capital Requirement	Lines (5) + (6)			

† The tiered calculation is illustrated in the Longevity Risk section of the risk-based capital instructions.
‡ Include only the portion of reserves for products in scope per the instructions

Denotes items that must be manually entered on the filing software.

Company Name

Confidential when Completed

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		← Details Eliminated to Conserve Space →	Source →		(1)		(2)
					RBC Amount	Tax Factor	RBC Tax Effect
(136)	Long-Term Care		LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)			X 0.2100	=
(137)	Individual & Industrial Life Insurance C-2 Risk		LR025 Life Insurance Column (2) Line (5)			X 0.2100	=
(138)	Group & Credit Life Insurance C-2 Risk		LR025 Life Insurance Column (2) Line (12)			X 0.2100	=
(138b)	Longevity C-2 Risk		LR025-A Longevity Risk Column (2) Line (7)			X 0.2100	=
(139)	Disability and Long-Term Care Health Claim Reserves		LR024 Health Claim Reserves Column (4) Line (9) + Line (15)			X 0.2100	=
(140)	Premium Stabilization Credit		LR026 Premium Stabilization Reserves Column (2) Line (10)			X 0.0000	=
(141)	Total C-2 Risk		$L(135) + L(136) + L(139) + L(140) + \text{Greatest of} [\text{Guardrail Factor} * (L(137)+L(138)), \text{Guardrail Factor} * L(138b), \text{Square Root of} [(L(137) + L(138))^2 + L(138b)^2 + 2 * (\text{Correlation Factor}) * (L(137) + L(138)) * L(138b)]]$				=
(142)	Interest Rate Risk		LR027 Interest Rate Risk Column (3) Line (36)			X 0.2100	=
(143)	Health Credit Risk		LR028 Health Credit Risk Column (2) Line (7)			X 0.0000	=
(144)	Market Risk		LR027 Interest Rate Risk Column (3) Line (37)			X 0.2100	=
(145)	Business Risk		LR029 Business Risk Column (2) Line (40)			X 0.2100	=
(146)	Health Administrative Expenses		LR029 Business Risk Column (2) Line (57)			X 0.0000	=
(147)	Total Tax Effect		Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)				=

Company Name

Confidential when Completed

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)



Details Eliminated to Conserve Space



- (32) Synthetic GIC's (C-1o)
- (33) Surplus in Non-Guaranteed Separate Accounts
- (34) Real Estate (gross of encumbrances)
- (35) Schedule BA Real Estate (gross of encumbrances)
- (36) Other Long-Term Assets

- (37) Schedule BA Mortgages
- (38) Concentration Factor
- (39) Miscellaneous
- (40) Replication Transactions and Mandatory Convertible Securities

- (41) Reinsurance
- (42) Total (C-1o) - Pre-Tax
- (43) (C-1o) Tax Effect
- (44) Net (C-1o) - Post-Tax

- Source
- LR006 Separate Accounts Column (3) Line (8)
 - LR006 Separate Accounts Column (3) Line (13)
 - LR007 Real Estate Column (3) Line (13)
 - LR007 Real Estate Column (3) Line (25)
 - LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)
 - LR009 Schedule BA Mortgages Column (6) Line (24)
 - LR010 Asset Concentration Factor Column (6) Line (61) Grand Total Page
 - LR012 Miscellaneous Assets Column (2) Line (21)
 - LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)
 - LR016 Reinsurance Column (4) Line (17)
 - Sum of Lines (22) through (41)
 - LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110) Line (42) - Line (43)

(1)
RBC
Requirement

Insurance Risk (C-2)

- (45) Individual and Industrial Life Insurance
- (46) Group and Credit Life Insurance and FEGI/SGLI
- (46b) Longevity Risk
- (47) Total Health Insurance
- (48) Premium Stabilization Reserve Credit
- (49) Total (C-2) - Pre-Tax

- (50) (C-2) Tax Effect
- (51) Net (C-2) - Post-Tax

- LR025 Life Insurance Column (2) Line (5)
- LR025 Life Insurance Column (2) Line (12)
- LR025-A Longevity Risk Column (2) Line (7)**
- LR024 Health Claim Reserves Column (4) Line (18)
- LR026 Premium Stabilization Reserves Column (2) Line (10)
- $L(47) + L(48) + \text{Greatest of [Guardrail Factor * (L(45)+L(46)), Guardrail Factor * L(46b), Square Root of [(L(45) + L(46))^2 + L(46b)^2 + 2 * (Correlation Factor) * (L(45) + L(46)) * L(46b)]]}$
- LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141) Line (49) - Line (50)

Interest Rate Risk (C-3a)

- (52) Total Interest Rate Risk - Pre-Tax
- (53) (C-3a) Tax Effect
- (54) Net (C-3a) - Post-Tax

- LR027 Interest Rate Risk Column (3) Line (36)
- LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142) Line (52) - Line (53)

Health Credit Risk (C-3b)

- (55) Total Health Credit Risk - Pre-Tax
- (56) (C-3b) Tax Effect
- (57) Net (C-3b) - Post-Tax

- LR028 Health Credit Risk Column (2) Line (7)
- LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143) Line (55) - Line (56)

Market Risk (C-3c)

- (58) Total Market Risk - Pre-Tax
- (59) (C-3c) Tax Effect
- (60) Net (C-3c) - Post-Tax

- LR027 Interest Rate Risk Column (3) Line (37)
- LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144) Line (58) - Line (59)



Details Eliminated to Conserve Space



Cover questions:

#1 – What are specific solutions or edits to the ACLI proposal to address regulators’ concerns regarding fair value of assets with unobservable inputs? Beyond additional disclosures, should there be a lower reduction to the look-through approach if the fair value of the collateral cannot be observed in the market?

#2 – Please comment whether an alternative tiering structure is appropriate such that 80% LTV is at the mid-point of the tier. This is based on observation that 80% LTV is a prevalent investment limit among states.

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>02/04/2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-16-L MOD</u> Year <u>2026 or later</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>11/14/2025</u> <u>02-10-2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Life RBC (E) Working Group met June 18, 2025 and received a referral from Statutory Accounting Principles (E) Working Group regarding collateral loan schedule BA reporting changes (Attachment A). As a result of the referral, NAIC staff drafted the proposal with the following objectives:

- (1) To make changes to Life RBC Blanks so as to reflect the adopted changes in Schedule BA and Asset Valuation Reserve (AVR) reporting effective 2026.
- (2) To explore the potential need to revisit RBC and AVR factors based on the risk characteristics of the collaterals backing the collateral loans

The proposal 2025-16-L MOD was exposed at the Working Group on Feb 10 for a 24-day public comment period ending March 06, 2026. The modified proposal is in response to ACLI comment. Staff then layer in LR010 consideration.

Additional Staff Comments:

- 11-14-2025: Proposal was exposed with comments due 01-27-2026 - 4 comment letters received (KO)
- 02-10-2026: Proposal was modified and re-exposed with comments due 03-06-2026 - 4 comment letters received (KO)
- 03-22-2026: The modified proposal is in response to ACLI comment. Staff then layer in LR010 consideration.

**** This section must be completed on all forms.**

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Schedule BA - Fixed Income - Bonds</u>						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line C1	\$0	\$0	\$0 X	0.0000 = \$0
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line C2	\$0	\$0	\$0 X	0.0039 = \$0
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line C3	\$0	\$0	\$0 X	0.0126 = \$0
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line C4	\$0	\$0	\$0 X	0.0446 = \$0
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line C5	\$0	\$0	\$0 X	0.0970 = \$0
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line C6	\$0	\$0	\$0 X	0.2231 = \$0
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line C7	\$0	\$0	\$0 X	0.3000 = \$0
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)	\$0	\$0		\$0
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)	\$0			\$0
<u>Schedule BA - Fixed Income - Preferred Stock</u>						
(12)	Asset NAIC 1	AVR Equity Component Column 1 Line D1	\$0	\$0	\$0 X	0.0039 = \$0
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line D2	\$0	\$0	\$0 X	0.0126 = \$0
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line D3	\$0	\$0	\$0 X	0.0446 = \$0
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line D4	\$0	\$0	\$0 X	0.0970 = \$0
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line D5	\$0	\$0	\$0 X	0.2231 = \$0
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line D6	\$0	\$0	\$0 X	0.3000 = \$0
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12) through (17)	\$0	\$0		\$0
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)	\$0			\$0
<u>Rated Surplus Notes Classified by Designation Equivalent</u>						
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0		\$0 X	0.0039 = \$0
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0		\$0 X	0.0126 = \$0

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	<u>Annual Statement Source</u>					
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.0446	\$0
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.0970	\$0
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.2231	\$0
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.3000	\$0
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)	\$0	\$0		\$0
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)	\$0			\$0
	<u>Rated Capital Notes Classified by Designation Equivalent</u>					
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0039	\$0
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0126	\$0
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0446	\$0
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0970	\$0
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.2231	\$0
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.3000	\$0
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)	\$0	\$0		\$0
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)	\$0			\$0
	<u>Schedule BA - Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs)</u>					
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line F1	\$0	\$0 X		\$0
(43.1)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line F2	\$0	\$0 X	0.3000	\$0

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
Schedule BA Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests						
(43.2)	OC Percentage < 125%	Company Records	\$0	\$0 X	0.2700	\$0
(43.3)	OC Percentage ≥ 125% and < 167%	Company Records	\$0	\$0 X	0.2100	\$0
(43.4)	OC Percentage ≥ 167% and < 250%	Company Records	\$0	\$0 X	0.1500	\$0
(43.5)	OC Percentage ≥ 250% and < 500%	Company Records	\$0	\$0 X	0.0900	\$0
(43.6)	OC Percentage ≥ 500%	Company Records	\$0	\$0 X	0.0300	\$0
(43.7)	Total Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (Column (1), line 43.7 should be equal to sum of AVR Equity Component lines K3 and K4)	Lines (43.2) + (43.3) + (43.4) + (43.5) + (43.6)	\$0	\$0		\$0
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line F5	\$0	\$0 X	0.3000	\$0
(45.1)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line I13	\$0	\$0 X	0.4500	\$0
Schedule BA Collateral Loans backed by Residual Tranches or Interests						
(45.2)	OC Percentage < 125%	Company Records	\$0	\$0 X	0.4050	\$0
(45.3)	OC Percentage ≥ 125% and < 167%	Company Records	\$0	\$0 X	0.3150	\$0
(45.4)	OC Percentage ≥ 167% and < 250%	Company Records	\$0	\$0 X	0.2250	\$0
(45.5)	OC Percentage ≥ 250% and < 500%	Company Records	\$0	\$0 X	0.1350	\$0
(45.6)	OC Percentage ≥ 500%	Company Records	\$0	\$0 X	0.0450	\$0
(45.7)	Tranches or Interests (Column (1), line 45.7 should be equal to sum of AVR Equity Component lines K5 and K6)	Lines (45.2) + (45.3) + (45.4) + (45.5) + (45.6)	\$0	\$0		\$0
(46)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs) (pre-MODCO/Funds Withheld)	Line (42) + (43.1) + (43.7) + (44) + (45.1) + (45.7)	\$0	\$0		\$0
(47)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(48)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(49)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs) (including MODCO/Funds Withheld.)	Lines (46) - (47) + (48)	\$0			\$0
Schedule BA - All Other (C-1o)						
(50.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line F3	\$0			
(50.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line F4	\$0			
(50.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2)	\$0	\$0 X	0.3000	\$0
(51)	All Other Schedule BA Collateral Loans	AVR Equity Component Column 1 Line K7 + K8 + K9 + K10 + K11 + K12	\$0	\$0 X	0.0680	\$0
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line L1	\$0	\$0 X	0.0050	\$0
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line L2	\$0	\$0 X	0.0163	\$0
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)	\$0	\$0		\$0
(53.1)	Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line J7 + L3	\$0			
(53.2)	Less NAIC 1 thru 6 Rated/Designated Surplus	Column (1) Lines (22) through (27) + Column (1)	\$0			

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	<u>Annual Statement Source</u>					
(53.3)	Notes and Capital Notes	Lines (32) through (37)				
	Net Other Schedule BA Assets	Line (53.1) less (53.2)	\$0	\$0 X	0.3000	= \$0
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (50.3) + (51) + (52.3) + (53.3)	<u>\$0</u>			<u>\$0</u>
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				<u>\$0</u>
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				<u>\$0</u>
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)	<u>\$0</u>			<u>\$0</u>
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49)+ (57)	<u>\$0</u>			<u>\$0</u>

