



Date: 4/20/22

Virtual Meeting

CAPITAL ADEQUACY (E) TASK FORCE

Thursday, April 28, 2022

3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT

ROLL CALL

Judith L. French, Chair	Ohio	Kathleen A. Birrane	Maryland
Doug Ommen, Vice Chair	Iowa	Chlora Lindley-Myers	Missouri
Jim L. Ridling	Alabama	Troy Downing	Montana
Lori K. Wing-Heier	Alaska	Edward M. Deleon Guerrero	N. Mariana Islands
Peni Itula Sapini Teo	American Samoa	Eric Dunning	Nebraska
Ricardo Lara	California	Marlene Caride	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Trinidad Navarro	Delaware	Elizabeth Kelleher Dwyer	Rhode Island
Karima M. Woods	District of Columbia	Michael Wise	South Carolina
David Altmaier	Florida	Cassie Brown	Texas
Dana Popish Severinghaus	Illinois	Mike Kreidler	Washington
Vicki Schmidt	Kansas	Nathan Houdek	Wisconsin
Sharon P. Clark	Kentucky		

NAIC Support Staff: Jane Barr

AGENDA

1. Consider Adoption of Proposal 2021-17-CR MOD (Wildfire Information-Only Reporting Exemption)—*Tom Botsko (OH)* Attachment A
2. Consider Adoption of Proposal 2022-01-P (Remove Trend Test Footnote) —*Tom Botsko (OH)* Attachment B
3. Consider Adoption of Proposal 2022-03-L (C-2 Mortality Risk) —*Philip Barlow (DC)* Attachment C
4. Discuss Any Other Matters Brought Before the Task Force —*Tom Botsko (OH)*
5. 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 type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | |

DATE: <u>3/22/22</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2021-17-CR</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2022</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>NAMIC and RAA</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Jonathan Rodgers and Scott Williamson</u>	<input type="checkbox"/> REJECTED _____
TITLE: _____	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: _____	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP
ADDRESS: _____	<input checked="" type="checkbox"/> EXPOSED <u>3/22/22</u>
	<input checked="" type="checkbox"/> OTHER (SPECIFY) <u>MOD 2021-17-CR</u>

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

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

DESCRIPTION OF CHANGE(S)

- 1) PR027INT: Add C (10) to the PR027INT Interrogatory allowing an exemption for companies that meet the specific requirements.
- 2) PR027C: Modify PR027C to include disclosure of estimated wildfire risk exposure on a gross and net of reinsurance basis in-lieu of modeled results for companies exempted under C (10).

REASON OR JUSTIFICATION FOR CHANGE **

For those smaller companies, where the modeling requirements would impose a cost and compliance burden that represent an outsized cost relative to the incremental benefit of providing the modeled data for information-only purposes. The exemption option is only intended to apply to the information-only reporting for wildfire, while the Subgroup continues to evaluate materiality and model maturity.

When wildfire is added to RBC as a capital requirement, this exemption option would no longer be available, and all companies would be required to provide modeled exposure data unless they qualify under the existing exemptions listed in PR027 Interrogatory items C (7), (8), or (9).

Additional Staff Comments:

The original proposal was adopted by the Subgroup on 2/22/2022.

This proposal would modify the originally adopted proposal to add a small company in-lieu-of-modeling reporting option.

3/22/22 – The Subgroup exposed the proposal for a 14-day public comment period ending April 5.

3/28/22 – The Subgroup received comments from Julie Lederer (MO).

4/19/22 – The Subgroup adopted this proposal.

4/26/22 – The Working Group adopted this proposal.

