Date: 7/6/22

*Virtual Meeting*
*(in lieu of meeting at the 2022 Summer National Meeting)*

**HEALTH RISK-BASED CAPITAL (E) WORKING GROUP**
Thursday, July 21, 2022
1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00 a.m. – 12:00 p.m. MT / 10:00 – 11:00 a.m. PT

**ROLL CALL**

| | | | |
|---|---|---|---|
| Steve Drutz, Chair | Washington | Tish Becker | Kansas |
| Matthew Richard, Vice Chair/ Aaron Hodges | Texas | Danielle Smith/Debbie Doggett | Missouri |
| | | Michael Muldoon | Nebraska |
| Wanchin Chou | Connecticut | Tom Dudek | New York |
| Carolyn Morgan/Kyle Collins | Florida | Jefferey Smith | Pennsylvania |

NAIC Support Staff: Crystal Brown

**AGENDA**

1. Consider Adoption of its May 11, May 4, and April 20 Minutes —*Steve Drutz (WA)* — Attachment A

2. Consider Adoption of its Working Agenda—*Steve Drutz (WA)* — Attachment B

3. Consider Adoption of the 2022 Health Risk-Based Capital (RBC) Newsletter—*Steve Drutz (WA)* — Attachment C

4. Consider Adoption of the 2021 Health RBC Statistics—*Steve Drutz (WA)* — Attachment D

5. Discuss Affiliated Investment Instructions and Blank—*Steve Drutz (WA)* — Attachment E

6. Discuss American Academy of Actuaries (Academy) Response on H2-Underwriting Risk—*Steve Drutz (WA)* — Attachment F

7. Discuss Any Other Matters Brought Before the Working Group —*Steve Drutz (WA)*

8. Adjournment

Draft: 7/14/22

Health Risk-Based Capital (E) Working Group
Virtual Meeting
May 11, 2022

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 11, 2022. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard and Aaron Hodges, Co-Vice Chairs, and David McElroy (TX); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker (KS); Danielle Smith (MO); Michael Muldoon and Margaret Garrison (NE); Tom Dudek (NY).

1. Heard a Presentation from the Academy on the Methodologies Considered in the H2 – Underwriting Risk Review

Derek Skoog (American Academy of Actuaries—Academy) said the purpose of the Academy's presentation is to review the property/casualty (P/C) risk-based capital (RBC) methodology. In terms of intended philosophy and purpose, the P/C RBC formula is similar in nature to the health RBC. Mr. Skoog said the focus of the presentation would be on the P/C RBC underwriting risk premium and reserve factors, particularly the risk factors that are the core P/C accident and health (A&H) lines of business. These lines would be functionally like the health RBC lines; however, premium and reserve risk factors are different from how it is currently considered in the health RBC formula.

Mr. Skoog said the underwriting risk is similarly large for P/C companies but not as significant as it is for health companies. The factors that are focused on the reserve risk (represents that the reserves held on the balance sheet are an estimate, and potentially volatile), and the premium risk. These are captured within the P/C formula separately; however, they are treated almost identically within the formula for calculating the required capital. Mr. Skoog summarized the concepts and components of the underwriting risk formula. He said the P/C factors are experience driven. He said line 1 is the industry average development, which reflects how reserves have run out relative loss and defense and cost containment expense across the industry using nine years of data to establish the industry reserve development. The industry average development is how favorably or unfavorably the industry reserves developed by line of business. Mr. Skoog said line 2 looks at actual company experience, which is calculated based on the company's own data within the P/C RBC formula. He said this is to the extent that a company experiences significantly different reserve run-out than the industry that gets accounted for in line 2. He said if the company data is not determined to be "creditable," then just the industry average is used. Line 3 then compares the industry results to the company's results; if the company experienced worse run-out patterns than the industry, then that would serve to increase base risk charges.

Mr. Skoog said line 4 may be the most important factor; this is the actual industry loss and expense RBC percent. He said this factor is run every few years by the Academy P/C Work Group to analyze industry losses and assess development at the 87.5 percentile. This is called the safety level, and this looks at what the adverse development on claims expense is at this safety level and sets the base capital charge to that level. Mr. Skoog said this percentile has been stable for some time now, and if the Working Group chooses to follow a similar approach to the P/C in construct, then this will be a number worth thinking about, as this could be the single biggest driver to what the RBC result is. To the extent that the Working Group wants a higher safety level, that would potentially bump up reserves.

Mr. Skoog said line 5 is a simple weighted average between the two RBC factors of the company development and industry average development. Line 5 multiplies out industry-wide losses and risk factor adjusted for company

experience; it takes a 50/50 blend between the industry-wide factor on its own and the industry-wide risk factor adjusted for line 3. To the extent that a company's reserve development has been 10% worse than the industry, then the company's RBC percentage on line 5 would show 5% higher than the industry.

Mr. Skoog said line 8 is the adjustment for investment income; it is newer in concept and somewhat significant to the formula. The reason this is included and particularly important is because P/C products tend to have much longer tails than A&H products, so being able to earn investment returns on claims reserves or on capital charges can have a material impact. The idea is that if the adjustment for investment income is not included, the fact that the company is earning some amount of investment returns on the reserves that they are holding is not being accounting for. Mr. Skoog said these factors are divergent from 1.0, which implies that there are some significant investment return assumptions that are included within the formula, and which are the shorter tail lines in terms of reserve run-out compared to the longer tail lines can be determined.