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

ASSET CONCENTRATION FACTOR		(1)	(2)	(3)	(4)	(5)	(6)
Issuer	Asset Type		Book / Adjusted Carrying Value	Factor	Additional RBC	Adjustment/ Subsidiary RBC	RBC Requirement
#01	Issuer Name:						
#01	(1.1) Bond NAIC Designation Category 2.A	\$0	X	0.01261	= \$0	\$0	\$0
#01	(1.2) Bond NAIC Designation Category 2.B	\$0	X	0.01523	= \$0	\$0	\$0
#01	(1.3) Bond NAIC Designation Category 2.C	\$0	X	0.02168	= \$0	\$0	\$0
#01	(2.1) Bond NAIC Designation Category 3.A	\$0	X	0.03151	= \$0	\$0	\$0
#01	(2.2) Bond NAIC Designation Category 3.B	\$0	X	0.04537	= \$0	\$0	\$0
#01	(2.3) Bond NAIC Designation Category 3.C	\$0	X	0.06017	= \$0	\$0	\$0
#01	(3.1) Bond NAIC Designation Category 4.A	\$0	X	0.07386	= \$0	\$0	\$0
#01	(3.2) Bond NAIC Designation Category 4.B	\$0	X	0.09535	= \$0	\$0	\$0
#01	(3.3) Bond NAIC Designation Category 4.C	\$0	X	0.12428	= \$0	\$0	\$0
#01	(4.1) Bond NAIC Designation Category 5.A	\$0	X	0.16942	= \$0	\$0	\$0
#01	(4.2) Bond NAIC Designation Category 5.B	\$0	X	0.21202	= \$0	\$0	\$0
#01	(4.3) Bond NAIC Designation Category 5.C	\$0	X	0.15000	= \$0	\$0	\$0
#01	(5) Bond Asset NAIC 6	\$0	X	0.15000	= \$0	\$0	\$0
#01	(6.1) Bond NAIC Designation Category 1.A †	\$0	X	0.00158	= \$0	\$0	\$0
#01	(6.2) Bond NAIC Designation Category 1.B †	\$0	X	0.00271	= \$0	\$0	\$0
#01	(6.3) Bond NAIC Designation Category 1.C †	\$0	X	0.00419	= \$0	\$0	\$0
#01	(6.4) Bond NAIC Designation Category 1.D †	\$0	X	0.00523	= \$0	\$0	\$0
#01	(6.5) Bond NAIC Designation Category 1.E †	\$0	X	0.00657	= \$0	\$0	\$0
#01	(6.6) Bond NAIC Designation Category 1.F †	\$0	X	0.00816	= \$0	\$0	\$0
#01	(6.7) Bond NAIC Designation Category 1.G †	\$0	X	0.01016	= \$0	\$0	\$0
#01	(7) Unaffiliated Preferred Stock NAIC 2	\$0	X	0.01260	= \$0	\$0	\$0
#01	(8) Unaffiliated Preferred Stock NAIC 3	\$0	X	0.04460	= \$0	\$0	\$0
#01	(9) Unaffiliated Preferred Stock NAIC 4	\$0	X	0.09700	= \$0	\$0	\$0
#01	(10) Unaffiliated Preferred Stock NAIC 5	\$0	X	0.22310	= \$0	\$0	\$0
#01	(11) Unaffiliated Preferred Stock NAIC 6	\$0	X	0.15000	= \$0	\$0	\$0
#01	(12) Unaffiliated Preferred Stock NAIC 1 †	\$0	X	0.00390	= \$0	\$0	\$0
#01	Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (OC Percentage < 125%)	\$0	X	0.18000	= \$0	\$0	\$0
#01	Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (OC Percentage ≥ 125% and < 167%)	\$0	X	0.21000	= \$0	\$0	\$0
#01	Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (OC Percentage ≥ 167% and < 250%)	\$0	X	0.15000	= \$0	\$0	\$0
#01	Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (OC Percentage ≥ 250% and < 500%)	\$0	X	0.09000	= \$0	\$0	\$0
#01	Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests (OC Percentage ≥ 500%)	\$0	X	0.03000	= \$0	\$0	\$0
#01	Collateral Loans backed by Residual Tranches or Interests (OC Percentage < 125%)	\$0	X	0.04500	= \$0	\$0	\$0
#01	Collateral Loans backed by Residual Tranches or Interests (OC Percentage ≥ 125% and < 167%)	\$0	X	0.13500	= \$0	\$0	\$0
#01	Collateral Loans backed by Residual Tranches or Interests (OC Percentage ≥ 167% and < 250%)	\$0	X	0.22500	= \$0	\$2	\$0
#01	Collateral Loans backed by Residual Tranches or Interests (OC Percentage ≥ 250% and < 500%)	\$0	X	0.13500	= \$0	\$3	\$0
#01	Collateral Loans backed by Residual Tranches or Interests (OC Percentage ≥ 500%)	\$0	X	0.04500	= \$0	\$4	\$0
#01	(13.11) All Other BA Collateral Loans	\$0	X	0.06800	= \$0	\$0	\$0
#01	(14) Receivable for Securities	\$0	X	0.01600	= \$0	\$0	\$0
#01	(15) Write-ins for Invested Assets	\$0	X	0.06800	= \$0	\$0	\$0
#01	(16) Premium Notes	\$0	X	0.06800	= \$0	\$0	\$0
#01	(17) Real Estate - Foreclosed	\$0					
#01	(18) Real Estate - Foreclosed Encumbrances	\$0	X	0.00000	‡ = \$0	\$0	\$0
#01	(19) Real Estate - Investments	\$0					
#01	(20) Real Estate - Investment Encumbrances	\$0	X	0.00000	‡ = \$0	\$0	\$0
#01	(21) Real Estate - Schedule BA	\$0					
#01	(22) Real Estate - Schedule BA Encumbrances	\$0	X	0.00000	‡ = \$0	\$0	\$0
#01	(23) Farm Mortgages - Category CM2	\$0	X	0.01750	= \$0	\$0	\$0
#01	(24) Farm Mortgages - Category CM3	\$0	X	0.03000	= \$0	\$0	\$0
#01	(25) Farm Mortgages - Category CM4	\$0	X	0.05000	= \$0	\$0	\$0
#01	(26) Farm Mortgages - Category CM5	\$0	X	0.07500	= \$0	\$0	\$0
#01	(27) Commercial Mortgages - Category CM2	\$0	X	0.01750	= \$0	\$0	\$0
#01	(28) Commercial Mortgages - Category CM3	\$0	X	0.03000	= \$0	\$0	\$0

ASSET CONCENTRATION FACTOR		(1)	(2)	(3)	(4)	(5)	(6)
<u>Issuer</u>	<u>Asset Type</u>		<u>Book / Adjusted</u> <u>Carrying Value</u>	<u>Factor</u>	<u>Additional</u> <u>RBC</u>	<u>Adjustment/</u> <u>Subsidiary RBC</u>	<u>RBC</u> <u>Requirement</u>

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

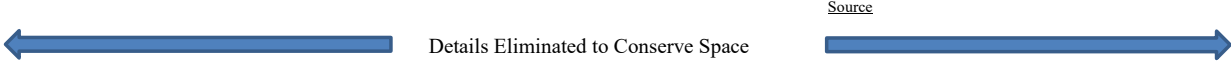
	Source	(1) RBC Amount	Tax Factor	(2) RBC Tax Effect
(123) <u>Common Stock</u> Unaffiliated Common Stock	Details Eliminated to Conserve Space LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	\$0	X 0.2100	\$0
(124) Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)	\$0	X 0.2100	\$0
(125) Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)	\$0	X 0.2100	\$0
(126) Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)	\$0	X 0.2100	\$0
(127) Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (49) - Line (45.1) - Line (45.7)	\$0	X 0.2100	\$0
(128) Total Residual Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (45.1) + Line (45.7)	\$0	X 0.2100	\$0
(129) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	\$0	X 0.2100	\$0
(130) NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)	\$0	X 0.1575	\$0
(131) NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)	\$0	X 0.1575	\$0
(132) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	\$0	X 0.2100	\$0
(133) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	\$0	X 0.2100	\$0
(134) Total for C-1cs Assets	Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133)	\$0		\$0
(135) <u>Insurance Risk</u> Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)	\$0	X 0.2100	\$0
(136) Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	\$0	X 0.2100	\$0
(137) Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (5)	\$0	X 0.2100	\$0
(138) Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (12)	\$0	X 0.2100	\$0
(138b) Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)	\$0	X 0.2100	\$0
(139) Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	\$0	X 0.2100	\$0
(140) Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	\$0	X 0.0000	\$0
(141) Total C-2 Risk	L(135) + L(136) + L(139) + L(140) + Greatest of [Guardrail Factor * (L(137)+L(138)), Guardrail Factor * L(138b), Square Root of [(L(137) + L(138)) ² + L(138b) ² + 2 * (Correlation Factor) * (L(137) + L(138)) * L(138b)]]	\$0		\$0
(142) Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	\$0	X 0.2100	\$0
(143) Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	\$0	X 0.0000	\$0
(144) Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	\$0	X 0.2100	\$0
(145) Business Risk	LR029 Business Risk Column (2) Line (40)	\$0	X 0.2100	\$0
(146) Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	\$0	X 0.0000	\$0
(147) Total Tax Effect	Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)	\$0		\$0

† Denotes lines that are deducted from the total rather than added.

Company Name
CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

Cocode: 00000

(1)
RBC
Requirement



	Source	
<u>Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(13) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	\$0
<u>Asset Risk - All Other (C-1o)</u>		
(14) Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (49) - Line (45.1) - Line (45.7)	\$0
(15) Total Residual Tranches or Interests / Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) line (45.1) + Line (45.7)	\$0
(16) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	\$0
(17) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	\$0
(18) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	\$0
(19) Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	\$0
(20) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	\$0
(21) Net (C-1cs) - Post-Tax	Line (19) - Line (20)	\$0
(22) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	\$0
(23) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	\$0
(24) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	\$0
(25) Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	\$0
(26) Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	\$0
(27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	\$0
(28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	\$0
(29) Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	\$0
(30) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	\$0
(31) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	\$0
(32) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	\$0
(33) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	\$0
(34) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	\$0
(35) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	\$0
(36) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet	\$0

OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

*Specific Instructions for Application of the Formula*Line (44)

Schedule BA affiliated common stock – all others should include all subs with an affiliate code 9 in the current life-based framework and “holding company in excess of indirect subsidiaries” or subsidiaries with affiliate code 3.

Line (51)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., collateral loans backed by mortgage loans, ~~BA mortgages~~, collateral loans backed by Residual Tranches or Interest and collateral loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests.

Line (58)

Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (20) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated Mortgages, Line 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated Mortgages, Line 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (3) for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), (2), (13), and (17), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Asset Valuation Reserve Equity and Other Invested Asset Component Column 1, line K1 and K2. Notes to Financials 5S, Column 1 line 7a and 7b.

Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)

No longer used. Place "XXX" in any blanks for this column.

Column (5)

For Line (1), the pre-tax factor is 0.0014.

For Line (2), the pre-tax factor is 0.0068.

For Line (3), the average factor column is calculated as Column (6) divided by Column (3).

For Line (4), the pre-tax factor is 0.0090.

For Line (5), the pre-tax factor is 0.0175.

For Line (6), the pre-tax factor is 0.0300.

← Details Eliminated to Conserve →

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>02/04/2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-16-L MOD</u> Year <u>2026 or later</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>11/14/2025</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Life RBC (E) Working Group met June 18, 2025 and received a referral from Statutory Accounting Principles (E) Working Group regarding collateral loan schedule BA reporting changes (Attachment A). As a result of the referral, NAIC staff drafted the proposal with the following objectives:

- (1) To make changes to Life RBC Blanks so as to reflect the adopted changes in Schedule BA and Asset Valuation Reserve (AVR) reporting effective 2026.
- (2) To explore the potential need to revisit RBC and AVR factors based on the risk characteristics of the collaterals backing the collateral loans

The proposal 2025-16-L was exposed at the Working Group on Nov 14 for a 74-day public comment period ending Jan 27, 2026. Based on comments received, a modified proposal is drafted.

Additional Staff Comments:

2/2/26: NAIC Staff Drafting Note:

Key highlights of the modified proposal:

- 1) Commenters stated that some states have maximum loan-to-values (LTV) limits for collateral loans. Initial outreach indicated that LTV limits vary by states, ranging from 0% to 90%. The modified proposal, henceforth, factored into a generic haircut of [20%] to the RBC factors originally proposed for i) collateral loans backed by residual tranches/interests and ii) collateral loans backed by investments in JV/LP/LLC. The final haircut % is subject to Working Group's discussions and discretion.
- 2) Commenters stated that collateral loans have other structural features that should be factored into when contemplating RBC factors based on risk characteristics of the collaterals. However, these structural features are bilaterally agreed upon between issuers and insurance companies (investors) and are not readily available public information. In order to avoid unnecessary complexity, no further consideration deemed necessary on other structure features apart from LTV as discussed above.
- 3) Given the representations that insurance companies have access to detailed loan level information for collateral loans backed by mortgage loans, the proposal is modified to allow treatment as per Proposal 2024-15-L adopted in 2024. (i.e. interim provision made permanent)
- 4) The Working Group had discussed AVR factors during Nov 14 meeting and was aware of historical precedence that AVR factors update trail behind RBC factors update. As such, Staff modified the proposal to set AVR Basic Contribution, Reserve Objective and Maximum Reserve to zero (i.e. continue the current practice) until otherwise advised by the American Academy of Actuary.
- 5) Asset Concentration Factor consideration: current life RBC framework doubles the charge for collateral loan (0.068). Staff modified the LR010 page to continue the current practice of doubling RBC charges, subject to 45% cap.

**** This section must be completed on all forms.**

Revised 2-2023

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Schedule BA - Fixed Income - Bonds</u>						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line C1	\$0	\$0	\$0 X	0.0000 = \$0
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line C2	\$0	\$0	\$0 X	0.0039 = \$0
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line C3	\$0	\$0	\$0 X	0.0126 = \$0
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line C4	\$0	\$0	\$0 X	0.0446 = \$0
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line C5	\$0	\$0	\$0 X	0.0970 = \$0
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line C6	\$0	\$0	\$0 X	0.2231 = \$0
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line C7	\$0	\$0	\$0 X	0.3000 = \$0
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)	\$0	\$0		\$0
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)	\$0			\$0
<u>Schedule BA - Fixed Income - Preferred Stock</u>						
(12)	Asset NAIC 1	AVR Equity Component Column 1 Line D1	\$0	\$0	\$0 X	0.0039 = \$0
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line D2	\$0	\$0	\$0 X	0.0126 = \$0
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line D3	\$0	\$0	\$0 X	0.0446 = \$0
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line D4	\$0	\$0	\$0 X	0.0970 = \$0
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line D5	\$0	\$0	\$0 X	0.2231 = \$0
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line D6	\$0	\$0	\$0 X	0.3000 = \$0
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12) through (17)	\$0	\$0		\$0
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)	\$0			\$0
<u>Rated Surplus Notes Classified by Designation Equivalent</u>						
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0		\$0 X	0.0039 = \$0
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0		\$0 X	0.0126 = \$0

Company Name Cocode: 00000

OTHER LONG-TERM ASSETS

		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	<u>Annual Statement Source</u>					
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.0446	= \$0
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.0970	= \$0
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.2231	= \$0
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part	\$0	\$0 X	0.3000	= \$0
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)	\$0	\$0		\$0
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)	\$0			\$0
	<u>Rated Capital Notes Classified by Designation Equivalent</u>					
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0039	= \$0
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0126	= \$0
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0446	= \$0
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.0970	= \$0
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.2231	= \$0
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part	\$0	\$0 X	0.3000	= \$0
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)	\$0	\$0		\$0
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)	\$0			\$0
	<u>Schedule BA - Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs)</u>					
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line F1	\$0	\$0 X		= \$0
(43.1)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line F2	\$0	\$0 X	0.3000	= \$0

Company Name Cocode: 00000

OTHER LONG-TERM ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
(43.2)	Schedule BA Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests	AVR Equity Component Column 1 Line K3 + K4				
		\$0		\$0 X	0.2400	= \$0
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line F5		\$0 X	0.3000	= \$0
(45.1)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line H13		\$0 X	0.4500	= \$0
(45.2)	Schedule BA Collateral Loans backed by Residual Tranches or Interests	AVR Equity Component Column 1 Line K5 + K6				
(46)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs) (pre-MODCO/Funds Withheld)	Line (42) + (43.1) + (43.2) + (44) + (45.1) + (45.2)		\$0 X	0.3600	= \$0
		\$0		\$0		\$0
(47)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(48)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(49)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs) (including MODCO/Funds Withheld.)	Lines (46) - (47) + (48)				\$0
		\$0				\$0
	Schedule BA - All Other (C-1o)					
(50.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line F3				
(50.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line F4				
(50.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2)		\$0 X	0.3000	= \$0
(51)	All Other Schedule BA Collateral Loans	AVR Equity Component Column 1 Line K7 + K8 + K9 + K10 + K11 + K12		\$0 X	0.0680	= \$0
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line L1		\$0 X	0.0050	= \$0
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line L2		\$0 X	0.0163	= \$0
(52.3)	Total Admitted Working Capital Finance Notes Other Schedule BA Assets, including Surplus Notes and Capital Notes	Line (52.1) + (52.2)		\$0		\$0
(53.1)	Notes	AVR Equity Component Column 1 Line J7 + L3				
(53.2)	Less NAIC 1 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) through (27) + Column (1) Lines (32) through (37)				
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)	\$0	\$0	\$0 X	0.3000 = \$0
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (50.3) + (51) + (52.3) + (53.3)	\$0			\$0
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)	\$0			\$0
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49) + (57)	\$0			\$0