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

Revised 2-2019

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C FOR INFORMATIONAL PURPOSES ONLY

Wildfire	Reference	Modeled Losses			
		(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				
				(5) Y/N	
(5) Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?					
		(6) Amount	(7) Factor	(7) RBC Requirement (C(6) * Factor)	
		Reference			
(6) Net Wildfire Risk	L(2) C(2)		0 1.000	0	
(7) Contingent Credit Risk for Wildfire Risk	L(2) C(3) - C(4)		0 0.018	0	
(8) Total Wildfire Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"		0 1.000	0	
(9) Total Wildfire Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"		0 1.000	0	
(10) Total Wildfire Catastrophe Risk	L(8) C(7) + L(9) C(7)			0	
Disclosure in-lieu-of model-based reporting:				(8)	(9)
(11) For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:				Direct and Assumed	Net
a. Provide the company's gross and net wildfire 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.					
b. Provide details on how the company estimated the amounts shown in 11a.					
c. Provide a narrative disclosure about how the company manages its wildfire risk.					

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, or KCC; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

†† Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

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

INTERROGATORY TO SUPPORT EXEMPTION FROM COMPLETING PR027 (To be completed by companies reporting no RBC charge in either Lines 1 through 3) PR027INT

Place an "X" in the appropriate cell for the criteria under which the company is claiming an exemption

A Earthquake Exemption (To be completed by companies reporting no RBC charge in PR027 Line 1) -

- (1) The company has not entered into a reinsurance agreement covering earthquake exposure with a non-affiliate or a non-US affiliate and, either
 - (1a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for earthquake risks; Or
 - (1b) the company cedes 100% of its earthquake exposures to its US affiliate(s), leaving no net exposure for earthquake risks
- (2) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (3) The company has written Insured Value - Property that includes earthquake coverage in the Earthquake-Prone areas representing less than 10% of its surplus as regards policyholders

For any company qualifying for the exemption under 3 provide details about how the "geographic areas in the New Madrid Seismic Zone" were determined.

(3a) What resource was used to define the New Madrid Seismic Zone?

--

(3b) Was exposure determined based on zip codes or counties in the zone, was it based on all of the earthquake exposure in the identified states or was another methodology used? Describe any other methodology used.

Note: "Earthquake-Prone areas" include any of the following states or commonwealths: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

B Hurricane Exemption (To be completed by companies reporting no RBC charge in PR027 Line 2) -

- (4) The company has not entered into a reinsurance agreement covering hurricane exposure with a non-affiliate or a non-US affiliate and, either
 - (4a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for hurricane risks; Or
 - (4b) the company cedes 100% of its hurricane exposures to its US affiliate(s), leaving no net exposure for hurricane risks
- (5) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (6) The company has written Insured Value - Property that includes hurricane coverage in the Hurricane-Prone areas representing less than 10% of its surplus as regards policyholders

Note: "Hurricane-Prone areas" include Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean, and/or Gulf of Mexico including Puerto Rico.

C Wildfire Exemption (To be completed by companies reporting no RBC charge in PR027 Line 3) -

- (7) The company has not entered into a reinsurance agreement covering wildfire exposure with a non-affiliate or a non-US affiliate and, either
 - (7a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for wildfire risks; Or
 - (7b) the company cedes 100% of its wildfire exposures to its US affiliate(s), leaving no net exposure for wildfire risks
- (8) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (9) The company has written Insured Value - Property that includes wildfire coverage in the wildfire-Prone areas representing less than 10% of its surplus as regards policyholders
- (10) The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than \$50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril; and the company does not currently utilize NAIC approved third party commercial vendor wildfire catastrophe models.**

Note: "Wildfire-Prone areas" include any of the following states: California, Idaho, Montana, Oregon, Nevada, Wyoming, Colorado, New Mexico, Washington, Arizona, and Utah.

Denotes items that must be manually entered on the filing software.
 * Item C is for informational purposes only.

From: Lederer, Julie <Julie.Lederer@insurance.mo.gov>
Sent: Monday, March 28, 2022 9:11 PM
To: Yeung, Eva K. <EYeung@naic.org>
Cc: Rehagen, John <John.Rehagen@insurance.mo.gov>
Subject: Catastrophe Risk Subgroup: Comments on 2021-17-CR (MOD)

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.