Mr. Skoog said lines 10 and 11 are the Percent Loss Sensitive Direct and Percent Loss Sensitive Assumed, and they are similar in concept to the managed care credit on the health side in that it is a discount for retrospectively rated products. He said there is an adjustment for loss sensitive products that provides a discount for retrospectively rated contracts; this is an area that may not be quite as impactful as the safety level but may need to be tailored more to the health formula if this is something the Working Group is to consider. There are several risk sensitive products in the health industry, and to the extent that industry data and industry reserve development or industry loss ratio volatility were analyzed, that retrospectively rated premium would be incorporated in that industry data, and it is a material part of health contracts. There are a lot of contracts that have risk corridors or minimum loss ratios (MLRs), and the Working Group may or may not want to give any credit for or ensure that the factor used is the right one or reflective for health business.

Mr. Skoog said line 14 is the loss concentration factor, and this is developed to account for the fact that P/C companies often have many different lines of business that are not perfectly correlated, and adverse development on one line of business might be offset by favorable development for another line of business. The loss concentration factor looks at premium distribution for all lines of business; the calculation takes the premium for the largest line of business and calculates the percentage of that line of business to total business. That line of business then gets a weight of 30% and a base weight of 70%; then, as a result, that factor can move anywhere between 0.7 and 1.0. More or less, if one is perfectly diversified in the sense of participation in every P/C line of business and to an equal degree, a diversification factor would be right around 0.72 or 0.73, which reflects the first part of the formula.

Mr. Skoog said the net reserve RBC calculation is included in line 15, and this is like the health formula; however, in health, the reserve is not calculated on its own but instead in a kind of combined conception of underwriting risk. He said the net written premium formula is fundamentally the same as the reserves, except the net written premium uses 10 years of experience to provide a long-term view, or a rolling 10-year window of analysis.

Mr. Skoog summarized the net written premium calculation on page PR018. He said the format for the net written premium page is like the reserves page with the differences looking at average loss ratios as opposed to looking at the reserve development on line 1. The company-specific average loss ratio for the period in which business is written business is compared to the industry, like the reserve development; to the extent that a company is consistently writing lower loss and loss adjustment expense ratios than the industry, they are effectively getting a credit. Line 4 is the same as the reserves in nature and uses the 87.5 percentile risk charge, and these are significant for P/C companies, as there is a lot of volatility for P/C companies relative to what is seen on the health side. Mr. Skoog said there is a similar contemplation of loss sensitive products and loss concentration on the premium side as the reserves.

Mr. Skoog said the adjustment for investment income on the reserve side is applied a 1, plus the risk factor, multiplied by the investment income adjustment, minus 1 to get to the net risk factor; that adjustment can end up being substantial. For example, instead of a .83 factor for the adjustment to investment income being applied to workers' compensation to the line 4 factor, the line 9 amount would be calculated as .83, multiplied by 1, plus .344, minus 1. This results in a more significant impact because the investment income is not being earned on just the capital charge, but investment income is also being earned on the underlying reserve as well. Mr. Skoog said the premium side does something a little different, because there is not a big reserve balance that is earning investment income. In this case, there is not a big balance that investment income is being earned on, so the income is essentially earned just on the premium collected less what has been paid out in claims.

Mr. Skoog said the detail paid to lines of business, as reported in the statutory financials, is an attractive feature, as well as rolling views of the industry experience and risk and adjustments for company-specific experience in the P/C formula. The investment income adjustment is not as important for health's heavily short-tailed products; some conception of the loss sensitive products and the managed care credit would need to be considered. Mr. Skoog said the managed care credit is likely to be important to the health formula to use an approach like the loss sensitive products in the health formula. The loss sensitive product approach in the P/C formula is not the complete concept that health would need to capture, given that health has both loss sensitive products, as well as paying providers that both serve to mitigate risk.

Mr. Drutz asked if the health formula has a similar built-in safety level like the P/C formula. Mr. Skoog said the current health formula was not as elegantly designed as the P/C formula, and the safety level as it was calculated when the health formula was first developed is nowhere near what it is today. The health risks of today are quite different from when the formula was first developed. Mr. Skoog suggested that if the Working Group were to move forward, it would look at the results of various safety levels before making a final determination of the safety level to use.

Mr. Drutz asked if the Academy has suggestions on how to move forward with reviewing the H2 – Underwriting Risk. Mr. Skoog suggested that the Working Group request that the Academy review the factors based on the latest experience, and the Academy would respond with the suggested methodology and outcomes. This would then set off the chain of events that could serve to update the factors. They could provide a more prescriptive approach for how to update the factors in a more current and rigorous manner. Mr. Drutz asked if there are thoughts of having a separate reserve charge in the health formula. Mr. Skoog said based on his personal perspective and given the state of the annual statement blanks, what would be reported in the claims expense is some amount of reserve development; therefore, as opposed to expanding the underwriting risk factor into the two pieces like P/C, it would potentially be to use some amount of reserve development. Reserve development for health companies does not have the same amount of uncertainty as it does for P/C companies.

Mr. Chou asked if the Academy is planning to have a separate group to look at this. Mr. Skoog said it would be the Academy's Health Solvency Subcommittee that would work on this and input from its P/C Academy counterparts to the extent that any of the P/C methodologies are used.

Hearing no concerns, the Working Group asked the Academy to move forward with drafting the prescriptive letter on how to move forward with the H2 – Underwriting Risk review.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings

Draft: 7/6/22

Health Risk-Based Capital (E) Working Group
Virtual Meeting
May 4, 2022

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 4, 2022. The following Working Group members participated: Steve Drutz, Chair (WA); Wanchin Chou (CT); Benjamin Ben (FL); Tish Becker (KS); Debbie Doggett, Jay Buschmann, and Danielle Smith (MO); Michael Muldoon and Margaret Garrison (NE); and Tom Dudek (NY).