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

Company Name

Cocode: 00000

OTHER LONG-TERM ASSETS

	(1)	(2)	(3)	(4)	(5)
	Book / Adjusted				RBC
	<u>Carrying Value</u>	<u>Unrated Items</u> ‡	<u>RBC Subtotal</u> †	<u>Factor</u>	<u>Requirement</u>

Annual Statement Source

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

ASSET CONCENTRATION FACTOR

Issuer	(1) Asset Type	(2) Book / Adjusted Carrying Value	(3) Factor	(4) Additional RBC	(5) Adjustment/ Subsidiary RBC	(6) RBC Requirement
#01	Issuer Name: [REDACTED]					
#01	(1.1) Bond NAIC Designation Category 2.A	\$0 X	0.01261	= \$0	\$0	\$0
#01	(1.2) Bond NAIC Designation Category 2.B	\$0 X	0.01523	= \$0	\$0	\$0
#01	(1.3) Bond NAIC Designation Category 2.C	\$0 X	0.02168	= \$0	\$0	\$0
#01	(2.1) Bond NAIC Designation Category 3.A	\$0 X	0.03151	= \$0	\$0	\$0
#01	(2.2) Bond NAIC Designation Category 3.B	\$0 X	0.04537	= \$0	\$0	\$0
#01	(2.3) Bond NAIC Designation Category 3.C	\$0 X	0.06017	= \$0	\$0	\$0
#01	(3.1) Bond NAIC Designation Category 4.A	\$0 X	0.07386	= \$0	\$0	\$0
#01	(3.2) Bond NAIC Designation Category 4.B	\$0 X	0.09535	= \$0	\$0	\$0
#01	(3.3) Bond NAIC Designation Category 4.C	\$0 X	0.12428	= \$0	\$0	\$0
#01	(4.1) Bond NAIC Designation Category 5.A	\$0 X	0.16942	= \$0	\$0	\$0
#01	(4.2) Bond NAIC Designation Category 5.B	\$0 X	0.21202	= \$0	\$0	\$0
#01	(4.3) Bond NAIC Designation Category 5.C	\$0 X	0.15000	= \$0	\$0	\$0
#01	(5) Bond Asset NAIC 6	\$0 X	0.15000	= \$0	\$0	\$0
#01	(6.1) Bond NAIC Designation Category 1.A †	\$0 X	0.00158	= \$0	\$0	\$0
#01	(6.2) Bond NAIC Designation Category 1.B †	\$0 X	0.00271	= \$0	\$0	\$0
#01	(6.3) Bond NAIC Designation Category 1.C †	\$0 X	0.00419	= \$0	\$0	\$0
#01	(6.4) Bond NAIC Designation Category 1.D †	\$0 X	0.00523	= \$0	\$0	\$0
#01	(6.5) Bond NAIC Designation Category 1.E †	\$0 X	0.00657	= \$0	\$0	\$0
#01	(6.6) Bond NAIC Designation Category 1.F †	\$0 X	0.00816	= \$0	\$0	\$0
#01	(6.7) Bond NAIC Designation Category 1.G †	\$0 X	0.01016	= \$0	\$0	\$0
#01	(7) Unaffiliated Preferred Stock NAIC 2	\$0 X	0.01260	= \$0	\$0	\$0
#01	(8) Unaffiliated Preferred Stock NAIC 3	\$0 X	0.04460	= \$0	\$0	\$0
#01	(9) Unaffiliated Preferred Stock NAIC 4	\$0 X	0.09700	= \$0	\$0	\$0
#01	(10) Unaffiliated Preferred Stock NAIC 5	\$0 X	0.22310	= \$0	\$0	\$0
#01	(11) Unaffiliated Preferred Stock NAIC 6	\$0 X	0.15000	= \$0	\$0	\$0
#01	(12) Unaffiliated Preferred Stock NAIC 1 †	\$0 X	0.00390	= \$0	\$0	\$0
#01	(13.1) Collateral Loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests	\$0 X	0.21000	= \$0	\$0	\$0
#01	(13.2) Collateral Loans backed by Residual Tranches or Interests	\$0 X	0.09000	= \$0	\$0	\$0
#01	(13.3) All Other BA Collateral Loans	\$0 X	0.06800	= \$0	\$0	\$0
#01	(14) Receivable for Securities	\$0 X	0.01600	= \$0	\$0	\$0
#01	(15) Write-ins for Invested Assets	\$0 X	0.06800	= \$0	\$0	\$0
#01	(16) Premium Notes	\$0 X	0.06800	= \$0	\$0	\$0
#01	(17) Real Estate - Foreclosed	\$0				
#01	(18) Real Estate - Foreclosed Encumbrances	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(19) Real Estate - Investments	\$0				
#01	(20) Real Estate - Investment Encumbrances	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(21) Real Estate - Schedule BA	\$0				
#01	(22) Real Estate - Schedule BA Encumbrances	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(23) Farm Mortgages - Category CM2	\$0 X	0.01750	= \$0	\$0	\$0
#01	(24) Farm Mortgages - Category CM3	\$0 X	0.03000	= \$0	\$0	\$0
#01	(25) Farm Mortgages - Category CM4	\$0 X	0.05000	= \$0	\$0	\$0
#01	(26) Farm Mortgages - Category CM5	\$0 X	0.07500	= \$0	\$0	\$0
#01	(27) Commercial Mortgages - Category CM2	\$0 X	0.01750	= \$0	\$0	\$0
#01	(28) Commercial Mortgages - Category CM3	\$0 X	0.03000	= \$0	\$0	\$0
#01	(29) Commercial Mortgages - Category CM4	\$0 X	0.05000	= \$0	\$0	\$0
#01	(30) Commercial Mortgages - Category CM5	\$0 X	0.07500	= \$0	\$0	\$0
#01	(31) Farm Mortgages - 90 Days Overdue	\$0				
#01	(32) Farm Mortgages - 90 Days Overdue - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(33) Residential Mortgages - 90 Days Overdue	\$0				
#01	(34) Residential Mortgages - 90 Days Overdue - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(35) Commercial Mortgages - 90 Days Overdue	\$0				
#01	(36) Commercial Mortgages - 90 Days Overdue - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(37) Farm Mortgages in Foreclosure	\$0				
#01	(38) Farm Mortgages in Foreclosure - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(39) Residential Mortgages in Foreclosure	\$0				
#01	(40) Residential Mortgages in Foreclosure - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(41) Commercial Mortgages in Foreclosure	\$0				
#01	(42) Commercial Mortgages in Foreclosure - Cumulative Writedowns	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(43) Unaffiliated Mortgages with Covenants	\$0 X	0.00000	‡ = \$0	\$0	\$0
#01	(44) Unaffiliated Mortgages - Defeased with Government Securities	\$0 X	0.00900	= \$0	\$0	\$0
#01	(45) Unaffiliated Mortgages - Primarily Senior	\$0 X	0.01750	= \$0	\$0	\$0

← Details Eliminated to Conserve Space →

Company Name

Cocode: 00000

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Source

(1) RBC Amount Tax Factor (2) RBC Tax Effect

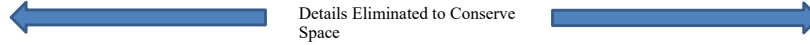


Table with columns for description, source, RBC Amount, Tax Factor, and RBC Tax Effect. Rows include categories like Separate Accounts, Real Estate, Schedule BA, and Miscellaneous.

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

	Source	(1) RBC Amount	Tax Factor	(2) RBC Tax Effect
(104) Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	\$0 X	0.2100	\$0
(105) Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	\$0 X	0.2100	\$0
(106) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	\$0 X	0.2100	\$0
(107) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	\$0 X	0.2100	\$0
(108) Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	\$0 X	0.2100	\$0
(109) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	\$0 X	0.2100	\$0
(110) Subtotal for C-1o Assets	Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)	\$0		\$0
<u>C-0 Affiliated Common Stock</u>				
(111) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)	\$0 X	0.1575	\$0
(112) Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)	\$0 X	0.2100	\$0 †
(113) Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)	\$0 X	0.2100	\$0
(114) Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	\$0 X	0.2100	\$0
(115) Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	\$0 X	0.2100	\$0
(116) Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	\$0 X	0.2100	\$0
(117) Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	\$0 X	0.2100	\$0
(118) Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	\$0 X	0.2100	\$0
(119) Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	\$0 X	0.2100	\$0
(120) Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	\$0 X	0.0000	\$0
(121) Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	\$0 X	0.0000	\$0
(122) Subtotal for C-0 Affiliated Common Stock	Lines (111)-(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121)	\$0		\$0
<u>Common Stock</u>				
(123) Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	\$0 X	0.2100	\$0
(124) Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)	\$0 X	0.2100	\$0 †
(125) Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)	\$0 X	0.2100	\$0 †
(126) Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)	\$0 X	0.2100	\$0
(127) Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (49) - Line (45.1) - Line (45.2)	\$0 X	0.2100	\$0
(128) Total Residual Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (45.1) + Line (45.2)	\$0 X	0.2100	\$0
(129) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	\$0 X	0.2100	\$0
(130) NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)	\$0 X	0.1575	\$0
(131) NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)	\$0 X	0.1575	\$0
(132) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	\$0 X	0.2100	\$0
(133) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	\$0 X	0.2100	\$0
(134) Total for C-1cs Assets	Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133)	\$0		\$0
<u>Insurance Risk</u>				
(135) Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)	\$0 X	0.2100	\$0
(136) Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	\$0 X	0.2100	\$0
(137) Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (5)	\$0 X	0.2100	\$0
(138) Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (12)	\$0 X	0.2100	\$0
(138b) Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)	\$0 X	0.2100	\$0
(139) Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	\$0 X	0.2100	\$0
(140) Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	\$0 X	0.0000	\$0
(141) Total C-2 Risk	$L(135) + L(136) + L(139) + L(140) + \text{Greatest of } [\text{Guardrail Factor} * (L(137)+L(138)), \text{Guardrail Factor} * L(138b), \text{Square Root of } [(L(137) + L(138))^2 + L(138b)^2 + 2 * (\text{Correlation Factor}) * (L(137) + L(138)) * L(138b)]]$	\$0		\$0
(142) Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	\$0 X	0.2100	\$0
(143) Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	\$0 X	0.0000	\$0
(144) Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	\$0 X	0.2100	\$0
(145) Business Risk	LR029 Business Risk Column (2) Line (40)	\$0 X	0.2100	\$0
(146) Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	\$0 X	0.0000	\$0
(147) Total Tax Effect	Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)	\$0		\$0

† Denotes lines that are deducted from the total rather than added.

Company Name
 CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

Cocode: 00000

	Source	(1) RBC Requirement
<u>Insurance Affiliates and Misc. Other Amounts (C-0)</u>		
(1) Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	\$0
(2) Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	\$0
(3) Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	\$0
(4) Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	\$0
(5) Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	\$0
(6) Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	\$0
(7) Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	\$0
(8) Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	\$0
(9) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	\$0
(10) Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	\$0
(11) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	\$0
(12) Net (C-0) - Post-Tax	Line (10) - Line (11)	\$0
<u>Asset Risk - Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(13) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	\$0
<u>Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests</u>		
(14) Residual Tranches or Interests/ Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) Line (49) - Line (45.1) - Line (45.2)	\$0
(15) Total Residual Tranches or Interests / Schedule BA Collateral Loans backed by Residual Tranches or Interests	LR008 Other Long-Term Assets Column (5) line (45.1) + Line (45.2)	\$0
(16) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	\$0
(17) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	\$0
(18) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	\$0
(19) Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	\$0
(20) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	\$0
(21) Net (C-1cs) - Post-Tax	Line (19) - Line (20)	\$0
<u>Asset Risk - All Other (C-1o)</u>		
(22) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	\$0
(23) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	\$0
(24) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	\$0
(25) Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	\$0
(26) Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	\$0
(27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	\$0
(28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	\$0
(29) Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	\$0
(30) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	\$0
(31) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	\$0
(32) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	\$0
(33) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	\$0

← Details Eliminated to Conserve Space →

OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

*Specific Instructions for Application of the Formula*Line (44)

Schedule BA affiliated common stock – all others should include all subs with an affiliate code 9 in the current life-based framework and “holding company in excess of indirect subsidiaries” or subsidiaries with affiliate code 3.

Line (51)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., collateral loans backed by mortgage loans, ~~BA mortgages~~, collateral loans backed by Residual Tranches or Interest and collateral loans backed by Joint Ventures', Limited Partnerships' and Limited Liability Companies' Interests.

Line (58)

Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (20) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated Mortgages, Line 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated Mortgages, Line 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (3) for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), (2), (13), and (17), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Asset Valuation Reserve Equity and Other Invested Asset Component Column 1, line K1 and K2. Notes to Financials 5S, Column 1 line 7a and 7b.

Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)

No longer used. Place "XXX" in any blanks for this column.

Column (5)

For Line (1), the pre-tax factor is 0.0014.

For Line (2), the pre-tax factor is 0.0068.

For Line (3), the average factor column is calculated as Column (6) divided by Column (3).

For Line (4), the pre-tax factor is 0.0090.

For Line (5), the pre-tax factor is 0.0175.

For Line (6), the pre-tax factor is 0.0300.

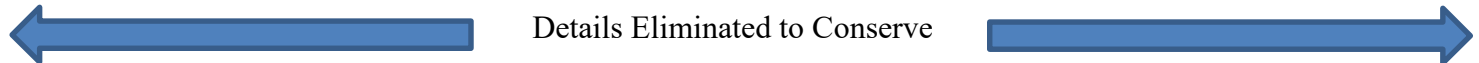
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**ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT**

SECTION K	COLLATERAL LOANS										
1	Backed by mortgage loans – collateral loans – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
2	Backed by mortgage loans – collateral loans – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
3	Backed by joint ventures, partnerships, & limited liability companies – collateral loans – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
4	Backed by joint ventures, partnerships, & limited liability companies – collateral loans – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
5	Backed by residual tranches or interests – collateral loans – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
6	Backed by residual tranches or interests – collateral loans – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
7	Backed by debt securities – collateral loans – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
8	Backed by debt securities – collateral loans – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
9	Backed by real estate – collateral loans – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
10	Backed by real estate – collateral loans – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
11	Collateral loans – all other – unaffiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
12	Collateral loans – all other – affiliated	XXX	XXX	0.0000	0.00000-0680	0.00000-0680					
13	Total collateral loans (Sum of Lines K1 through K12)	XXX	XXX	XXX	XXX	XXX					
SECTION L	ALL OTHER INVESTMENTS										
1100	NAIC 1 working capital finance investments	XXX		0.0000	0.0042	0.0042					
2101	NAIC 2 working capital finance investments	XXX		0.0000	0.0137	0.0137					
3102	Other invested assets - Schedule BA	XXX		0.0000	0.1580	0.1580					
4103	Other short-term invested assets - Schedule DA	XXX		0.0000	0.1580	0.1580					
5104	Total all other (Sum of Lines L100 through L4103)	XXX		XXX	XXX	XXX					
6105	Total other invested assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 79, 92, 99 and 104C8, D8, E27, F6, G4, H5, I13, J7, and K13)			XXX	XXX	XXX					

- (a) Times the company's weighted average portfolio beta (Minimum .1215, Maximum .2431).
- (b) Determined using same factors and breakdowns used for directly owned real estate.
- (c) This will be the factor associated with the risk category determined in the company generated worksheet.