Hi Eva,

The proposal 2021-17-CR (MOD) seems reasonable. I have a few minor comments and points of clarification:

1. On PR027C, item 11a says, "Provide the company's gross and net wildfire 1-in-100-year equivalent exposure on a best estimate basis in-lieu-of model-based reporting." I'm not sure what "equivalent exposure" means here. Does this mean losses? (I.e., provide the estimated gross and net 1-in-100-year losses?)
2. On PR027C, the "in-lieu-of" in item 11a does not need hyphens.
3. On PR027C, I believe item 11b is asking the company to describe how it estimated the dollar amounts in 11a. If that is the case, clearer wording might be "Provide details on how the company estimated the amounts shown in 11a." Otherwise, it's not clear how 11b and 11c are different.
4. On PR027C, the "it's" in item 11c should be "its" (with no apostrophe).
5. PR027INT item C(10) says, "The company writes less than \$50 million in direct and assumed premium (gross premium written) in the following Annual Statement lines – Fire, Allied Lines, Earthquake,..." Does the proposal intend for a company to sum its gross premium across the listed annual statement lines (in wildfire-prone areas) and compare the total to \$50 million? If so, maybe wording such as the following would be clearer: "The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than \$50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multiple Peril; and the company does not currently..."

Thanks for letting me provide comments.

Best regards,

Julie

Julie Lederer, FCAS, MAAA
Property and Casualty Actuary
Missouri Department of Commerce and Insurance
816-889-2219

Julie.Lederer@insurance.mo.gov

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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 type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |

DATE: <u>3/23/2022</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u> TELEPHONE: <u>816-783-8407</u> EMAIL ADDRESS: <u>eyeung@naic.org</u> ON BEHALF OF: <u>P/C RBC (E) Working Group</u> NAME: <u>Tom Botsko</u> TITLE: <u>Chair</u> AFFILIATION: <u>Ohio Department of Insurance</u> ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u>	Agenda Item # <u>2022-01-P</u> Year <u>2022</u> <b style="text-align: center;"><u>DISPOSITION</u> <input type="checkbox"/> ADOPTED _____ <input type="checkbox"/> REJECTED _____ <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input checked="" type="checkbox"/> EXPOSED <u>3/23/22</u> <input type="checkbox"/> OTHER (SPECIFY) _____

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

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

DESCRIPTION OF CHANGE(S)

The proposed change would remove the trend test for information only footnote in PR033.

REASON OR JUSTIFICATION FOR CHANGE **

All States in U.S are in compliance on PC Trend Test. This became part of the Accreditation Standards effective Jan 1, 2012.

Additional Staff Comments:

3/23/22 - The Working Group exposed this proposal for a 30-day public comment period ending April 22.
 4/26/22 – The Working Group adopted this proposal.

** This section must be completed on all forms.

Revised 2-2019

TREND TEST PR033

	<u>Annual Statement Source</u>	(1) <u>Amount</u>	(2) <u>Result</u>
<u>Original RBC % Before Applying Trend Test</u>			
(1) Authorized Control Level Risk-Based Capital Including Basic Operational Risk	PR032, C(1) L(72)	0	
(2) Total Adjusted Capital	PR029, C(2) L(14)	0	
(3) RBC %	L(2)C(1) / L(1)C(1)	0.000%	
<u>Combined Ratio Data</u>			
(4) Premiums Earned	Pg 4, Col 1, L 1	0	
(5) Losses Incurred	Pg 4, Col 1, L 2	0	
(6) Loss Expenses Incurred	Pg 4, Col 1, L 3	0	
(7) Other Underwriting Expenses Incurred	Pg 4, Col 1, L 4	0	
(8) Aggregate Write-ins for Underwriting Deductions	Pg 4, Col 1, L 5	0	
(9) Dividends to Policyholders	Pg 4, Col 1, L 17	0	
(10) Net Written Premiums	Pg 8, Col 6, L 35	0	
<u>Combined Ratio Calculation</u>			
(11) Loss Ratio	[Pg 4, Col 1, L 2 + Pg 4, Col 1, L 3] / Pg 4, Col 1, L 1	0.000%	
(12) Dividend Ratio	Pg 4, Col 1, L 17 / Pg 4, Col 1, L 1	0.000%	
(13) Expenses Ratio	[Pg 4, Col 1, L 4 + Pg 4, Col 1, L 5] / Pg 8, Col 6, L 35	0.000%	
(14) Combined Ratio	L(11) + L(12) + L(13)	0.000%	
(15) Trend Test Result †	If L(3) Between 200% & 300% & L(14) >120%, L(15), YES, Otherwise, NO		_____