1. Exposed Affiliated Investment Instructions and Blanks

Mr. Drutz said the Affiliated Investments Ad Hoc Group was established six years ago to review the risk-based capital (RBC) instructions and formulas for consistency across all lines. He said it was composed of state insurance regulators and industry participants for each line of business. The group modified the formulas and the instructions to allow state insurance regulators to more easily identify and explain discrepancies and more closely align with the group capital calculation (GCC). The health and property/casualty (P/C) structure are consistent across the formulas for the affiliated investment charge except for the factors used. Health retained the 30% factor for certain affiliate types, while property retained the 22.5% factor. For increased consistency across the blanks, page names and headings have been updated to align with the P/C formula.

Hearing no objections, the Working Group agreed to expose the health affiliated investment instructions and blanks for a 60-day public comment period ending July 5.

2. Received an Update on the Health Test Ad Hoc Group and the Excessive Growth Charge Ad Hoc Group

Mr. Drutz said the Health Test Ad Hoc Group met March 30 to discuss the history of the current reserve ratio in the health test. The group identified the need for careful consideration of the reserve ratio prior to suggesting any changes and will discuss possible alternatives during future meetings. Mr. Drutz said the Blanks (E) Working Group exposed the previously referred Health Test language as proposal 2022-06BWG. Comments were received that seemed to be editorial in nature and added additional clarity, including: 1) modifying the proposed language that did not change the original intent; and 2) adding a sentence to the property blank to clarify that an entity required to file a Protected Cell Statement would not be subject to the results of the test but would still be required to file the test. This would be similar to language used in the life blank for an entity filing a Separate Account Statement.

Mr. Drutz said the Excessive Growth Charge Ad Hoc Group continues to meet every four weeks. During its last meeting on April 13, it continued to review the data and is now looking at data sets based on company size using member months to differentiate the companies. This review will provide for group members to review different member month ranges to see if there is a correlation of excessive growth to underwriting losses for different company sizes.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Summer National Meeting/

 

Draft: 7/6/22

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 20, 2022

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 20, 2022. The following Working Group members participated: Steve Drutz, Chair (WA); Mathew Richard and Aaron Hodges, Co-Vice Chairs, and Sean Fulton (TX); Wanchin Chou (CT); Kyle Collins (FL); Sarah Smith (KS); Debbie Doggett and Danielle Smith (MO); Michael Muldoon and Margaret Garrison (NE); and Tom Dudek (NY).

1. Adopted its March 18 Minutes

The Working Group met March 18 and took the following action: 1) adopted its Feb. 25, 2022; Jan. 28, 2022; and Dec. 16, 2021, minutes; 2) adopted its 2022 working agenda; and 3) discussed the American Academy of Actuaries (Academy) H2 – Underwriting Risk Report.

Mr. Chou made a motion, seconded by Mr. Dudek, to adopt the Working Group's March 18 minutes. The motion passed unanimously.

2. Heard a Presentation from AM Best on BCAR

George Hansen (AM Best), Tom Mount (AM Best), and Bruno Caron (AM Best) provided a presentation (Attachment) to the Working Group on the Life/Health Best's Capital Adequacy Relativity (BCAR) adjustment system. Mr. Hansen provided an overview of the model and the components contained within. He said BCAR is similar to the NAIC risk-based capital (RBC) formula in that there are similar buckets of risk, such as various asset risks, separate accounts, mortality, morbidity, interest rate, market, and business risk. The model is set up as stochastic factor-based model that is based on four key metrics: value at risk (VaR) levels of 95.0, 99.0, 99.5, and 99.6. The ratio is calculated as the difference between the available capital and the required capital and expresses it as a percentage of available capital. Available capital is reported capital adjusted for certain equity adjustments, while gross required capital is the asset risk, insurance risk, interest rate/market risk, business risk, and covariance adjustment. There are five VaR levels that are used to determine the BCAR assessment that are based purely on BCAR results. A score of 25 at the 99.6 VaR level is considered the strongest BCAR assessment. This is the start of the balance sheet strength assessment. BCAR is used to start the rating process, and it includes the balance sheet strength assessment (reserve adequacy, reinsurance programs, and the quality of assets held). The balance sheet strength assessment, operating performance, business profile, enterprise risk management (ERM), comprehensive adjustment, and rating lift/drag make up the insurer credit rating.

Mr. Hansen said the primary tool for the morbidity risk is the Supplemental Rating Questionnaire, which is submitted to companies each year. The questionnaire includes a section on individual and group health for premiums, claims, and expenses. He said they are primarily modeling the underwriting risk to the net premiums earned.

Mr. Mount said the premium factors were calculated by accident year, as well as the underwriting profit or loss for each company, for each accident year, and for each line of business. He said they took that ultimate underwriting profit or loss as a ratio to premiums. Those ratios were then combined into one pool and compared

 

to the volatility within those underwriting profit and loss ratios. Mr. Mount said the data was later separated into quartiles as companies got larger (larger companies = decreased volatility) and applied normal curves to that profit and loss data. The risk factors get smaller, and the premiums get larger. The factors are reduced for those companies that are profitable because there is an implicit cushion in those risk factors because they can absorb more loss before getting to an underwriting loss. The factors are increased for those companies losing money to reflect that their pricing is underpriced, and they are at greater risk for downside losses. A line-by-line diversification factor is also applied on a line-by-line basis.

Mr. Mount said that when they developed the property/casualty (P/C) reserve factors, the Schedule P data was used. He said that they looked at the adverse or favorable development that would run off in Schedule P for an ultimate basis by looking at what the reserve originally booked for was and then compared it to where it was run off. This is then taken as a ratio of the original reserves. The percentage for each company is then taken and broken into quartiles. Smaller reserves would be more volatile, and more companies with adverse development than those companies with a large reserve base would have more stability. Mr. Mount said that a one-year development was used for short-tail lines of business for health companies to compare to the prior-year reserves. He said they looked at those percentages and then broke them out into quartiles. This led to larger risk factors for a smaller reserve basis than for the larger reserve basis. He said they also did an industry total reserve development and looked at them line by line to see if there is any correlation in terms of the movement. Line-by-line diversification credits are given because it is unlikely that all the lines will move at the same time.