April 10, 2026

Mr. Ben Slutsker, Chair

Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Proposal 2025-16-L MOD Collateral Loans

Submitted Electronically

Dear Chair Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the re-exposed proposal related to collateral loans reported on Schedule BA. These comments build on ACLI's prior comment letter submitted in response to the February 10 exposure, in which ACLI outlined a proposed framework to adjust look-through RBC factors for collateral loans backed by investments in joint ventures, limited partnerships, and limited liability companies (JV/LP/LLC) as well as residual tranches.

As described in our prior letter, ACLI recommended a simple and conservative framework that begins with a base look-through factor aligned with existing Schedule BA equity treatment and applies graduated adjustments based on overcollateralization. That framework is intended to reflect the risk-mitigating effects of increased collateralization while avoiding cliff effects, excessive complexity, or unintended disincentives for prudent risk management. ACLI continues to believe this approach provides a reasonable and operationally feasible path forward that is well-aligned with existing RBC constructs.

ACLI's comments below respond to the two specific questions raised in the exposure:

Question 1: Independent Verification and Fair Value Concerns

Regulators are understandably examining the use of fair values derived from unobservable inputs in determining loan-to-value (LTV) ratios for collateral loans. ACLI believes that targeted independent verification mechanisms can enhance confidence in reported valuations without fundamentally altering the proposed look-through framework.

In particular, ACLI suggests that the Life Risk-Based Capital (E) Working Group (Working Group) require independent verification of fair values as a prerequisite to using ACLI's proposed banded framework to adjust the base look-through factor; otherwise, the full base look-through factor would apply without adjustment, which in those instances would represent a higher overall capital charge as compared to the proposed adjustment in the Working Group's February exposure. This independent verification

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

requirement would be coupled with the existing SSAP 21 requirements for JV/LP/LLC collateral to be audited and for reporting entities to retain documentation supporting the fair values to address regulator concerns around the use of fair values.

Independent verification approaches may include, individually or in combination:

- Compliance certifications from unaffiliated third parties confirming adherence to stated valuation policies and investment guidelines;
- Independent third-party valuations of the underlying collateral; and/or
- Independent reasonableness checks designed to assess whether reported fair values fall within an appropriate and supportable range.

In practice, compliance certifications are typically supported by independent valuation work, and together these processes provide strong safeguards around valuation discipline. Recognizing these mechanisms would allow regulators to rely on well-established market practices while avoiding the need for additional conservatism that could otherwise overstate capital requirements.

To further enhance transparency, ACLI also suggests that insurers could disclose the valuation range associated with the independent valuation analysis. While regulators already have access to this information as required by SSAP 21, proactive disclosure of a valuation range, rather than a single point estimate, would allow regulators to better assess the reasonableness of the fair value used in the LTV calculation and provide additional context around estimation uncertainty. This approach would improve regulatory visibility while preserving the use of a single reported value for capital purposes.

Taken together, these measures provide a practical and effective means of addressing concerns related to unobservable inputs without imposing a more conservative reduction to the look-through approach or introducing unnecessary complexity into the RBC framework.

Question 2: Alternative Tiering Structure and Placement of 80% LTV

The exposure asks whether an alternative tiering structure would be appropriate such that an 80% LTV is positioned at the midpoint of a tier, reflecting regulatory observations that 80% is a prevalent statutory investment limit among states. In considering this question, ACLI believes it is important to emphasize that loan-to-value is one of several forms of credit enhancement relevant to the risk profile of collateral loans, but not the only one. Structural features, sponsor quality, asset diversification, cash flow characteristics, and covenants also influence credit risk and loss severity.

ACLI's proposed banding framework is designed to reflect this broader risk context. By applying adjustments within defined LTV bands, the framework recognizes that loans near the top end of a band may benefit from other forms of credit enhancement beyond LTV alone, while also ensuring that loans near the bottom end of a band are not overly penalized relative to their actual risk. This approach helps preserve risk sensitivity without implying that LTV thresholds, in isolation, fully determine credit quality.

With respect to 80% LTV specifically, ACLI intentionally placed loans at that level at the top of a band rather than at the midpoint. This design choice provides an important prudential benefit: it offers the greatest degree of buffer against the risk that reporting entities could obtain lower RBC charges by selecting a more aggressive fair value assumption within an asset's reasonable fair value range. Because fair values for collateral assets, particularly those with unobservable inputs, necessarily involve

estimation, placing 80% LTV at the top of a band reduces the incentive and ability to move a loan into a more favorable capital charge through modest valuation changes that remain within an acceptable valuation range.

In ACLI's view, this characteristics-based buffering is a strength of the proposed framework. It helps mitigate model risk and valuation uncertainty while still allowing capital requirements to decline appropriately as overcollateralization meaningfully improves. For these reasons, ACLI believes its proposed banding balances conservatism, risk sensitivity, and behavioral incentives, and remains a reasonable approach within the broader RBC framework.

In addition to the above comments, ACLI reiterates its recommendation that changes adopted as part of this proposal become effective as of year-end 2027. ACLI appreciates the Working Group's discussion of effective dates, including the straw poll conducted at the NAIC Spring National Meeting and regulators' feedback indicating general support for a December 31, 2027 effective date. That discussion appropriately reflected the implementation considerations associated with this proposal, including support for a smooth and orderly transition allowing individual companies to make portfolio adjustments to mitigate adverse impacts that could arise from material increases to the RBC charges applicable to certain types of collateral loans, particularly when the absence of an industry-wide solvency concern counters the need for expedited rule changes.

At the same time, ACLI remains committed to working constructively with regulators to finalize a durable framework and updated C-1 factors as efficiently as possible. Industry recognizes the importance of timely adoption and stands ready to continue engaging on remaining policy questions, provide data and analysis as helpful, and support prompt implementation once the framework is finalized.

ACLI appreciates the Working Group's thoughtful engagement on these issues and its willingness to consider refinements that strengthen confidence in valuation practices while maintaining a coherent and risk-based capital framework. ACLI and its members stand ready to continue working with regulators to refine these proposals and provide additional information as helpful.

Sincerely,



Marc Altschull, CFA, FSA, MAAA
Senior Actuary
marcaltschull@acli.com
202-624-2089



Adam Knepp, CPA
Senior Director, Accounting Policy
adamknepp@acli.com
202-624-2025

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: center;">DATE: 04-21-2026</p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Ben Slutsker</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>St. Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-xxBWG</u></p> <p>Year <u>2027</u></p> <p>Changes to Existing Reporting []</p> <p>New Reporting Requirement [X]</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X]</p> <p>Modifies Required Disclosure []</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? []</p> <p><i>***If Yes, complete question below***</i></p> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[] Adopted Date _____</p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK | |
| <input checked="" type="checkbox"/> Life, Accident & Health/Fraternal | <input checked="" type="checkbox"/> Separate Accounts | <input checked="" type="checkbox"/> Title |
| <input checked="" type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input checked="" type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> Life (Health Supplement) |

Anticipated Effective Date: Annual 2027

IDENTIFICATION OF ITEM(S) TO CHANGE

Add electronic-only columns on Schedule BA, Part 1 for reporting the valuation range of the fair value of collateral backing the collateral loan and the use of independent verification in determining the fair value.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of the proposal is to add incremental data points to support the analysis of how the capital risk factors are attributed to the following Schedule BA categories under Collateral Loans: Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.**

Revised 11/17/2022

SCHEDULE BA – PART 1
OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

** Columns 21 through ~~28~~30 will be electronic only. **

Column 27 – Fair Value of Collateral Backing the Collateral Loan

Report the fair value of the collateral backing the collateral loan.

Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

Column 28 – Current Overcollateralization Percentage to the Collateral Loan

Report the current collateralization percentage from a comparison of the fair value of the collateral to the book/adjusted carrying value (BACV) of the collateral loan. For example, if the fair value of the collateral and the BACV agree, 100% shall be reported. If the fair value of the collateral is \$~~120~~150 and the BACV of the collateral loan is \$~~150~~120, ~~80~~125% shall be reported. Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

Column 29 – Use of Independent Verification

Complete column only for Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

To indicate whether an independent verification (including an audited financial statement) is used to determine the current Fair Value, select ‘Y’ or ‘N’.

Independent verification approaches may include, individually or in combination:

- Compliance certifications from unaffiliated third parties confirming adherence to stated valuation policies;
- Independent third-party valuations of the underlying collateral;
- Independent reasonableness checks designed to assess whether reported fair values fall within an appropriate and supportable range.

Column 30 – Range of Fair Values of Collateral Backing the Collateral Loan

Complete column only for Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

Report an appropriate range of fair values of the collateral backing the collateral loan.



167 Fleet Street, London
EC4A 2EA, United Kingdom
info@aima.org



April 13, 2026

Life Risk-Based Capital (E) Working Group
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via Email: kokosun@naic.org

Re: Comments on Proposal 2025-16-L MOD – RBC Factors for Collateral Loans Based on Underlying Collateral Type (Comment Period Ending April 13, 2026)

Dear Members of the Life Risk-Based Capital (E) Working Group,

The Alternative Credit Council,¹ the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to provide further

¹ The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members

Alternative Credit Council (ACC)

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)





comments on the re-exposed Proposal 2025-16-L MOD regarding the risk-based capital (RBC) treatment for collateral loans.

We are pleased to note that the re-exposed modified proposal reflects several of the concerns and recommendations we raised in our prior submissions, including the adoption of a look-through approach keyed to underlying collateral type, the permanent codification of the mortgage loan treatment under Proposal 2024-15-L, the application of a generic LTV-based haircut, and the continuation of the practice of setting AVR Basic Contribution, Reserve Objective, and Maximum Reserve to zero pending guidance from the American Academy of Actuaries. We commend the Working Group's continued engagement with interested parties and its responsiveness to prior comments. We would, however, reiterate our preference that greater data analysis would be conducted to calibrate the factors.

We write to address the two cover questions posed in the re-exposure.

Cover question 1: Fair value of assets with level 3 inputs

The Working Group asks what specific solutions or edits to the ACLI proposal would address regulators' concerns regarding the fair value of assets with level 3 inputs. The ACC submits that these concerns are best addressed through existing supervisory authority and targeted enhancements to examination and disclosure practices. These tools are well-suited to the nature of the concern, are available today, and can be deployed with the precision and flexibility that changes to the RBC formula cannot replicate.

Existing supervisory authority provides a sufficient response

Insurance regulators already possess broad, well-established authority to ensure that insurers maintain adequate and current valuations of assets – including collateral underlying collateral loans. The ACC encourages the Working Group to recognize and reaffirm reliance on these existing tools as the appropriate mechanism for addressing valuation quality concerns. Specifically:

- **Examination authority.** Under NAIC model examination standards and state insurance laws, departments have full authority to review the adequacy, methodology, and support for any asset valuation, including the fair value of collateral underlying a collateral loan. Examiners may request documentation of

provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.





valuation inputs, assumptions, and methodologies; consult independent valuation specialists; and require the insurer to produce a contemporaneous third-party appraisal as a condition of examination completion. This authority is available today and is well-suited to identifying and addressing valuation concerns on a targeted, facts-and-circumstances basis.

- **Authority to require recent valuations.** As part of an examination or targeted market conduct review, regulators may require that an insurer obtain or produce a valuation of the collateral conducted within a specified recent period – for example, within twelve months of the statement date. For illiquid or complex collateral, this is standard practice in both bank and insurance examinations. The ACC encourages the Working Group to consider recommending guidance to examiners that designates collateral loan valuation adequacy as a focused review area during the transition period leading up to the 2027 implementation date.

The look-through approach should apply on a uniform basis

The look-through approach adopted in the modified proposal appropriately keys RBC charges to the economic risk characteristics of the underlying collateral. The ACC supports applying this framework on a uniform basis, consistent with the NAIC’s Equal Capital for Equal Risk principle, which calls for RBC requirements that reflect measurable risks and the mitigating effects of risk management. Concerns about the quality or currency of valuations are matters properly addressed through the supervisory and disclosure tools described above, which are designed precisely for that purpose.

The ACC urges the Working Group to preserve the uniform look-through structure and to address any remaining valuation concerns through the examination and disclosure channels described above, in coordination with relevant NAIC committees or working groups.

Cover question 2: Alternative tiering structure with 80% LTV at the midpoint

The Working Group asks whether an alternative tiering structure is appropriate such that 80% LTV falls at the midpoint of a tier, noting that 80% LTV is a prevalent maximum investment limit among states. The ACC supports restructuring the tiers to better reflect the practical regulatory environment in which these investments are made, and offers two approaches for the Working Group’s consideration.

The case for recognizing 80% LTV as a structural anchor

As the Working Group correctly observes, 80% LTV is the most widely used maximum collateral loan-to-value limit across state insurance codes. This means that a substantial proportion of compliant collateral loan portfolios will have effective LTVs at or below 80% – corresponding to an overcollateralization (OC) ratio of at least 125% – as a matter of law, not merely by choice. Under the current modified proposal, a loan at exactly 80% LTV (OC of 125%) sits at the bottom boundary of the second OC tier, receiving only a





modest reduction from the highest-risk tier. This does not meaningfully distinguish between a loan at 80% LTV operating at the state statutory ceiling and one at 99% LTV with minimal overcollateralization. Restructuring the tiers so that 80% LTV falls at the midpoint of a tier would correct this miscalibration and ensure that compliant, conservatively structured portfolios receive commensurate regulatory credit.

Option 1: Revised band structure with 80% LTV at the tier midpoint

As noted above, we would support an alternative tier structure for collateral loans backed by JV/LP/LLC interests, expressed in both LTV and OC percentage equivalents. The same proportional reductions would apply to residual tranche collateral using the 45% base factor:

Under this structure, a loan at 80% LTV would sit within the upper range of Tier 2, giving it a meaningfully lower factor than an uncollateralized or minimally overcollateralized loan, while preserving granular credit for more conservatively structured loans in Tiers 3 through 5. Insurers operating at the dominant state statutory LTV ceiling receive a recognizable and material RBC benefit relative to those with higher-LTV exposures.