†The Trend Test applies only if L(15) = YES
 ‡If result = YES, the company triggers regulatory attention at the Company Action Level based on the trend test.

~~NOTE: This page is for information only until the modifications made by Capital Adequacy Task Force to the Risk Based Capital (RBC) for Insurers Model Act are implemented by 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 |
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| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | |

DATE: <u>1/20/22</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Ryan Fleming, MAAA, FSA</u>	Agenda Item # <u>2022-03-L</u>
TELEPHONE: <u>(414) 665-5020</u>	Year <u>2022</u>
EMAIL ADDRESS: <u>ryanfleming@northerstermutual.com</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>AAA C-2 Mortality Work Group</u>	<input checked="" type="checkbox"/> ADOPTED <u>4/22/22</u>
NAME: <u>Ryan Fleming, MAAA, FSA</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Vice Chairperson</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>American Academy of Actuaries</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>1850 M Street NW, Suite 300</u>	<input type="checkbox"/> EXPOSED _____
<u>Washington, DC 20036</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

DESCRIPTION OF CHANGE(S)

Updated blank for C2 Life Mortality on LR025, LR030 and LR031. Draft instructions are included for informational purposes and are subject to a different exposure deadline of 4/30/22.

REASON OR JUSTIFICATION FOR CHANGE **

Structural changes necessary to facilitate the implementation of updated C-2 life mortality factors and expanded categories.

Additional Staff Comments:

Exposed for comment by the Working Group 1/20/22 (df)
Adopted by the Working Group 4/22/22 (df)