Mr. Hansen said the long-tailed lines of business were modeled separately from short-tail lines. He summarized the modeling process for long-term care (LTC) and long-term disability lines of business factors. Mr. Hansen said there is variability in the premium and reserve factors based on the line of business and the size factor. A diversification factor is also applied based on the number of lines of business that a company writes; the more lines a company writes, the more credit that will be applied. A managed care credit is applied to the premium side, which is based on the claims payments that are reported in Exhibit 7 of the annual statement. The reserve ratios have their own size thresholds, which are broken out in the criteria paper.

Mr. Chou said the federal employees' factor is much smaller than the other categories. He asked what the logic is for this difference. Mr. Hansen said the federal employees' line of business has a large government back-stop, so writers of this business have a government back-stop to limit the company's exposure. Mr. Chou asked for further clarification on what would determine a +1 or -4 in terms of the ERM component. Mr. Hansen said the basic concept is that there are several risks outlined, such as investments and operational risks, and then what is the risk management capability, where companies have demonstrated that they have managed this risk. The various categories are on a one to 10 scale as far as the level of risk that is there and the risk management capability. He said that then rolls into a score of +1 (best) to –4 (worst).

Mr. Caron said that within the rating process, the +1 ERMs are usually reserved for those companies that have an extremely strong developed ERM program, where ERM will drive the boat and make significant impact on the company. On the other hand, 0 or –1 ERM programs are where a company looks at ERM risk in general but is not as developed as the +1. Those companies that do not have an integrated ERM program would get the lowest scores. The governance structure is taken into consideration when it comes to the assessment of the ERM program.

Mr. Chou asked if the available capital and net required capital are similar to the RBC's total adjusted capital (TAC) and authorized control level. Mr. Hansen said that it is similar to RBC, but RBC may separate out some other risks. Mr. Hansen said that the baseline factors for bonds are capped at 10-year maturities, so everything over a 10-year maturity would get a 10-year factor. The factors are durational and based on rating class.

Mr. Muldoon asked for further clarification on the reserve risk calculation given that reserve risk is not really a part of the current health RBC formula. Mr. Mount said that they look to see if the development was positive or negative on the reserves booked in the year before and if the reserve booked in the prior year was adequate or not adequate, and what percentage development was there. Mr. Muldoon asked what reserve categories were used. Mr. Mount said that they used the definitions/lines of business as defined in the life, accident and health (A&H), fraternal annual statement and health annual statement. Mr. Hansen said that they use the Underwriting and Investment Exhibit 2B for claim liability held. He said they look at how much in claims came in the prior year against the liability and then do a three-year average to measure against the industry factors. Mr. Muldoon asked if they only looked at the claim liability and did it pick up any other types of reserves, such as premium deficiency. Mr. Mount said that they looked at the net unpaid claims in the previous years. Mr. Muldoon asked if there was anything in BCAR that would prohibit its use in a statutory model. Mr. Mount it would depend on if the reserves were discounted. He said for most of the lines, the assumption is that they are undiscounted, and AM Best applies a discount factor to them. If a company had discounted them, they would want to undiscount them and rediscount them based on their discount factor so that all are discounted on a consistent basis. Mr. Mount noted that there may be some other reasons, such as international, that would result in differences in discounting.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Summer National Meeting/…

Priority 1 – High priority
Priority 2 – Medium priority
Priority 3 – Low priority

**CAPITAL ADEQUACY (E) TASK FORCE**
**WORKING AGENDA ITEMS FOR CALENDAR YEAR 2022**

Attachment B

| 2022 # | Owner | 2022 Priority | Expected Completion Date | Working Agenda Item | Source | Comments | Date Added to Agenda |
|---|---|---|---|---|---|---|---|
| | | | | **Ongoing Items – Health RBC** | | | |
| 26 | Health RBC WG | Yearly | Yearly | Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification to the 0.5% adjustment to the Comprehensive Medical, Medicare Supplement and Dental and Vision underwriting risk factors is required. Any adjustments will be rounded up to the nearest 0.5%. | HRBCWG | | 11/4/2021 |
| 27 | Health RBC WG | 3 | Ongoing | Continue to monitor the Federal Health Care Law or any other development of fedreal level programs and actions (e.g. state reinsurance programs, associaton health plans, mandated benefits, and cross-border) for furture changes that may have an impact on the Health RBC Formula. | 4/13/2010 CATF Call | Adopted 2014-01H<br>Adopted 2014-02H<br>Adopted 2014-05H<br>Adopted 2014-06H<br>Adopted 2014-24H<br>Adopted 2014-25H<br>Adopted 2016-01-H<br>Adopted 2017-09-CA<br>Adopted 2017-10-H<br>The Working Group will continually evaluate any changes to the health formula as a result of ongoing federal discussions and legislation.<br><br>Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula. | 1/11/2018 |
| | | | | **Carry-Over Items Currently being Addressed – Health RBC** | | | |
| 28 | Health RBC WG | 2 | Year-End 2024 RBC or Later | Consider changes for stop-loss insurance or reinsurance. | AAA Report at Dec. 2006 Meeting | (Based on Academy report expected to be received at YE-2016)<br>2016-17-CA | |