Option 2: Continuous (rolling) factor based on reported LTV

As a more precise alternative, the ACC encourages the Working Group to consider a continuous, formula-based factor that scales proportionally with the reported LTV, eliminating the cliff effects and boundary discontinuities inherent in a tiered structure. A linear interpolation approach for JV/LP/LLC-backed collateral loans might take the following form:

$$\text{RBC Factor} = \text{Max} [\text{Minimum Factor}, \text{Base Factor} \times (\text{LTV} \div \text{Reference LTV})]$$

This approach offers several advantages over a tiered structure: it eliminates cliff effects at band boundaries that could distort portfolio construction decisions; it provides a direct, auditable link between the reported LTV and the resulting RBC factor; and it is consistent with the principle of risk-sensitive, proportional calibration that the Working Group has identified as a core objective. The LTV value would be sourced from company records – the same records already used to demonstrate compliance with state investment limits – and would be subject to the examination-based oversight described in response to Cover Question 1. .

Whether the Working Group adopts a revised band structure or a continuous rolling factor, the ACC believes the essential principle is the same: the RBC framework should affirmatively recognize and reward the overcollateralization that certain state investment laws already require, rather than treating a compliant 80% LTV loan as functionally equivalent to one with minimal collateral cushion.

The ACC appreciates the Working Group's continued responsiveness and the substantive progress reflected in the re-exposed proposal. Our recommendations are:





- Address concerns about unobservable fair value inputs through existing examination authority and targeted disclosure enhancements – specifically, by exercising regulators' existing power to require contemporaneous valuations and/or by mandating fair value hierarchy disclosures – rather than building a valuation-methodology penalty into the RBC factor structure.
- Restructure the LTV/OC tiering to reflect the prevalence of 80% LTV as a statutory and market anchor, either through a revised band structure placing 80% LTV at the midpoint of the middle tier, or through a continuous rolling factor that scales the RBC charge directly and proportionally with reported LTV.

The ACC stands ready to collaborate with the Working Group, NAIC staff, and other stakeholders to provide data, analysis, or further technical input. We look forward to continued engagement on this important topic.

If you have any questions or would like to discuss further, please do not hesitate to contact us at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Król".

Jiří Król
Global Head of Alternative Credit Council

A handwritten signature in blue ink, appearing to read "Joe Engelhard".

Joe Engelhard
Head of Private Credit & Asset
Management Policy, Americas



Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|--|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve Evaluation (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & (E) Working Group |

<p style="text-align: right;">DATE: <u>04-13-2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-09-L</u> Year <u>2026</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates adopted changes to Annual Statements as per 2024-19BWG, which introduces enhanced granularity in Schedule BA reporting for collateral loans. The proposal is to integrate these more detailed classifications directly into LR008, Line 51(Schedule BA Collateral Loans) annual statement source references column.

In addition, this proposal is drafted to incorporate comments received for proposal 2025-16-L MOD (Collateral loans). Specifically, (i) LR009 instruction is expanded to make clear that if the insurers own collateral loans collateralized by mortgage loans but lack requisite loan level details, such investments are excluded from scope of LR009 and should be categorized as collateral loans – others and reported in LR008. This is consistent with treatment of Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) with Underlying Assets Having the Characteristics of Mortgage loans (ii) Asset Valuation Reserve Equity and Other Invested Asset Component table, all the factors for Basic Contribution, Reserve Objective and Maximum Reserve should be set at zero. This will retain the legacy AVR treatment for collateral loans, i.e. no AVR assessment until further work has been done to determine AVR factors for collateral loans.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated **Commercial** Mortgages **included in, Schedule BA** Line 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated **Commercial** Mortgages, **included in Schedule BA** Line 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (3) for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

For collateral loans backed by mortgage loans that are included in Schedule BA Lines 3199999 and 3299999, for the avoidance of doubt, insurers are expected to have loan level information to facilitate detailed property analysis appropriate for the corresponding risk-based capital factors. If the requisite details are not available for reporting, such collateral loans should be categorized as “collateral loans – others” and reported on LR008 Other Long-Term Assets.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), (2), (13), and (17), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Notes to Financials 5S, Column 1 line 7a and 7b.

Company Name

Confidential when Completed

NAIC Company Code

OTHER LONG-TERM ASSETS (CONTINUED)



Details Eliminated
to Conserve Space



(1) Book / Adjusted
(2)
(3)
(4)
(5) RBC

	Annual Statement Source	Carrying Value	Unrated Items ‡	RBC Subtotal †	Factor	Requirement
<u>Schedule BA - Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es)</u>						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65			X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66			X 0.3000 =	
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69			X 0.3000 =	
(45)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92			X 0.4500 =	
(46)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es) (pre-MODCO/Funds Withheld)	Line (42) + (43) + (44) + (45)				
(47)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				
(48)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				
(49)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es) (including MODCO/Funds Withheld.)	Lines (46) - (47) + (48)				
<u>Schedule BA - All Other (C-1o)</u>						
(50.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67				
(50.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68				
(50.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2)			X 0.3000 =	
(51)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 3399999 + Line 3499999 + Line 3599999 + Line 3699999 + Line 3799999 + Line 3899999 + Line 3999999 + Line 4099999 + Line 4199999 + Line 4299999, in part			X 0.0680 =	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 100			X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 101			X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)				
(53.1)	Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line 99 + 102				
(53.2)	Less NAIC 1 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) through (27) + Column (1) Lines (32) through (37)				
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)			X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (50.3)+ (51) + (52.3) + (53.3)				
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)				
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49)+ (57)				

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the Purposes and Procedures Manual of the NAIC Investment Analysis Office should be reported in Column (3).


‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio

Company Name

Confidential when Completed

subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

 Denotes items that must be manually entered on the filing software.

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

↓

Detail Eliminated To Conserve Space

↓

<u>Collateral Loans – Reported by Collateral that Secures the Loan</u>	
<u>Backed by Mortgage Loans</u>	
Unaffiliated	3199999
Affiliated	3299999
<u>Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies</u>	
Unaffiliated	3399999
Affiliated	3499999
<u>Backed by Residual Tranches or Interests</u>	
Unaffiliated	3599999
Affiliated	3699999
<u>Backed by Debt Securities</u>	
Unaffiliated	3799999
Affiliated	3899999
<u>Backed by Real Estate</u>	
Unaffiliated	3999999
Affiliated	4099999
<u>Collateral Loans – All Other Backed by Other Collateral Types</u>	
Unaffiliated	4199999
Affiliated	4299999
 <u>Non-collateral Loans</u>	
Unaffiliated <u>Related Party Loans/Affiliated Loans</u>	3399999 4399999
Affiliated <u>All Other Non-Collateral Loans/Other Unaffiliated Loans</u>	3499999 4499999
Affiliated <u>Loans</u>	4599999
 <u>Yield Guaranteed State Tax Credit Investments</u>	
Unaffiliated	3599999 4699999
Affiliated	3699999 4799999
 <u>Qualifying Federal Tax Credit Investments</u>	
Unaffiliated	3799999 4899999
Affiliated	3899999 4999999
 <u>Qualifying State Tax Credit Investments</u>	
Unaffiliated	3999999 5099999
Affiliated	4099999 5199999
 <u>All Other Tax Credit Investments</u>	
Unaffiliated	4199999 5299999
Affiliated	4299999 5399999
 <u>Working Capital Finance Investment</u>	
Unaffiliated	4399999 5499999

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: <u>04-20-2026</u></p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-##BWG</u> Year <u>2026</u> Changes to Existing Reporting [X] New Reporting Requirement []</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X] Modifies Required Disclosure []</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No] <i>***If Yes, complete question below***</i></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment [] Referred To Another NAIC Group [X] Received For Public Comment [] Adopted Date _____ [] Rejected Date _____ [] Deferred Date _____ [] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK | |
| <input checked="" type="checkbox"/> Life, Accident & Health/Fraternal | <input checked="" type="checkbox"/> Separate Accounts | <input type="checkbox"/> Title |
| <input type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> Life (Health Supplement) |

Anticipated Effective Date: Annual 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the AVR factors to zero in columns 7 and 9 for the Collateral Loan section.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal was prepared to update the collateral loan factors for Reserve Objective and Maximum Reserve to be zero. These should have been set at zero when the collateral loan section was added in 2025.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____
Other Comments: _____

** This section must be completed on all forms.

Revised 11/17/2022

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL AND SEPARATE ACCOUNTS

**ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT**

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
COLLATERAL LOANS												
100		Backed by mortgage loans – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
101		Backed by mortgage loans – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
102		Backed by joint ventures, partnerships, & limited liability companies – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
103		Backed by joint ventures, partnerships, & limited liability companies – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
104		Backed by residual tranches or interests – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
105		Backed by residual tranches or interests – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
106		Backed by debt securities – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
107		Backed by debt securities – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
108		Backed by real estate – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
109		Backed by real estate – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
110		Collateral loans – all other – unaffiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
111		Collateral loans – all other – affiliated.....		XXX	XXX		0.0000		0.0000-0680		0.0000-0680	
112		Total collateral loans (Sum of Lines 100 through 111)		XXX	XXX		XXX		XXX		XXX	
ALL OTHER INVESTMENTS												
113		NAIC 1 working capital finance investments.....		XXX			0.0000		0.0042		0.0042	
114		NAIC 2 working capital finance investments.....		XXX			0.0000		0.0137		0.0137	
115		Other invested assets - Schedule BA.....		XXX			0.0000		0.1580		0.1580	
116		Other short-term invested assets - Schedule DA.....		XXX			0.0000		0.1580		0.1580	
117		Total all other (Sum of Lines 113 through 116).....		XXX			XXX		XXX		XXX	
118		Total other invested assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 79, 92, 99 112, and 117)					XXX		XXX		XXX	

- (a) Times the company's weighted average portfolio beta (Minimum .1215, Maximum .2431).
- (b) This will be the factor associated with the risk category determined in the company generated worksheet.

*****Drafting Note: Changes in Blanks Proposal 2025-27BWG for AVR – CLO reporting are not shown on this proposal. Line numbers for AVR reporting are being updated in Blanks Proposal 2025-27BWG.*****

W:\QA\BlanksProposals\Proposals In Progress\AVR_Collateral Loan Factors.docx

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>1/12/2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Dept of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-02-L</u> Year <u>2026</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

During first half of 2024, Life Risk-Based Capital (E) Working Group and Capital Adequacy (E) Task Force adopted Proposal 2024-05-L and 2024-17-L, which ultimately afforded “Affiliated BA Mortgage – Residential – All Other – In Good Standing” a risk charge of 0.0068. This charge mirrors what is incurred with direct ownership of “Residential Mortgage – All Other – In Good Standing” as though the reporting entity owns the mortgages directly and reports on LR004. The affiliated BA residential mortgage provision is considered a “look-through” treatment, on the premise that if the BA structure is affiliated, then the reporting entity has the ability to obtain and assess the underlying residential mortgage loans to determine appropriate RBC treatment.

In Feb 2025, while deliberating Proposal 2024-24-L Principle Based Bond Definition Project, both ACLI and Pacific Life included in their [comment letters](#) a request to revisit “Unaffiliated BA Mortgage – Residential – All Other – In Good Standing”, which is currently not separated out in AVR and therefore in RBC. This proposal is drafted to address that comment. A concurrent exposure of Proposal 2025-27BWG MOD was made at Blanks (E) Working Group to facilitate this proposal.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

SCHEDULE BA MORTGAGES

		(1)	(2)	(3)	(4)	(5)	(6)
	Annual Statement Source	Book / Adjusted Carrying Value	Involuntary Reserve Adjustment †	RBC Subtotal	Cumulative Writedowns ‡	Average Factor	RBC Requirement
In Good Standing							
(1) Insured or Guaranteed	AVR Equity Component Column 1 Line E6 + Line E8	\$0	\$0	\$0	XXX X	0.0014	= \$0
(2) Affiliated / Unaffiliated Mortgages - Residential - All Other	AVR Equity Component Column 1 Line E7 + Line E24	\$0	\$0	\$0	XXX X	0.0068	= \$0
(3) Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line E20	\$0	\$0	\$0	XXX X	0.000 *	= \$0
(4) Unaffiliated Mortgages - Deceased with Government Securities	AVR Equity Component Column 1 Line E21	\$0	\$0	\$0	XXX X	0.0090	= \$0
(5) Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line E22	\$0	\$0	\$0	XXX X	0.0175	= \$0
(6) Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line E23	\$0	\$0	\$0	XXX X	0.0300	= \$0
(7) Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line E1	\$0	\$0	\$0	XXX X	0.0090	= \$0
(8) Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line E2	\$0	\$0	\$0	XXX X	0.0175	= \$0
(9) Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line E3	\$0	\$0	\$0	XXX X	0.0300	= \$0
(10) Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line E4	\$0	\$0	\$0	XXX X	0.0500	= \$0
(11) Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line E5	\$0	\$0	\$0	XXX X	0.0750	= \$0
(12) Total In Good Standing	Sum of Lines (1) through (11)	\$0	\$0	\$0			= \$0
90 Days Overdue, Not in Process of Foreclosure							
(13) Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line E10 + Line E12	\$0	\$0	\$0	XXX X	0.0027	= \$0
(14) All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line E25	\$0	\$0	\$0	XXX X	0.1100	= \$0
(15) All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line E9 + Line E11 + Line E13	\$0	\$0	\$0	XXX X	0.1100	= \$0
(16) Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)	\$0	\$0	\$0	\$0		= \$0
In Process of Foreclosure							
(17) Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line E15 + Line E17	\$0	\$0	\$0	XXX X	0.0054	= \$0
(18) All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line E26	\$0	\$0	\$0	XXX X	0.1300	= \$0
(19) All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line E14 + Line E16+ Line E18	\$0	\$0	\$0	XXX X	0.1300	= \$0
(20) Total In Process of Foreclosure	Lines (17) + (18) + (19)	\$0	\$0	\$0			= \$0
(21) Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)	\$0	\$0	\$0			= \$0
(22) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						= \$0
(23) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						= \$0
(24) Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)						= \$0

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Details Eliminated to Conserve Space