** This section must be completed on all forms.

LIFE INSURANCE
DRAFT - OPTION 2

	Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
<u>Individual & Industrial Life Net Amount at Risk</u>				
(1)	Ordinary Life In Force	Exhibit of Life Insurance Column 4 Line 23 x 1000		
(2)-(3)	Plus Industrial Life In Force	Exhibit of Life Insurance Column 2 Line 23 x 1000		
(3)	Total Individual & Industrial Life In Force	Lines (1) + (2)		
(4)-(2)	Less Ordinary Life Reserves	Exhibit 5 Column 4 Line 0199999		
(5)-(4)	Less Plus Industrial Life Reserves	Exhibit 5 Column 3 Line 0199999		
(6)-(5)	Less Plus Ordinary Life Separate Accounts	Separate Accounts Exhibit 3 Column 3 Line 0199999		
(7)-(6)	Less Plus Ordinary & Industrial Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡		
(8)-(7)	Plus-Less Ordinary & Industrial Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡		
(9)	Total Individual & Industrial Life Reserves	Lines (4) + (5) + (6) + (7) - (8)		
(10)-(9)	Total Individual and Industrial Life Net Amount at Risk	Lines (1)+(3)+(7)-(2)-(4)-(5)-(6) (3) - (9)	X	‡ =
Risk				
(11)	Life Policies with Pricing Flexibility In Force	Company Records*		
(12)	Less Life Policies with Pricing Flexibility In Force Reserves	Company Records*		
(13)	Total Life Policies with Pricing Flexibility Net Amount at Risk	Lines (11) - (12)	X	† =
(14)	Term Life Policies without Pricing Flexibility In Force	Company Records*		
(15)	Less Term Life Policies without Pricing Flexibility Reserves	Company Records*		
(16)	Total Term Life Policies without Pricing Flexibility Net Amount at Risk	Lines (14) - (15)	X	† =
(17)	Permanent Life Policies without Pricing Flexibility In Force	Lines (3) - (11) - (14)		
(18)	Less Permanent Life Policies without Pricing Flexibility Reserves	Lines (9) - (12) - (15)		
(19)	Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (17) - (18)	X	† =
(20)	Total Individual & Industrial Life	Lines (13) + (16) + (19)		
<u>Group and Credit Life Net Amount at Risk</u>				
(21)-(9)	Group Life In Force	Exhibit of Life Insurance Column 9 Line 23 x 1000		
(22)-(13)	Plus Credit Life In Force	Exhibit of Life Insurance Column 6 Line 23 x 1000		
(23)-(10)	Less Group FEGLI In Force	Exhibit of Life Insurance Column 4 Line 43 x 1000		
(24)-(11)	Less Group SGLI In Force	Exhibit of Life Insurance Column 4 Line 44 x 1000		
(25)-(14)	Less Credit FEGLI In Force	Exhibit of Life Insurance Column 2 Line 43 x 1000		
(26)-(15)	Less Credit SGLI In Force	Exhibit of Life Insurance Column 2 Line 44 x 1000		
(27)	Total Group & Credit Life In Force excluding FEGLI/SGLI	Lines (21) + (22) - (23) - (24) - (25) - (26)		
(28)-(12)	Less Group Life Reserves	Exhibit 5 Column 6 Line 0199999		
(29)-(12)	Less Plus Credit Life Reserves	Exhibit 5 Column 5 Line 0199999		
(30)-(17)	Less Plus Group Life Separate Accounts	Separate Accounts Exhibit 3 Column 4 Line 0199999		
(31)-(18)	Less Plus Group & Credit Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡		
(32)-(19)	Plus-Less Group & Credit Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡		
(33)	Total Group & Credit Life Reserves	Lines (28) + (29) + (30) + (31) - (32)		
(34)-(20)	Total Group and Credit Life Net Amount at Risk excluding FEGLI/SGLI	Lines (9)+(13)+(19)-(10)-(11)-(12)-(14)-(15) (27) - (33) - (16)-(17)-(18)	X	‡ =
(35)	Group & Credit Life In Force with Remaining Rate Terms 36 Months and Under	Company Records*		
(36)	Less Group & Credit Life Reserves with Remaining Rate Terms 36 Months and Under	Company Records*		
(37)	Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under	Lines (35) - (36)	X	† =
(38)	Group & Credit Life In Force with Remaining Rate Terms Over 36 Months	Lines (27) - (35)		
(39)	Less Group & Credit Life Reserves with Remaining Rate Terms Over 36 Months	Lines (33) - (36)		
(40)	Group & Credit Life Net Amount at Risk with Remaining Rate Terms Over 36 Months	Lines (38) - (39)	X	† =
(41)-(21)	FEGLI/SGLI In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000 44 x 1000	X	0.0008 =
(42)	Total Group & Credit Life	Lines (37) + (40) + (41)		
(43)-(22)	Total Life	Lines (8)+(20)+(21) (20) + (42)		

* The definitions are specified in the Life Insurance section of the risk-based capital instructions
 † The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.
 ‡ Include only the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

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

Company Name

Confidential when Completed

NAIC Company Code

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

			(1) RBC Amount		Tax Factor		(2) RBC Tax Effect
(134)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)		X	0.2100	=	
(135)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (8) (20)		X	0.2100	=	
(136)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Lines (20) and (21) (42)		X	0.2100	=	
(136b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)		X	0.2100	=	
(137)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)		X	0.2100	=	
(138)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)		X	0.0000	=	
(139)	Total C-2 Risk	L(133) + L(134) + L(137) + L(138) + Greatest of [Guardrail Factor * (L(135)+L(136)), Guardrail Factor * L(136b), Square Root of [(L(135) + L(136)) ² + L(136b) ² + 2 * (Correlation Factor) * (L(135) + L(136)) * L(136b)]]				=	
(140)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)		X	0.2100	=	
(141)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)		X	0.0000	=	
(142)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)		X	0.2100	=	
(143)	Business Risk	LR029 Business Risk Column (2) Line (40)		X	0.2100	=	
(144)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)		X	0.0000	=	
(145)	Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)				=	