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| 29 | Health RBC WG | 2 | Year-end 2023 RBC or later | Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula. | HRBC WG | Adopted 2016-06-H Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group | |
| 30 | Health RBC WG | 1 | Year-end 2023 or later | Conitnue to review the: premium and reserve ratio in the Health Test Ad Hoc Group in the Health Test and review possible annual statement changes for reporting health business in the Life and P/C Blanks. | HRBCWG | Evaluate the applicability of the current Health Test in the Annual Statement instructions in today's health insurance market. Discuss ways to gather additional information for health business reported in other blanks.<br><br>Referred Proposal 2022-06BWG to Blanks Woriking Group for exposure and consideration. | 8/4/2018<br><br>2/25/2022 |
| 31 | Health RBC WG | 1 | Year-end 2023 RBC or later | Work with the Academy to perform a comprehensive review of the H2 - Underwriting Risk component of the Health RBC formula including the Managed Care Credit review (Item 18 above)<br><br>Review the Managed Care Credit calculation in the Health RBC formula - specifically Category 2a and 2b.<br><br>Review Managed Care Credit across formulas.<br><br>As part of the H2 - Underwriting Risk review, determine if other lines of business should include investment income and how investment income would be incorporated to the exsiting lines if there are changes to the structure. | HRBCWG | Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b. | 4/23/2021<br><br>12/3/2018 |
| 32 | Health RBC WG | 1 | Year-end 2023 or later | Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge. | HRBCWG | Review if changes are required to the Health RBC Formula | 4/7/2019 |
| 33 | Health RBC WG | 2 | Year-End 2023 or later | Consider impact of COVID-19 and pandemic risk in the Health RBC formula. | HRBCWG | | 7/30/2020 |

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|---|---|---|---|---|---|---|---|
| 34 | Health RBC WG | 3 | Year-End 2023 or later | Discuss and determine the re-evaluation of the bond factors for the 20 designations. | Referral from Investment RBC July/2020 | Working Group will use two- and five-year time horizon factors in 2020 impact analysis. Proposal 2021-09-H - Adopted 5/25/21 by the WG | 9/1/2020 |
| | | | | **New Items – Health RBC** | | | |
| **35** | **Health RBC WG** | **1** | **Year-end 2023 or later** | **Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to Health RBC Affiliated Investments** | | | **5/4/2022** |

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

# Newsletter Items for Adoption for 2022 for Health RBC:

Date: July 2022
Volume: 24.1

## Page 1: Intro Section:

**What RBC Pages Should Be Submitted?**

For the year-end 2022 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR027** to any state that requests a hard copy in addition to the electronic filing. Beginning with year-end 2007, a hard copy of the RBC filings was not required to be submitted to the NAIC. Other pages, outside of pages XR001 through XR027, do not need to be submitted. Those pages would need to be retained by the company as documentation.

## Page 1+: Items Adopted for 2022:

**Investment Income Benchmarks**

The Capital Adequacy (E) Task Force adopted proposal 2021-18-H (MOD) to add benchmarking guidelines to the underwriting instructions for investment income during its March 28 meeting.

## Page 2+: Editorial Changes:

1. An editorial change was made to the add "- BONDS" to the header of page XR007.

2. An editorial change was made to remove "Miscellaneous Fixed Income Assets" as a separate line, and "- MISCELLANEOUS" was added to the header of page XR008.

3. An editorial change was made to the Annual Statement Source column on page XR007 to reference the new Schedule D, Part 1; Schedule DA, Part 1; and Schedule E, Part 2 line numbers: Line (1) = C(1) = Sch. D, Pt 1, C11, L0109999999, C(2) = Sch. DA, Pt 1, C7, L0109999999, and C(3) = Sch. E, Pt 2, C7, L0109999999 + L82099999999; and Line (2) C(3) = Footnote Amt 1 L000001A – SCE, Pt 2, C7, L0109999999.

4. An editorial change was made to the instructions and Annual Statement Source column on page XR008 to reference the new Schedule DA, Part 1 and Schedule E, Part 2 line numbers: "instructions and Line (34) = Schedule DA, Part 1, Column 7, Line 2509999999; (30) = Schedule E, Part 2, Column 7, Line 2509999999; and (31) = Schedule E, Part 2, Column 7, Line 8209999999."

5. An editorial change was made to the Annual Statement Source on page XR015, Line (24) to update the column reference to Column 7 from Column 6.

## Last Page: RBC Forecasting & Warning:

**RBC Forecasting and Instructions**

The Health RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2022 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies*, and it is available to download from the NAIC Account Manager. The *2022 NAIC Health Risk-Based Capital Report Including Overview & Instructions for Companies* publication is available for purchase in an electronic format through the NAIC Publications Department. This publication is available for purchase on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

**WARNING:** The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

## Last Page: 2022 National Association of Insurance Commissioners:

2022 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Health Risk-Based Capital Newsletter Volume 24.1. Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

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**Aggregated Health Risk-Based Capital Data**
**2021 Data as of 7/1/2022**