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols.4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols.4x9)
SECTION D												
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF PREFERRED STOCKS												
301	1	Highest quality		XXX	XXX		0.0005		0.0016		0.0033	
312	2	High quality		XXX	XXX		0.0021		0.0064		0.0106	
323	3	Medium quality		XXX	XXX		0.0099		0.0263		0.0376	
334	4	Low quality		XXX	XXX		0.0245		0.0572		0.0817	
345	5	Lower quality		XXX	XXX		0.0630		0.1128		0.1880	
356	6	In or near default		XXX	XXX		0.0000		0.2370		0.2370	
367		Affiliated life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
378		Total with preferred stock characteristics (Sum of Lines 30D1 through 36D7)		XXX	XXX		XXX		XXX		XXX	
SECTION E												
INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS												
In Good Standing Affiliated:												
381		Mortgages – CM1 – highest quality			XXX		0.0011		0.0057		0.0074	
392		Mortgages – CM2 – high quality			XXX		0.0040		0.0114		0.0149	
403		Mortgages – CM3 – medium quality			XXX		0.0069		0.0200		0.0257	
414		Mortgages – CM4 – low medium quality			XXX		0.0120		0.0343		0.0428	
425		Mortgages – CM5 – low quality			XXX		0.0183		0.0486		0.0628	
436		Residential mortgages – insured or guaranteed			XXX		0.0003		0.0007		0.0011	
447		Residential mortgages – all other		XXX	XXX		0.0015		0.0034		0.0046	
458		Commercial mortgages – insured or guaranteed			XXX		0.0003		0.0007		0.0011	
Overdue, Not in Process Affiliated:												
469		Farm mortgages			XXX		0.0480		0.0868		0.1371	
4710		Residential mortgages – insured or guaranteed			XXX		0.0006		0.0014		0.0023	
4811		Residential mortgages – all other			XXX		0.0029		0.0066		0.0103	
4912		Commercial mortgages – insured or guaranteed			XXX		0.0006		0.0014		0.0023	
5013		Commercial mortgages – all other			XXX		0.0480		0.0868		0.1371	
In Process of Foreclosure Affiliated:												
5114		Farm mortgages			XXX		0.0000		0.1942		0.1942	
5215		Residential mortgages – insured or guaranteed			XXX		0.0000		0.0046		0.0046	
5316		Residential mortgages – all other			XXX		0.0000		0.0149		0.0149	
5417		Commercial mortgages – insured or guaranteed			XXX		0.0000		0.0046		0.0046	
5518		Commercial mortgages – all other			XXX		0.0000		0.1942		0.1942	
5619		Total affiliated (Sum of Lines 38DE1 through 55DE18)			XXX		XXX		XXX		XXX	
5720		Unaffiliated – in good standing with covenants			XXX		(c)		(c)		(c)	
5821		Unaffiliated – in good standing defeased with government securities			XXX		0.0011		0.0057		0.0074	
5922		Unaffiliated – in good standing primarily senior			XXX		0.0040		0.0114		0.0149	
6023		Unaffiliated – in good standing all other			XXX		0.0069		0.0200		0.0257	
24		<u>Unaffiliated – in good standing – residential mortgages - all other</u>		XXX	XXX		<u>0.0015</u>		<u>0.0034</u>		<u>0.0046</u>	
61245		Unaffiliated – overdue, not in process			XXX		0.0480		0.0868		0.1371	
62256		Unaffiliated – in process of foreclosure			XXX		0.0000		0.1942		0.1942	
63267		Total unaffiliated (Sum of Lines 57DE20 through 62DE256)			XXX		XXX		XXX		XXX	

Details Eliminated to Conserve Space



April 10, 2026

Mr. Ben Slutsker, Chair

Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Proposal 2025-16-L MOD Collateral Loans

Submitted Electronically

Dear Chair Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the re-exposed proposal related to collateral loans reported on Schedule BA. These comments build on ACLI's prior comment letter submitted in response to the February 10 exposure, in which ACLI outlined a proposed framework to adjust look-through RBC factors for collateral loans backed by investments in joint ventures, limited partnerships, and limited liability companies (JV/LP/LLC) as well as residual tranches.

As described in our prior letter, ACLI recommended a simple and conservative framework that begins with a base look-through factor aligned with existing Schedule BA equity treatment and applies graduated adjustments based on overcollateralization. That framework is intended to reflect the risk-mitigating effects of increased collateralization while avoiding cliff effects, excessive complexity, or unintended disincentives for prudent risk management. ACLI continues to believe this approach provides a reasonable and operationally feasible path forward that is well-aligned with existing RBC constructs.

ACLI's comments below respond to the two specific questions raised in the exposure:

Question 1: Independent Verification and Fair Value Concerns

Regulators are understandably examining the use of fair values derived from unobservable inputs in determining loan-to-value (LTV) ratios for collateral loans. ACLI believes that targeted independent verification mechanisms can enhance confidence in reported valuations without fundamentally altering the proposed look-through framework.

In particular, ACLI suggests that the Life Risk-Based Capital (E) Working Group (Working Group) require independent verification of fair values as a prerequisite to using ACLI's proposed banded framework to adjust the base look-through factor; otherwise, the full base look-through factor would apply without adjustment, which in those instances would represent a higher overall capital charge as compared to the proposed adjustment in the Working Group's February exposure. This independent verification

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

requirement would be coupled with the existing SSAP 21 requirements for JV/LP/LLC collateral to be audited and for reporting entities to retain documentation supporting the fair values to address regulator concerns around the use of fair values.

Independent verification approaches may include, individually or in combination:

- Compliance certifications from unaffiliated third parties confirming adherence to stated valuation policies and investment guidelines;
- Independent third-party valuations of the underlying collateral; and/or
- Independent reasonableness checks designed to assess whether reported fair values fall within an appropriate and supportable range.

In practice, compliance certifications are typically supported by independent valuation work, and together these processes provide strong safeguards around valuation discipline. Recognizing these mechanisms would allow regulators to rely on well-established market practices while avoiding the need for additional conservatism that could otherwise overstate capital requirements.

To further enhance transparency, ACLI also suggests that insurers could disclose the valuation range associated with the independent valuation analysis. While regulators already have access to this information as required by SSAP 21, proactive disclosure of a valuation range, rather than a single point estimate, would allow regulators to better assess the reasonableness of the fair value used in the LTV calculation and provide additional context around estimation uncertainty. This approach would improve regulatory visibility while preserving the use of a single reported value for capital purposes.

Taken together, these measures provide a practical and effective means of addressing concerns related to unobservable inputs without imposing a more conservative reduction to the look-through approach or introducing unnecessary complexity into the RBC framework.

Question 2: Alternative Tiering Structure and Placement of 80% LTV

The exposure asks whether an alternative tiering structure would be appropriate such that an 80% LTV is positioned at the midpoint of a tier, reflecting regulatory observations that 80% is a prevalent statutory investment limit among states. In considering this question, ACLI believes it is important to emphasize that loan-to-value is one of several forms of credit enhancement relevant to the risk profile of collateral loans, but not the only one. Structural features, sponsor quality, asset diversification, cash flow characteristics, and covenants also influence credit risk and loss severity.

ACLI's proposed banding framework is designed to reflect this broader risk context. By applying adjustments within defined LTV bands, the framework recognizes that loans near the top end of a band may benefit from other forms of credit enhancement beyond LTV alone, while also ensuring that loans near the bottom end of a band are not overly penalized relative to their actual risk. This approach helps preserve risk sensitivity without implying that LTV thresholds, in isolation, fully determine credit quality.

With respect to 80% LTV specifically, ACLI intentionally placed loans at that level at the top of a band rather than at the midpoint. This design choice provides an important prudential benefit: it offers the greatest degree of buffer against the risk that reporting entities could obtain lower RBC charges by selecting a more aggressive fair value assumption within an asset's reasonable fair value range. Because fair values for collateral assets, particularly those with unobservable inputs, necessarily involve

estimation, placing 80% LTV at the top of a band reduces the incentive and ability to move a loan into a more favorable capital charge through modest valuation changes that remain within an acceptable valuation range.

In ACLI's view, this characteristics-based buffering is a strength of the proposed framework. It helps mitigate model risk and valuation uncertainty while still allowing capital requirements to decline appropriately as overcollateralization meaningfully improves. For these reasons, ACLI believes its proposed banding balances conservatism, risk sensitivity, and behavioral incentives, and remains a reasonable approach within the broader RBC framework.

In addition to the above comments, ACLI reiterates its recommendation that changes adopted as part of this proposal become effective as of year-end 2027. ACLI appreciates the Working Group's discussion of effective dates, including the straw poll conducted at the NAIC Spring National Meeting and regulators' feedback indicating general support for a December 31, 2027 effective date. That discussion appropriately reflected the implementation considerations associated with this proposal, including support for a smooth and orderly transition allowing individual companies to make portfolio adjustments to mitigate adverse impacts that could arise from material increases to the RBC charges applicable to certain types of collateral loans, particularly when the absence of an industry-wide solvency concern counters the need for expedited rule changes.

At the same time, ACLI remains committed to working constructively with regulators to finalize a durable framework and updated C-1 factors as efficiently as possible. Industry recognizes the importance of timely adoption and stands ready to continue engaging on remaining policy questions, provide data and analysis as helpful, and support prompt implementation once the framework is finalized.

ACLI appreciates the Working Group's thoughtful engagement on these issues and its willingness to consider refinements that strengthen confidence in valuation practices while maintaining a coherent and risk-based capital framework. ACLI and its members stand ready to continue working with regulators to refine these proposals and provide additional information as helpful.

Sincerely,



Marc Altschull, CFA, FSA, MAAA
Senior Actuary
marcaltschull@acli.com
202-624-2089



Adam Knepp, CPA
Senior Director, Accounting Policy
adamknepp@acli.com
202-624-2025

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: center;">DATE: 04-21-2026</p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Ben Slutsker</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>St. Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-xxBWG</u></p> <p>Year <u>2027</u></p> <p>Changes to Existing Reporting []</p> <p>New Reporting Requirement [X]</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X]</p> <p>Modifies Required Disclosure []</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [] ***If Yes, complete question below***</p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[] Adopted Date _____</p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK | |
| <input checked="" type="checkbox"/> Life, Accident & Health/Fraternal | <input checked="" type="checkbox"/> Separate Accounts | <input checked="" type="checkbox"/> Title |
| <input checked="" type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input checked="" type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> Life (Health Supplement) |

Anticipated Effective Date: Annual 2027

IDENTIFICATION OF ITEM(S) TO CHANGE

Add electronic-only columns on Schedule BA, Part 1 for reporting the valuation range of the fair value of collateral backing the collateral loan and the use of independent verification in determining the fair value.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of the proposal is to add incremental data points to support the analysis of how the capital risk factors are attributed to the following Schedule BA categories under Collateral Loans: Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.**

Revised 11/17/2022

SCHEDULE BA – PART 1
OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

** Columns 21 through ~~28~~30 will be electronic only. **

Column 27 – Fair Value of Collateral Backing the Collateral Loan

Report the fair value of the collateral backing the collateral loan.

Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

Column 28 – Current Overcollateralization Percentage to the Collateral Loan

Report the current collateralization percentage from a comparison of the fair value of the collateral to the book/adjusted carrying value (BACV) of the collateral loan. For example, if the fair value of the collateral and the BACV agree, 100% shall be reported. If the fair value of the collateral is \$~~120~~150 and the BACV of the collateral loan is \$~~150~~120, ~~80~~125% shall be reported. Complete column only for Collateral Loans – Reported by Collateral that Secures the Loan.

Column 29 – Use of Independent Verification

Complete column only for Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

To indicate whether an independent verification (including an audited financial statement) is used to determine the current Fair Value, select ‘Y’ or ‘N’.

Independent verification approaches may include, individually or in combination:

- Compliance certifications from unaffiliated third parties confirming adherence to stated valuation policies;
- Independent third-party valuations of the underlying collateral;
- Independent reasonableness checks designed to assess whether reported fair values fall within an appropriate and supportable range.

Column 30 – Range of Fair Values of Collateral Backing the Collateral Loan

Complete column only for Collateral Loans Backed by Joint Ventures, Partnerships, & Limited Liability Companies and Collateral Loans Backed by Residual Tranches or Interests.

Report an appropriate range of fair values of the collateral backing the collateral loan.



March 12, 2026

Mr. Ben Slutsker, Chair

Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: Unaffiliated BA Mortgage – Residential – All Other – In Good Standing

Submitted Electronically

Dear Chair Slutsker:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the exposed item from the Life Risk-Based Capital (E) Working Group (Working Group) on Ref #2026-02-L – *BA Residential Mortgage Loans* for the RBC treatment of Schedule BA Mortgages for unaffiliated residential mortgage loans classified as all other in good standing on the LR009 – Schedule BA Mortgages page of the Life and Fraternal RBC Blank and related Instructions.

To help support the changes to the Life RBC Blank, ACLI suggests adding the following paragraph under the '*Basis of Factors*' section in the Life RBC Instructions for page LR009:

For residential mortgages in the Unaffiliated Mortgages (Line 2399999) and Affiliated Mortgages (Line 2499999) lines, these consist primarily of first lien loans and transferred to LR009, line (1) for insured or guaranteed residential mortgages or line (2) for all other affiliated/unaffiliated residential mortgages.

We welcome the opportunity to discuss our comments further and to support the Working Group's continued work on this issue.

Sincerely,

A handwritten signature in cursive script that reads 'Tip Tipton'.

Tip Tipton, CPA
Vice President – Accounting Policy
TipTipton@acli.com
202-624-2015

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|--|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve Evaluation (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & (E) Working Group |

<p style="text-align: right;">DATE: <u>04-13-2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2026-09-L</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates adopted changes to Annual Statements as per 2024-19BWG, which introduces enhanced granularity in Schedule BA reporting for collateral loans. The proposal is to integrate these more detailed classifications directly into LR008, Line 51(Schedule BA Collateral Loans) annual statement source references column.

In addition, this proposal is drafted to incorporate comments received for proposal 2025-16-L MOD (Collateral loans). Specifically, (i) LR009 instruction is expanded to make clear that if the insurers own collateral loans collateralized by mortgage loans but lack requisite loan level details, such investments are excluded from scope of LR009 and should be categorized as collateral loans – others and reported in LR008. This is consistent with treatment of Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) with Underlying Assets Having the Characteristics of Mortgage loans (ii) Asset Valuation Reserve Equity and Other Invested Asset Component table, all the factors for Basic Contribution, Reserve Objective and Maximum Reserve should be set at zero. This will retain the legacy AVR treatment for collateral loans, i.e. no AVR assessment until further work has been done to determine AVR factors for collateral loans.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated **Commercial** Mortgages **included in, Schedule BA** Line 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated **Commercial** Mortgages, **included in Schedule BA** Line 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (3) for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

For collateral loans backed by mortgage loans that are included in Schedule BA Lines 3199999 and 3299999, for the avoidance of doubt, insurers are expected to have loan level information to facilitate detailed property analysis appropriate for the corresponding risk-based capital factors. If the requisite details are not available for reporting, such collateral loans should be categorized as “collateral loans – others” and reported on LR008 Other Long-Term Assets.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), (2), (13), and (17), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Notes to Financials 5S, Column 1 line 7a and 7b.

Company Name

Confidential when Completed

NAIC Company Code

OTHER LONG-TERM ASSETS (CONTINUED)



Details Eliminated to Conserve Space



(1)	(2)	(3)	(4)	(5)
Book / Adjusted				RBC

	Annual Statement Source	Carrying Value	Unrated Items ‡	RBC Subtotal †	Factor	Requirement
<u>Schedule BA - Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es)</u>						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65			X §	=
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66			X 0.3000	=
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69			X 0.3000	=
(45)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92			X 0.4500	=
(46)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es)	Line (42) + (43) + (44) + (45)				
	(pre-MODCO/Funds Withheld)					
(47)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				
(48)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				
(49)	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-es) (including MODCO/Funds Withheld.)	Lines (46) - (47) + (48)				
<u>Schedule BA - All Other (C-1o)</u>						
(50.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67				
(50.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68				
(50.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2)			X 0.3000	=
(51)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 3399999 + Line 3499999 + Line 3599999 + Line 3699999 + Line 3799999 + Line 3899999 + Line 3999999 + Line 4099999 + Line 4199999 + Line 4299999, in part			X 0.0680	=
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 100			X 0.0050	=
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 101			X 0.0163	=
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)				
(53.1)	Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line 99 + 102				
(53.2)	Less NAIC 1 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) through (27) + Column (1) Lines (32) through (37)				
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)			X 0.3000	=
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (50.3)+ (51) + (52.3) + (53.3)				
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)				
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49)+ (57)				

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the Purposes and Procedures Manual of the NAIC Investment Analysis Office should be reported in Column (3).


‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio

Company Name

Confidential when Completed

subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

 Denotes items that must be manually entered on the filing software.

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE**SCHEDULE BA – PARTS 1, 2 AND 3****OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS**

Detail Eliminated To Conserve Space	
<u>Collateral Loans – Reported by Collateral that Secures the Loan</u>	
<u>Backed by Mortgage Loans</u>	
Unaffiliated	3199999
Affiliated	3299999
<u>Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies</u>	
Unaffiliated	3399999
Affiliated	3499999
<u>Backed by Residual Tranches or Interests</u>	
Unaffiliated	3599999
Affiliated	3699999
<u>Backed by Debt Securities</u>	
Unaffiliated	3799999
Affiliated	3899999
<u>Backed by Real Estate</u>	
Unaffiliated	3999999
Affiliated	4099999
<u>Collateral Loans – All Other Backed by Other Collateral Types</u>	
Unaffiliated	4199999
Affiliated	4299999
<u>Non-collateral Loans</u>	
Unaffiliated Related Party Loans / Affiliated Loans	3399999 4399999
Affiliated All Other Non-Collateral Loans / Other Unaffiliated Loans	3499999 4499999
Affiliated Loans	4599999
<u>Yield Guaranteed State Tax Credit Investments</u>	
Unaffiliated	3599999 4699999
Affiliated	3699999 4799999
<u>Qualifying Federal Tax Credit Investments</u>	
Unaffiliated	3799999 4899999
Affiliated	3899999 4999999
<u>Qualifying State Tax Credit Investments</u>	
Unaffiliated	3999999 5099999
Affiliated	4099999 5199999
<u>All Other Tax Credit Investments</u>	
Unaffiliated	4199999 5299999
Affiliated	4299999 5399999
<u>Working Capital Finance Investment</u>	
Unaffiliated	4399999 5499999

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: <u>04-20-2026</u></p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-##BWG</u> Year <u>2026</u> Changes to Existing Reporting [X] New Reporting Requirement []</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X] Modifies Required Disclosure []</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No] <i>***If Yes, complete question below***</i></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment [] Referred To Another NAIC Group [X] Received For Public Comment [] Adopted Date _____ [] Rejected Date _____ [] Deferred Date _____ [] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK | |
| <input checked="" type="checkbox"/> Life, Accident & Health/Fraternal | <input checked="" type="checkbox"/> Separate Accounts | <input type="checkbox"/> Title |
| <input type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> Life (Health Supplement) |

Anticipated Effective Date: Annual 2026

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the AVR factors to zero in columns 7 and 9 for the Collateral Loan section.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal was prepared to update the collateral loan factors for Reserve Objective and Maximum Reserve to be zero. These should have been set at zero when the collateral loan section was added in 2025.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____
Other Comments: _____

** This section must be completed on all forms.

Revised 11/17/2022

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL AND SEPARATE ACCOUNTS

**ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT**

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
COLLATERAL LOANS												
100		Backed by mortgage loans – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
101		Backed by mortgage loans – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
102		Backed by joint ventures, partnerships, & limited liability companies – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
103		Backed by joint ventures, partnerships, & limited liability companies – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
104		Backed by residual tranches or interests – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
105		Backed by residual tranches or interests – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
106		Backed by debt securities – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
107		Backed by debt securities – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
108		Backed by real estate – collateral loans – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
109		Backed by real estate – collateral loans – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
110		Collateral loans – all other – unaffiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
111		Collateral loans – all other – affiliated.....		XXX	XXX		0.0000		0.0000-0.0680		0.0000-0.0680	
112		Total collateral loans (Sum of Lines 100 through 111)		XXX	XXX		XXX		XXX		XXX	
ALL OTHER INVESTMENTS												
113		NAIC 1 working capital finance investments.....		XXX			0.0000		0.0042		0.0042	
114		NAIC 2 working capital finance investments.....		XXX			0.0000		0.0137		0.0137	
115		Other invested assets - Schedule BA.....		XXX			0.0000		0.1580		0.1580	
116		Other short-term invested assets - Schedule DA.....		XXX			0.0000		0.1580		0.1580	
117		Total all other (Sum of Lines 113 through 116).....		XXX			XXX		XXX		XXX	
118		Total other invested assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 79, 92, 99 112, and 117)					XXX		XXX		XXX	

- (a) Times the company's weighted average portfolio beta (Minimum .1215, Maximum .2431).
- (b) This will be the factor associated with the risk category determined in the company generated worksheet.

*****Drafting Note: Changes in Blanks Proposal 2025-27BWG for AVR – CLO reporting are not shown on this proposal. Line numbers for AVR reporting are being updated in Blanks Proposal 2025-27BWG.*****



Cover Questions for Exposure

1. Should a guardrail be designed for NAER discounting or Direct Iteration? If yes,
 - a. What should be considered in the design of the guardrail?
 - b. Should the guardrail be included as a separate sensitivity (requested or optional)?
 - c. Should it be tested under asset-based metric, surplus-based metric or both?
2. What scalars and metrics should be reviewed as part of the field test? For example, should CTE90, 25% * CTE98, 25% * CTE95 or others be reviewed? Should the same scalars and metrics apply to both C3 Phase 1 and C3 Phase 2? Scalar is defined as XX and metric is defined as YY in the term $XX\% * CTE YY$.
3. Should the treatment of voluntary reserves be reviewed during this field test? Does this apply to both C3 Phase 1 and C3 Phase 2? How should voluntary reserves be defined?
4. At what level of granularity should results be reported? Examples are included in the exposure document.
5. What additional supplemental information should be provided to better understand the drivers of C3 results? For example, duration mismatch, average issue year, convexity, etc. for each major block of company reported results?
6. If VM-22 PBR is applied retroactively, should this change be considered as part of this field test? How would this be evaluated?

American Academy of Actuaries

C3 Field Test Specs Draft

Section I: Field Study Overview

A. INTRODUCTION

The Academy's C3 Subcommittee was tasked with considering changes to the C3 framework given the implementation of Principle Based Reserving for VM-22 and the new Generator of Economic Scenarios (GOES) scenarios, as well as reviewing ways to harmonize the methodology with the C3 Phase 2 framework. Details of the framework are included in the [\[appendix\]](#).

The goals of the field test are as follows:

- Assess the impacts of using an Asset-Based metric vs. a Surplus-Based metric
- Add Equity Linked Annuities to C3 Phase 1
- Assess the impact of a prescribed equity modeling approach under C3 Phase 1
- Enable a discussion about the consideration of the appropriate discount rate
- Contemplate the impact of aggregation of products included in C3 Phase 1
- [Supplemental] Evaluate the impact of a new prescribed default assumption, and quantify a possible RBC credit
- [Supplemental] Evaluate the C3 metric under different starting economic conditions

The analysis above will be performed using GOES scenario sets and may be reviewed under different economic conditions, such as different starting yield curves.

Supplemental information may be requested as part of this field test to help understand the field test reserve liability characteristics, aligning with LR027 definitions. A key goal is to confirm that the new methodology results in relatively higher/lower C3 capital requirements for companies with relatively higher/lower interest rate exposure.

B. COMMUNICATION OF FIELD TEST RESULTS

Participants of the field test will schedule confidential, regulator-only meetings where the results of their testing will be shared with regulators. NAIC staff will reach out to companies to schedule these meetings.

NAIC staff will communicate high-level observations and themes raised by participants on drivers of results. Communication will include specific coverage of key observations related to the listed goals of the field test as well as any other items that may be significant. Where applicable, NAIC staff will include comparisons to NAIC's model office testing.

NAIC Staff Contact: [\[Include name/email on who to contact at NAIC\]](#)

C. TIMELINE

The field test will run from [July to September] 2026. During the field test, regular Q&A sessions will be held with participants to address questions that may arise. Field test participants will present results in confidential regulator-only sessions starting in [October]. A detailed timeline is included in the Appendix II.

The NAIC's model office analysis will be shared in public meetings at Life Risk-Based Capital (E) Working Group by the end of 2026, alongside key observations shared by field test participants.

The proposed framework is intended to be effective for year-end 2027.

Section II: Field Test Scenarios and Assumption Specifications

A. PRODUCTS COVERED

Companies should include all products that are currently subject to C3 Phase 1, which includes single premium life and annuity products. Equity Linked Annuities, such as Fixed Indexed Annuities (FIA), will be added to the scope for testing.

B. VALUATION DATE

Field test will be based on a valuation date of 12/31/2025.

C. ECONOMIC SCENARIOS

Companies should use the prescribed field test scenario sets that will be provided by Conning. Conning will provide the scenario subsets that will be used for testing.

For companies that use a proprietary generator, results are requested under the prescribed generator instead for comparability. If fewer scenarios are used, please specify.

D. METRIC DEFINITIONS

For Surplus-based metrics, utilize the C3 Phase 1 prevailing proposed method as of the start of the Field Study. At the writing of this document, that would be the proposed C3 Phase 1 instructions as of [02/12/2026]. This would include applying updated weights to specific scenario results.

For Asset-based metrics, utilize the prevailing C3 Phase 2 proposed method as of the start of the Field Study. This would include flooring the scenario result at the Cash Surrender Value and utilizing 25% of CTE (98).

Reserves underlying the metrics will reflect reserve methodologies as of year-end 2025, not the newly approved VM-22 in the 2026 Valuation Manual.

E. DISCOUNTING

Companies should continue to use the current approach that is consistent with their reported capital metrics or use the prevailing metric proposed at the time of the Field Study. This could include discounting at 105% of the after-tax 1-year U.S. treasury rates for C3 Phase 1, or discounting at the net asset earned rate (NAER) on additional assets or using the Direct Iteration method for C3 Phase 2.

If any approach used for field test scenarios differs from what is reflected in the Baseline calculations, companies should disclose this and the corresponding impact of the change in approach.

F. OTHER ASSUMPTIONS

For other assumptions (e.g., reinvestment yields, liability assumptions, projection period), use the same assumptions as in the models currently used for CFT or PBR for the applicable assets and liabilities.

G. GRANULARITY

If available and practical, companies should provide results at the product and/or LOB level, in addition to aggregate level.

Companies are not expected to submit results in greater granularity than what is already part of normal procedures. This request envisions that many companies aggregate multiple models representing different products or blocks. As a result, we expect that many companies can provide field test results at a less-aggregated step of the process, in addition to the fully aggregated step.

H. FIELD TEST SCENARIOS

The field test will be quantifying the following:

- Use of an asset-based metric on C3 Phase 1, which would be consistent with C3 Phase 2
- The addition of Equity-Linked Annuities, such as FIA, to the scope of C3 Phase 1
- Use of prescribed asset default costs on C3 Phase 1, consistent with VM-20 Section 9.F
- Use of a prescribed equity modeling approach for C3 Phase 1
- Impact of discounting at NAER or direct iteration

The following results are requested:

Provide the statutory reserve, capital, and the sum of reserve and capital for each sensitivity. The Baseline run results will be compared to the Reported C3 Phase 1 results provided in the Supplemental Information. Sensitivities 0 to 2 will build upon each other. Sensitivities 3 to 6 will be compared to Sensitivity 1.

- Baseline: Reported C3 Phase 1 Results as of Year End 2025
 - Based on GOES interest rate scenarios, with Surplus-Based metric discounted at 105% of the after-tax 1-year U.S. treasury rates.

- Company default cost assumptions from current C3 Phase 1 methodology
 - Does not include Equity-Linked Annuities, such as FIA.
 - If company uses proprietary generator, provide a baseline that is restated under GOES.
- *Sensitivity 0 (Optional): Impact of Adding Equity-Linked Annuities to Current C3 Phase 1*
 - Based on GOES interest rate scenarios, with Surplus-Based metric.
 - **Including Equity-Linked Annuities, such as FIA**, utilizing the spirit of the current C3P1 instructions as much as possible.
 - *Compare to Baseline.*
- *Sensitivity 1: Impact of Asset-Based Metric with Prescribed Default Cost Assumptions*
 - Based on GOES interest rate scenarios, including Equity-Linked Annuities, such as FIA.
 - **Asset-Based Metric, Prescribed Defaults** as specified under VM-20 Section 9.F.
 - *Compare to Baseline (or Sensitivity 0 if available)*
- *Sensitivity 2: Impact of Prescribed Equity Modeling Approach*
 - Based on GOES interest rate scenarios, including Equity-Linked Annuities, such as FIA.
 - Asset-Based Metric, Prescribed Defaults as specified under VM-20 Section 9.F.
 - Use **prescribed equity modeling approach** as described [in Appendix I](#).
 - *Compare to Sensitivity 1*
- *Sensitivity 3: Impact of Discounting*
 - Based on GOES interest rate scenarios, including Equity-Linked Annuities, such as FIA.
 - Asset-Based Metric, Prescribed Defaults, **discounted at NAER or using direct iteration.**
 - Use prescribed equity modeling approach as described [in Appendix I](#).
 - *Compare to Sensitivity 2*
- *Sensitivity 4 (Optional): Impact of Prescribed Default Costs*
 - GOES Interest Rates, Asset-Based Metric, including FIA if provided in Sensitivity 0.
 - **Company Defaults from current C3P1 methodology.**
 - *Compare to Sensitivity 1*
- *Sensitivity 5 (Optional): Impact of Different Economic Conditions*
 - **GOES Interest Rates Shock Up.**
 - Asset-Based Metric, Prescribed Defaults, including FIA if provided in Sensitivity 0.
 - *Compare to Sensitivity 1*

- Sensitivity 6 (Optional): Impact of Different Economic Conditions
 - **GOES Interest Rates Shock Down.**
 - Asset-Based Metric, Prescribed Defaults, including FIA if provided in Sensitivity 0.
 - *Compare to Sensitivity 1*

- Sensitivity 7 (Optional): Impact of Stochastic Equity for All Liability Types
 - GOES Interest Rates + **GOES STOCHASTIC EQUITY (Initial Regulator Proposal).**
 - Asset-Based Metric, Prescribed Defaults, including FIA if provided in Sensitivity 0.
 - *Compare to Sensitivity 2*

In tabular form, please see the below requested or optional runs. Highlighted shows the change in each sensitivity.