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

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

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

Confidential when Completed

NAIC Company Code

Company Name	Source	(1) RBC Requirement
(30) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(31) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(32) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(33) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(34) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (56) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(35) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (23)	
(36) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	
(37) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(38) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(39) Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(40) Total (C-1o) - Pre-Tax	Sum of Lines (21) through (39)	
(41) (C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (109)	
(42) Net (C-1o) - Post-Tax	Line (40) - Line (41)	
<u>Insurance Risk (C-2)</u>		
(43) Individual and & Industrial Life Insurance	LR025 Life Insurance Column (2) Line (8) -(20)	
(44) Group and & Credit Life Insurance and FEGLI/SGLI	LR025 Life Insurance Column (2) Lines (20) and (21) (42)	
(44b) Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(45) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(46) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(47) Total (C-2) - Pre-Tax	L(45) + L(46) + Greatest of [Guardrail Factor * (L(43)+L(44)), Guardrail Factor * L(44b), Square Root of [(L(43) + L(44)) ² + L(44b) ² + 2 * (Correlation Factor) * (L(43) + L(44)) * L(44b)]]	
(48) (C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)	
(49) Net (C-2) - Post-Tax	Line (47) - Line (48)	
<u>Interest Rate Risk (C-3a)</u>		
(50) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(51) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)	
(52) Net (C-3a) - Post-Tax	Line (50) - Line (51)	
<u>Health Credit Risk (C-3b)</u>		
(53) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(54) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(55) Net (C-3b) - Post-Tax	Line (53) - Line (54)	
<u>Market Risk (C-3c)</u>		
(56) Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(57) (C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(58) Net (C-3c) - Post-Tax	Line (56) - Line (57)	

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

LIFE INSURANCE - OPTION 2 - DRAFT

LR025

Basis of Factors

The factors chosen developed represent surplus needed to provide for excess claims over life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected, both from random fluctuations and from inaccurate pricing for future levels) over the remaining lifetime of claims. For a large number block of trials, each insured either lives or dies based on a "roll of the dice" business while appropriately reflecting the probability of death from both normal and excess claims pricing flexibility to adjust current mortality rates for emerging experience. The present value of mortality risks included in the claims generated by this process, less expected claims, will be the amount of surplus needed under that trial development of the factors were volatility, level, trend, and catastrophe. The factors chosen under were developed by stochastically simulating the formula produce a level of surplus at least as much run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as needed in 95 percent of a dollar amount, is determined as the trials-greatest present value of accumulated deficiencies at the 95th percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released minus mortality margin present in reserves. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95th percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The model was developed for portfolios of 10,000, 100,000 and one million lives, and it was found that the surplus needs decreased with larger portfolios, consistent with the law of large numbers.

Net amount at risk was chosen as a base because expected claims are difficult to calculate on a consistent basis from company to company. The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines 3, 42, 5 and 9-21-41 are not applicable to Fraternal Benefit Societies.

Annual statement reference is for the total net amount at risk for the category (e.g., Individual & Industrial is one category). The net amount at risk is then further broken down by size as in a tax table to reflect the decrease in risk for larger blocks of life insurance. This breakdown will not appear on the RBC filing software or on the printed copy, as the application of factors to amounts in force is completed automatically. The calculation is as follows:

The NAR is derived for each of the factor categories using annual statement sources and company records. In Force and Reserves amounts are net of reinsurance throughout. The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.

Pricing Flexibility for Individual Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality provided for in the factors below for contracts with and without pricing flexibility.

Lines (11) and (12) Life Policies with Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, participating whole life insurance, universal life insurance without secondary guarantees, and yearly renewable term insurance where scheduled premiums may be changed. The table below illustrates the RBC requirement calculation embedded in Line (13) for Life Policies with Pricing Flexibility.