Attachment D

| | 2021 Health RBC | 2020 Health RBC Excluding ACA Fees | 2020 Health RBC | 2019 Health RBC Excluding ACA Fees | 2019 Health RBC | 2018 Health RBC Excluding ACA Fees | 2018 Health RBC | 2017 Health RBC Excluding ACA Fees | 2017 Health RBC | 2016 Health RBC Excluding ACA Fees | 2016 Health RBC |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Companies that have an RBC loaded on the database | 1095 | 1067 | 1067 | 1,012 | 1,012 | 965 | 965 | 937 | 937 | 925 | 925 |
| Companies with action levels: | 12 | 15 | 15 | 31 | 15 | 18 | 18 | 42 | 21 | 29 | 29 |
| Percentage of total RBC's loaded | 1.10% | 1.41% | 1.41% | 3.06% | 1.48% | 1.87% | 1.87% | 4.48% | 2.24% | 3.14% | 3.14% |
| Company Action Level - Trend Test | 15 | 12 | 12 | 27 | 14 | 13 | 13 | 23 | 12 | 21 | 21 |
| Company Action Level | 5 | 4 | 4 | 14 | 3 | 4 | 4 | 24 | 10 | 11 | 11 |
| Regulatory Action Level | 2 | 3 | 3 | 5 | 3 | 5 | 5 | 10 | 5 | 7 | 7 |
| Authorized Control Level | 2 | 2 | 2 | 3 | 2 | 2 | 2 | 0 | 0 | 2 | 2 |
| Mandatory Control Level | 3 | 6 | 6 | 9 | 7 | 7 | 7 | 8 | 6 | 9 | 9 |
| Total H0 (H0 - Asset Risk - Affiliates w/RBC) | 6,077,847,595 | 5,192,392,682 | 5,192,392,682 | 4,782,424,393 | 4,782,424,393 | 4,487,634,571 | 4,487,634,571 | 4,332,880,131 | 4,332,880,131 | 4,493,219,396 | 4,493,219,396 |
| Total H1 (H1 - Asset Risk - Other) | 15,015,094,709 | 11,292,103,225 | 11,292,103,225 | 9,743,938,557 | 9,743,938,557 | 8,589,245,210 | 8,589,245,210 | 8,315,790,867 | 8,315,790,867 | 7,921,892,268 | 7,921,892,268 |
| Total H2 (H2 - Underwriting Risk) | 52,350,782,384 | 45,819,164,666 | 45,819,164,666 | 44,037,638,071 | 44,037,638,071 | 40,572,604,055 | 40,572,604,055 | 38,787,031,590 | 38,787,031,590 | 37,373,980,544 | 37,373,980,544 |
| Total H3 (H3 - Credit Risk) | 4,762,549,718 | 4,199,732,859 | 4,199,732,859 | 3,626,933,231 | 3,626,933,231 | 3,408,034,022 | 3,408,034,022 | 3,143,155,975 | 3,143,155,975 | 2,984,343,101 | 2,984,343,101 |
| Total H4 (H4 - Business Risk) | 7,882,405,838 | 7,481,764,896 | 7,481,764,896 | 6,571,143,274 | 6,571,143,274 | 6,468,297,728 | 6,468,297,728 | 5,739,438,653 | 5,739,438,653 | 5,944,456,839 | 5,944,456,839 |
| Total RBC Before Covariance | 86,088,680,244 | 73,985,158,328 | 73,985,158,328 | 68,762,077,526 | 68,762,077,526 | 63,525,815,586 | 63,525,815,586 | 60,318,297,216 | 60,318,297,216 | 58,717,892,148 | 58,717,892,148 |
| Total Adjusted Capital | 211,045,740,619 | 193,852,790,008 | 193,859,548,232 | 160,266,143,771 | 171,305,834,767 | 156,735,204,883 | 156,738,377,038 | 132,169,821,412 | 142,062,265,048 | 127,791,918,125 | 127,791,918,125 |
| ACA Fees | | 6,758,224 | | 11,039,690,995 | | 3,172,155 | | 9,892,443,636 | | | |
| Authorized Control Level RBC * | 33,256,637,840 | 28,853,148,695 | 28,853,148,695 | 27,216,649,996 | 27,216,654,287 | 25,020,328,688 | 25,020,329,600 | 23,228,424,178 | 23,228,428,544 | 22,627,572,566 | 22,627,572,566 |
| Aggregate RBC % | 635% | 672% | 672% | 548% | 629% | 626% | 626% | 526% | 612% | 565% | 565% |
| Median RBC % | 633% | 706% | 707% | 640% | 672% | 668% | 668% | 609% | 640% | 586% | 586% |
| # of Companies with an RBC Ratio of > 10,000% | 121 | 143 | 143 | 156 | 156 | 134 | 134 | 112 | 112 | 98 | 98 |
| # of Companies with an RBC Ratio of < 10,000% & > 1,000% | 243 | 259 | 259 | 202 | 215 | 223 | 224 | 201 | 213 | 197 | 197 |
| # of Companies with an RBC Ratio of < 1,000% & > 500% | 356 | 320 | 320 | 257 | 282 | 267 | 267 | 237 | 251 | 238 | 238 |
| # of Companies with an RBC Ratio of < 500% & > 300% | 301 | 278 | 278 | 267 | 285 | 256 | 255 | 247 | 268 | 283 | 283 |
| **# of Companies with an RBC Ratio of < 300% & > 250%** | **32** | | | | | | | | | | |
| **# of Companies with an RBC Ratio of < 250% & > 200%** | **28** | | | | | | | | | | |
| # of Companies with an RBC Ratio of < 300% & > 200% | | 52 | 52 | 99 | 59 | 67 | 67 | 97 | 71 | 80 | 80 |
| # of Companies with an RBC Ratio of < 200% **& <> 0%** | 12 | 14 | 14 | 31 | 15 | 18 | 18 | 42 | 21 | 29 | 29 |
| # of Companies with an RBC Ratio of Zero | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 |
| Total Companies with RBC | 1,095 | 1,067 | 1,067 | 1,012 | 1,012 | 965 | 965 | 937 | 937 | 925 | 925 |
| Total Revenue | 888,638,436,244 | 806,712,759,846 | 806,712,759,846 | 731,800,228,651 | 731,800,228,651 | 689,327,716,795 | 689,327,716,795 | 643,856,047,265 | 643,856,047,265 | 618,070,205,766 | 618,070,205,766 |
| Underwriting Deductions | 873,483,482,222 | 774,563,533,665 | 774,563,533,665 | 715,077,656,883 | 715,077,656,883 | 668,918,380,940 | 668,918,380,940 | 625,985,270,784 | 625,985,270,784 | 608,695,405,288 | 608,695,405,288 |
| Aggregate Premium | 278,391,052,611 | 277,819,028,596 | 277,819,028,596 | 268,818,431,635 | 268,818,431,635 | 271,400,290,484 | 271,400,290,484 | 262,662,393,744 | 262,662,393,744 | 255,794,480,149 | 255,794,480,149 |
| Aggregate Net Incurred Claims | 721,841,094,774 | 622,491,724,778 | 622,491,724,778 | 585,439,850,066 | 585,439,850,066 | 541,009,426,163 | 541,009,426,163 | 511,376,831,853 | 511,376,831,853 | 491,142,322,597 | 491,142,322,597 |