	Requested or Optional	Surplus or Asset Based	FIA	Interest Rates	Equity	Defaults	Discounting
Baseline	Requested	Surplus	No	GOES	Company	Company	105% * 1-yr UST
Sens 0	Optional	Surplus	Yes	GOES	Company	Company	105% * 1-yr UST
Sens 1	Requested	Asset	If in Sens 0	GOES	Company	VM-20	105% * 1-yr UST
Sens 2	Requested	Asset	If in Sens 0	GOES	GOES	VM-20	105% * 1-yr UST
Sens 3	Requested	Asset	If in Sens 0	GOES	GOES	VM-20	NAER or Direct Iteration
Sens 4	Optional	Asset	If in Sens 0	GOES	Company	Company	105% * 1-yr UST
Sens 5	Optional	Asset	If in Sens 0	GOES + shock up	Company	VM-20	105% * 1-yr UST
Sens 6	Optional	Asset	If in Sens 0	GOES + shock down	Company	VM-20	105% * 1-yr UST
Sens 7	Optional	Asset & Surplus	If in Sens 0	GOES	Academy	VM-20	105% * 1-yr UST

Section III: Supplemental Information

Additional analytics are requested to help explain the field test results to ensure the methodology reasonably measures C3 risks. These analytics will be compared along with the field test results. The analytics requested include:

A. CURRENT CAPITAL RESULTS

Please provide your reported C3 Phase 1 result amount as of the valuation date as well as the modeled reserves by High/Medium/Low Risk categories, and the factor-based result. If your current C3 Phase 1 result is floored, please calculate the unfloored amount. These results will be used to compare against the new framework results to help the NAIC and Domestic Regulators to understand the impact of the new framework.

B. LIABILITY ANALYTICS

Average Issue Year and Statutory Reserves net of reinsurance.

VERSION 1

Low Risk Category

- Annuity Reserve with Fair Value Adjustment (excluding unitized separate accounts)
- Annuity Reserve not Withdrawable (excluding structured settlements)
- Guaranteed Investment Contract (GIC) Reserve within 1 Year of Maturity
- Single Premium Life Insurance Reserves

Medium Risk Category

- Annuity Reserve at Book Value Less Surrender Charge of 5 Percent or More
- Exhibit 7 Reserve not Included Elsewhere
- Structured Settlements
- Additional Actuarial Reserves for Annuities and Single Premium Life—Asset/Liability Analysis

High Risk Category

- Annuity Reserve at Book Value Without Adjustment (minimal or no charge or adjustment)
- Debt with GIC-like Characteristics (see Appendix 1 & 1b Instructions)

Synthetic GICs

VERSION 2

- Retail Life
- BOLI/COLI
- Variable Annuities
- Indexed Linked Variable Annuities (ILVA, RILA)

- Deferred Annuities (SPDA, FPDA), Multi-Year Guarantee Annuities (MYGA)
 - With and without Guaranteed Life Benefits (GLB)
 - With and without Market Value Adjustments (MVA)
- Income Annuities—Single Premium Immediate Annuities (SPIA), Deferred Income Annuities (DIA)
- Fixed Indexed Annuities (FIA)
 - With and without GLB
 - With and without MVA
- Structured Settlements Contracts (SSC)
- Pension Risk Transfer (PRT)
- Guaranteed Investment Contracts (GICs)/Synthetic GICs
- Stable Value Contracts
- Funding Agreements
- Other (please specify)

Appendix I: Stochastic Equity Levelized Return Illustration

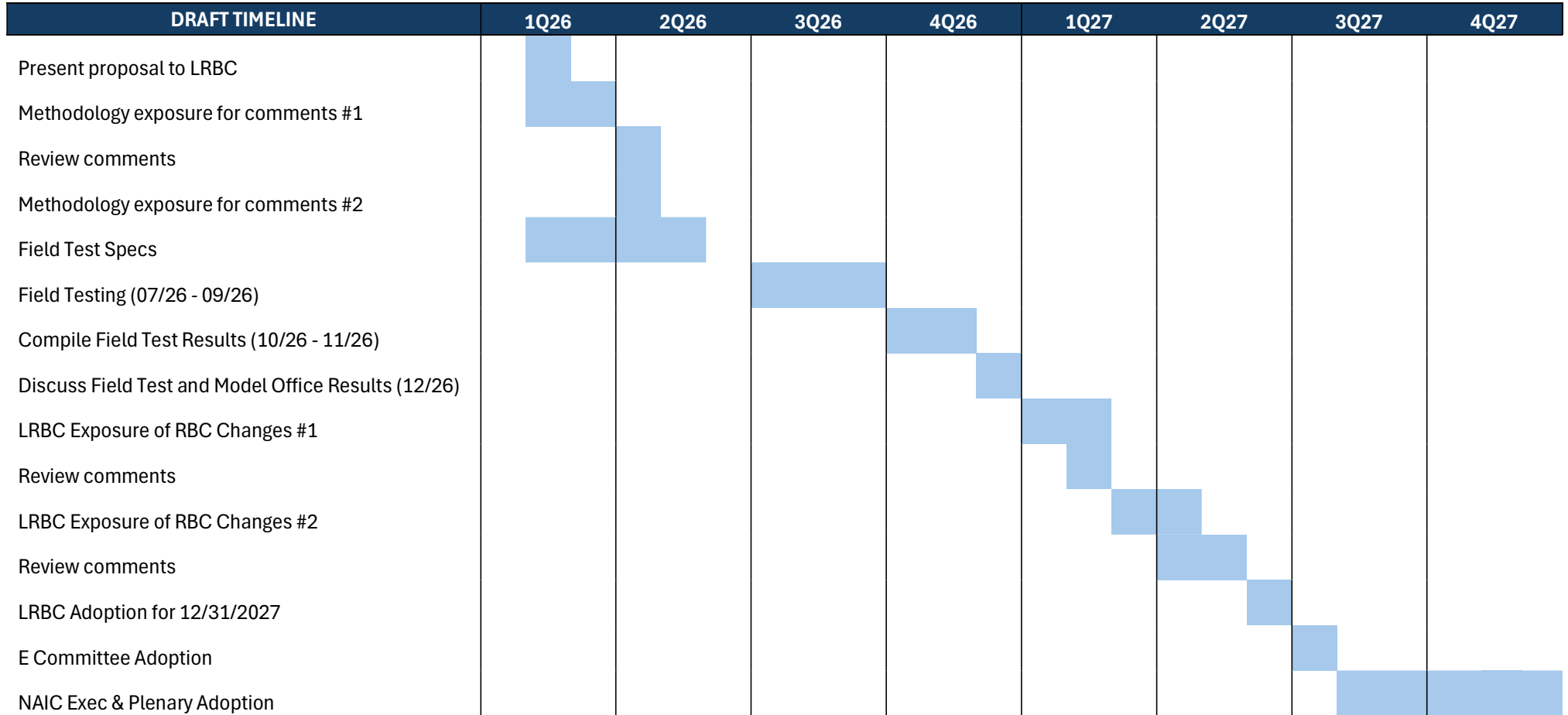
Complete Sensitivity 2, which will be compared to Sensitivity 1 in order to estimate the impact of the proposed Academy equity scenarios.

For developing the greatest present value of accumulated deficiencies (GPVAD) results that include equity linked assets and liabilities, use the following methodologies depending on the type of equity exposure.

Type of Equity Exposure	Proposal
Equity instruments to hedge predictive liabilities cash flows (e.g., FIA index hedge or indexed GIC)	<ul style="list-style-type: none"> • Exclude stochastic equity risk from C3P1. • Assume hedges are effective and reflect same index hedges error margin for reserve and capital for additional conservatism.
Equity instruments to hedge the unpredictable liability cash flows (e.g., FIA with GLWB)	<ul style="list-style-type: none"> • Model stochastic equity but allow hedge modeling simplification. • Unlike VA, the liability cash flows are mostly exposed to the policyholder behavior assumption risk than equity risk. • Optional credit adjustment to account for double counting of risk reflected in the C1 equity risk charge and the C3 calculation.
Equity instruments on general account assets (e.g., equities backing long-duration contracts such as SSC)	<ul style="list-style-type: none"> • Develop the prudent estimate levelized return to avoid exacerbating capital requirement. • Option 1 -- The prescribed levelized equity return equals the gross wealth factor (GWF) at specified CTE level for the projection years that reflect the average liability duration and then appending the new levelized return for the remaining years which equal to the GWF at the same CTE level at projection year 50 (See next slide for illustration). • Option 2 -- Use AG-53 compliant assumption for general account equities¹

¹An equity-like instrument under AG-53 assumed to have higher value at projection year 10 or later than under an assumption of annual total returns, before the deduction of investment expenses, of 4% for the first 10 projection years after the valuation date followed by 5% for projection year 11 and after.

Appendix II: Timeline



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April 13, 2026

Ben Slutsker
 Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Philip Barlow
 Vice Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: February 2026 C3 Alignment Specifications Exposure

Dear Chair Slutsker and Vice Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the February 2026 exposure of draft C3 Alignment Field Test Specifications and cover letter questions. We would also like to take this time to thank regulators, LRBC staff, and members of the American Academy of Actuaries (the Academy) for all the work done to-date on the distribution and development of these materials.

In an effort to further develop these specifications, ACLI would recommend a drafting group be formed to work through the various open items. This may be a more efficient use of time as we work collaboratively on updating the specifications document ahead of a field test later in the year.

We also note as a consideration the direction that LATF has indicated on potential VM-22 retroactivity which is to focus on an elective framework to move from VM-A, VM-C, and VM-V methodologies to VM-22. As not all models will be moved to VM-22, consideration will need to be given to the extent alignment between reserves and capital is tested.

Regarding the cover questions, ACLI offers the following commentary for consideration:

1.a Should a guardrail be designed for NAER discounting or Direct Iteration?

We appreciate the direction of regulators to support incorporation of an NAER into the C3P1 construct. Our preference would be to not include a guardrail since this would require more model runs and could reduce the benefit of introducing NAER. The focus should be on the projections and the underlying assumptions themselves to identify when losses occur and the extent of those losses. The guardrail has not been defined yet and it would require significant

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effort to run multiple sets of assumptions stochastically. We would be open to testing in the future if this were to be developed as it would be appropriate to test before potential implementation.

1.b. Should the guardrail be included as a separate sensitivity (requested or optional)?

To the extent a guardrail is tested, it should be optional.

1.c. Should it be tested under asset-based metric, surplus-based metric, or both?

ACLI would be open to testing under both metrics, but an asset-based metric gives a sound view of whether or not the company can meet the obligations of the policyholder. Interim surplus measures are helpful and should be understood as an early warning of potential shortfalls to meeting policyholder obligations. A surplus-based metric would require either doing a nested stochastic reserve calculation as the most exact approach, or in the absence of a nested stochastic reserve, a simplified reserve run-off approach would need to be developed.

*1. What scalars and metrics should be reviewed as part of the field test? For example, should CTE90, 25% * CTE98, 25% * CTE95 or others be reviewed? Should the same scalars and metrics apply to both C3 Phase 1 and C3 Phase 2? Scalar is defined as XX and metric is defined as YY in the term XX% * CTE YY.*

The proposed C3P1 metric is based on special weights on the 200 GOES scenarios. We would appreciate clarity as to which sensitivity steps these new metrics would be applied. Alternatively, would each company calculate the current metric and various XX/YY combinations for each sensitivity step?

While the Academy has suggested several sensitivities as part of the required/optional scenarios, it is uncertain whether the scenarios listed represent an adequate set of scenarios to review different CTE metrics across different points of an economic cycle. We would suggest making available a broad selection of scenario sets under different economic conditions for optional testing to help determine an appropriate CTE metric.

We suggest testing 25% CTE 90 through 99 and VAR100. Testing the additional CTE levels would be incremental and would provide greater understanding of the various potential levels of capital. Additionally, the rationale for including VAR100 is the previously stated concern that at CTE90, the implied 400% RBC ratio capital could be extremely high and, in some cases, higher than VAR100 which is not reasonable. Including 25% * VAR100 could help measure the relationship between the two and assess if 100% * CTE90 charge is too high.

Additionally, the existing C3P1 calculation metric, which uses a weighted-average VAR calculation, could be overly sensitive to results from a small number of extreme scenarios. Testing this may help inform an appropriate CTE level from the recommended field test range described above.

We support consistency in the CTE levels between C3P1 and C3P2, and support reflecting the appropriate aggregation benefit between the two in capital requirements.

2. Should the treatment of voluntary reserves be reviewed during this field test? Does this apply to both C3 Phase 1 and C3 Phase 2? How should voluntary reserves be defined?

To the extent that voluntary reserves are recorded, they should be included in both C3 Phase 1 and C3 Phase 2 calculations consistently.

3. At what level of granularity should results be reported? Examples are included in the exposure document.

ACLI does not see the value in reporting results for individual blocks of business. C3P1 is an aggregate calculation for certain liabilities and results are heavily dependent on the mix of business each company has. In fact, reserves for lines not included in the C3 testing today are also available to absorb C3 risk. Though not considered today, life insurance lines should be aggregated with the annuity and single premium life business to get a better indication of interest rate risk for the firm. Therefore, there is limited value to be obtained from looking at results for individual blocks of business in isolation. However, if aggregation with C3P2 is contemplated, then that could be an appropriate consideration to include in the field test. As a simplification, information on the mix of business could be captured.

ACLI does not support version 2 of supplemental information in section III. Company should be able to provide the information in the current RBC outline.

4. What additional supplemental information should be provided to better understand the drivers of C3 results? For example, duration mismatch, average issue year, convexity, etc., for each major block of company reported results?

ACLI sees limited value in asking for this supplemental information for major blocks of business given that (as stated in response to prior question) C3P1 is an aggregate calculation and thus information for individual blocks of business is of limited value in providing insight on results.

5. If VM-22 PBR is applied retroactively, should this change be considered as part of this field test? How would this be evaluated?

Depending on the specific nature of any future VM-22 retroactivity decision, this should be included only if there is clarity on retroactivity before field test occurs and only if retroactivity will be compulsory. Given the current direction to allow optional election of VM-22 to inforce business, this item will require additional dialogue.

Additional comments:

We would appreciate additional discussion on how VM-20 defaults would be tested if a company is using a non-PBR model, and if a simplified approach might be considered.

Further, clarification about the selected equity return options for the general account equity would be appreciated, particularly regarding their relationship to the 30% factor and the possibility of double counting of equity risk.

The models discussed throughout the exposure also need clarity around whether companies are expected to use PBR models for C3P1. It might be helpful for companies to have the option of using the CFT models for the FT to reduce the amount of work required while the following questions are also contemplated:

- Do regulators want prudent estimate assumptions?
- Should companies remove the PADs applied for AAT?
- Should companies use prescribed PBR assumptions?

Regarding the Valuation Date in the draft specifications, it would be helpful to know if there is going to be any allowance for companies that use a 9/30 valuation date for their baseline C3P1 cashflow calculations. During the GOES field testing (both the 2022 Field Test and the 2024 Field Test), scenario sets were provided on a 9/30 basis as well as a 12/31 basis.

Finally, will there be a specified template provided for comments?

Thank you once again for your consideration of our feedback and ACLI looks forward to future discussions on C3 alignment with regulators, NAIC staff, and the Academy.

Sincerely,

Handwritten signature of Colin Masterson in cursive script.

cc: Kazeem Okosun, NAIC