Line (813)	Individual & Industrial Life Policies with Pricing Flexibility	(1)		(2)
		Statement Value	Factor	RBC Requirement
	First 500 Million	_____	X 0.0022300190	_____
			=	
	Next 424,500 Million	_____	X 0.0014600075	_____
			=	
	Next 20,000 Million	=====	X 0.00116=	=====
	Over 25,000 Million	_____	X 0.0008700050	_____
			=	
	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	=====		=====

Line (20)	Group & Credit	Statement Value	Factor	RBC Requirement
	First 500 Million	=====	X 0.00175 =	=====
	Next 4,500 Million	=====	X 0.00116=	=====
	Next 20,000 Million	=====	X 0.00087 =	=====
	Over 25,000 Million	=====	X 0.00078=	=====

Lines (14) and (15) Term Life Policies without Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, level term insurance with guaranteed level premiums and yearly renewable term insurance where scheduled premiums may not be changed. The table below illustrates the RBC requirement calculation embedded in Line (16) for Term Life Policies without Pricing Flexibility.

Line (16)	Term Life Policies without Pricing Flexibility	(1)		(2)
		Statement Value	Factor	RBC Requirement
	First 500 Million	_____	X 0.00270 =	_____
	Next 24,500 Million	_____	X 0.00110 =	_____
	Over 25,000 Million	_____	X 0.00075 =	_____
	Total Group & Credit Term Life Policies without Pricing Flexibility Net Amount at Risk (less FEGLI & SGLI in force)	=====		=====

Lines (17) and (18) Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (1) to (10) minus the amounts recorded in the other individual life categories. Examples of products intended for this category include, but aren't limited to, universal life with secondary guarantees and non-participating whole life insurance. Policies that aren't recorded in the other individual life categories default to this category which has the highest factors. The table below illustrates the RBC requirement calculation embedded in Line (19) for Permanent Life Policies without Pricing Flexibility.

Line (19)	Permanent Life Policies without Pricing Flexibility	(1)		(2)
		Statement Value	Factor	RBC Requirement
	First 500 Million	_____	X 0.00390 =	_____

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<u>Next 24,500 Million</u>	_____	X 0.00165 =	_____
<u>Over 25,000 Million</u>	_____	X 0.00110 =	_____
<u>Total Permanent Life Policies without Pricing Flexibility</u>	_____		_____
<u>Net Amount at Risk</u>			

Lines (35) and (36) Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records. This category includes group contracts where the premium terms have 36 months or fewer until expiration or renewal. The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29). Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32). Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under.

<u>Line (37)</u>	<u>Group & Credit Life with Remaining Rate Terms 36 Months and Under</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>First 500 Million</u>	_____	X 0.00130 =	_____
	<u>Next 24,500 Million</u>	_____	X 0.00045 =	_____
	<u>Over 25,000 Million</u>	_____	X 0.00030 =	_____
	<u>Total Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under</u>	_____		_____

Lines (38) and (39) Group & Credit Life In Force and Reserves with Remaining Rate Terms Over 36 Months are derived from the aggregate amounts derived in lines (21) to (34) minus the Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under in lines (35) and (36). FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (40) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms Over 36 Months.

<u>Line (40)</u>	<u>Group & Credit Life with Remaining Rate Terms Over 36 Months</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>First 500 Million</u>	_____	X 0.00180 =	_____
	<u>Next 24,500 Million</u>	_____	X 0.00070 =	_____
	<u>Over 25,000 Million</u>	_____	X 0.00045 =	_____
	<u>Total Group & Credit Life Net Amount at Risk with Remaining Rate Terms Over 36 Months</u>	_____		_____

Line (41) FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. The capital factor assigned is the same as the largest size band for group & credit life contracts with remaining rate terms 36 months and under.

<u>Line (41)</u>	<u>FEGLI/SGLI In Force</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
		_____	X 0.00030 =	_____

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.