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Source: NAIC Financial Data Repository

# AFFILIATED/SUBSIDIARY STOCKS
# XR002 – XR004

There are nine categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those nine categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Health Insurance Companies and Health Entities Not Subject to RBC
    b. Property and Casualty Insurance Companies Not Subject to RBC
    c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Entities with a capital requirement imposed by a regulatory body
    b. Other Financial Entities without regulatory capital requirements
    c. Other Non-financial entities

Enter applicable items for each affiliate/subsidiary in the Details for Affiliated/Subsidiary Stocks worksheet. The program will automatically calculate the risk-based capital charge for each affiliate/subsidiary. When the data is uploaded to the NAIC database, it will be crosschecked, and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The RBC report will display the number of affiliates/subsidiaries. These numbers should be reviewed to ensure that all affiliates/subsidiaries are appropriately reported.

Line 10 of XR003 – Fair Value Excess Subsidiary Common Stock equals the total of type codes 1.a. through 2.c., Column 13 of the Subsidiary Companies Risk – Details Page. The program will automatically calculate this figure.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 4409999999 plus Schedule D, Part 2, Section 2, Line 5979999999 and 9399999 and should also equal Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999.

Affiliated/Subsidiary investments fall primarily into two broad categories: (a) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (b) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. A third category of Affiliates/Subsidiaries, publicly traded insurance affiliates/subsidiaries held at market value, has characteristics of both broader categories. As a result, it has a two-part RBC calculation. The general treatment for each is explained below.

Directly owned insurance and health entity affiliates/subsidiaries are affiliates/subsidiaries in which the reporting company owns the stock of the affiliate/subsidiary. Indirectly owned insurance affiliate/subsidiaries and health entities are those where the reporting company owns stock in a holding company, which in turn owns the stock of the insurance affiliate/subsidiary or health entity. Note that there could be multiple holding companies that control the downstream insurance company.

Enter the book/adjusted carrying value of: the common stock in Column (5), the preferred stock in Column (9), the total outstanding common stock in Column (7) and the total outstanding preferred stock of that affiliate/subsidiary in Column (10) of the appropriate worksheet. The percentage of ownership is calculated by summing the book/adjusted carrying values of the owned preferred and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

Insurance Affiliates/Subsidiaries that are Subject to RBC

1. Directly Owned U.S. Affiliates/Subsidiaries:

The risk-based capital requirement for the reporting company for those insurance affiliates/subsidiaries that are subject to a risk-based capital requirement is based on the Total Risk-Based Capital After Covariance of the subsidiary, prorated for the percent of ownership of that affiliate/subsidiary.

For purposes of Affiliate/Subsidiary Risk all references to Total Risk-Based Capital After Covariance of the affiliate/subsidiary means:

a. For a Health affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (XR025, Line (37)).
b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (68)).
c. For a Life affiliate/subsidiary RBC filing, the sum of
    i. Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (67); and
    ii. Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (71)).

For RBC purposes, the reporting insurer must determine the carrying value and the RBC requirement of a directly owned RBC filing affiliate/subsidiary company, even if the RBC filing affiliate/subsidiary is non-admitted for financial reporting purposes. The value reported in annual statement Schedule D, Part 6, Section 1 will be used for RBC purposes. In addition to RBC, the carrying value of the RBC filer must be reported in total adjusted capital for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line XXX of the Calculation of Total Adjusted Capital page to satisfy these instructions.

**Equity method Insurance Affiliates/Subsidiaries:** Equity method is defined in SSAP 97, Paragraph 8b. as the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68—Business Combinations and Goodwill. For those insurance Affiliates/Subsidiaries of the reporting company that are reported under the equity method, the $H_0$ charge of the ownership of the common and preferred stock in these Affiliates/Subsidiaries is limited to the lesser of:

- (a) the Total RBC After Covariance of the affiliate/subsidiary times the percentage of ownership, which is the total of common stock and preferred stock; or
- (b) the common and preferred stock book/adjusted carrying value at which the affiliate/subsidiary is carried

**Market Value (including discounted market value) Insurance Affiliates/Subsidiaries (See SSAP No. 97, Paragraph 8a.):** If the affiliate/subsidiary's common stock is publicly traded and the reporting company carries the affiliate/subsidiary at market value, after any "discount," there are generally two components to the reporting company's RBC generated by the affiliate/subsidiary. The prorated portion is the percentage of ownership of total common and preferred stock. The smaller of the prorated portion of the affiliate/subsidiary's own statutory surplus or the prorated portion of its RBC after covariance is added to the $H_0$ component of the reporting company. In the normal case, the common and preferred stock book/adjusted carrying value of the affiliate/subsidiary exceeds the prorated portion of the larger of its statutory surplus and its RBC after covariance. In this case, the addition to the $H_1$ component is the larger of a) 22.5 percent of the affiliate/subsidiary's common and preferred stock book/adjusted carrying value in excess of the prorated portion of the affiliate's/subsidiary's statutory surplus or b) the prorated portion of the affiliate's/subsidiary's RBC after covariance in excess of the prorated portion of its statutory surplus. If the affiliate/subsidiary's common and preferred stock book/adjusted carrying value is less than the prorated portion of its RBC after covariance, but greater than the prorated portion of its statutory surplus, 100 percent of the common and preferred stock book/adjusted carrying value in excess of the prorated portion of the affiliate/subsidiary's statutory surplus is added to the reporting company's $H_1$ component. If the affiliate/subsidiary's common and preferred stock book/adjusted carrying value is less than the prorated portion of the affiliate/subsidiary statutory surplus, there is no addition to the $H_1$ component.

2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries

For Indirectly Owned U.S. Insurance Affiliates/Subsidiaries, the carrying value and RBC is calculated in the same manner as for directly owned U.S. Insurance Affiliates/Subsidiaries. The RBC for the indirect affiliates/subsidiaries must be calculated prior to completing this RBC report.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned RBC filer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an RBC filer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC requirement of indirectly owned RBC filing affiliate/subsidiary companies. This involves drilling down to the first RBC filing insurance subsidiary and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both RBC and carrying value of the RBC filer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line XXX of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value for each indirect insurance affiliate/subsidiary is established based on company records using the statutory value of the insurer as reported in the NAIC annual financial statement blank submitted by the affiliate/subsidiary or market value when applicable, and the RBC requirement as determined in its

RBC Report adjusted for the ownership percentages (both the percentage of the indirectly owned RBC filing affiliate/subsidiary that is owned by the directly held downstream holding company and the reporting insurer's ownership percentage in that downstream entity). The value reported by the downstream holding company for the U.S. RBC filing insurer is the same as the statutory value established for the insurer on a look-through basis.

3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries

The carrying value of a U.S. Insurance Affiliate/Subsidiary that is subject to RBC is deducted from the value of the directly held holding company or other entity that in turn directly owns the U.S. Insurance Affiliate/Subsidiary that is subject to RBC, based on the value reported for each insurance subsidiary on the downstream immediate holding company or non-insurance owner's balance sheet. That value is prescribed by the NAIC Accounting Practices and Procedures Manual (SSAP No. 97, paragraph 22.a.). A similar exercise is required for each RBC filing insurer and each non-U.S. insurer in order to determine the remaining excess value of the holding company.

The remaining value of the directly held holding company is then subject to a charge that is calculated in accordance with the instructions for Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries as specified in the RBC formula. If the holding company is not admitted, report the excess carrying value as zero and the corresponding RBC charge will also be zero. If a negative excess value for the downstream holding company results from removing the value of U.S. RBC filing insurers from the downstream holding company's reported value, then the value of that holding company will be floored at zero and the corresponding RBC charge will also be zero.

The following hypothetical Balance Sheet indicates the view of a Holding Company - Holder, Inc. which is 100% owned by MEGA Health Insurance Company (it assumes that the value reported by the downstream holding company for the U.S. RBC filing insurer is the same as the statutory value established for the insurer on a look-through basis):

| | Balance Sheet<br>Holder, Inc.<br>12/31/XXXX | | | | |
|---|---|---|---|---|---|
| Cm Stk: | ABC Life Company | 10,000,000 | | Long Term Debt | 5,000,000 |
| | XYZ Casualty Company | 15,000,000 | | Other Liabilities | 2,000,000 |
| | ANH Health Company | 3,000,000 | | | |
| | Other Common Stock | 17,000,000 | | Total Liabilities | 7,000,000 |
| | Cash | 7,000,000 | | | |
| | Other Assets | 5,000,000 | | Equity | 50,000,000 |
| | | | | | |
| | Total Assets | 57,000,000 | | Total Liabilities & Equity | 57,000,000 |

The RBC calculation for Holder, Inc.'s value in excess of the indirectly owned insurance affiliates/subsidiaries is as follows:

| **Company** | **Stat. Book value** | **Source:** |
|---|---|---|
| Holder, Inc. | 50,000,000 | MEGA Health Sch D - Part 6, Section 1 |
| *Holder, Inc. aff/subs subject to RBC* | | |
| ABC Life Company | 10,000,000 | Holder, Inc. Stat. balance sheet |
| XYZ Casualty Company | 15,000,000 | Holder, Inc. Stat. balance sheet |
| ANH Health Company | 3,000,000 | Holder, Inc. Stat. balance sheet |
| Subtotal | 28,000,000 | |
| Holder, Inc. excl. RBC aff/subs | 22,000,000 | *(amount subject to the 30.0% factor for Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries)* |

The following table shows the XR002 entries that MEGA Health Insurance Company (which owns 100% owns of Holder, Inc.) would report for the indirectly owned insurance affiliates/subsidiaries under Holder, Inc. This table assumes that Holder, Inc. owns 40%, 50% and 25% of ABC Life, XYZ Casualty, and ANH Health, respectively. The table also assumes that the RBC values shown for these affiliates/subsidiaries at the 100% level are the correct RBC After Covariance but Before Operational Risk.

| | | XR002 Column | | | | | |
|---|---|---|---|---|---|---|---|
| | | **4** | **5** | **7** | **8** | **11** | **12** |
| **Affiliates/Subsidiaries** | **Affiliates/Subsidiaries Type** | **100% RBC** | **Book Adjusted Carrying Value** | **Total Value of Affiliates/Subsidiaries** | **Statutory Surplus of Affiliates/Subsidiaries** | **% Owned** | **RBC Required** |
| ABC Life Company | Indirect U.S. Life Aff/Sub | 5,000,000 | 10,000,000 | 25,000,000 | 25,000,000 | 40% | 2,000,000 |
| XYZ Casualty Company | Indirect U.S. P&C Aff/Sub | 12,000,000 | 15,000,000 | 30,000,000 | 30,000,000 | 50% | 6,000,000 |
| ANH Health Company | Indirect U.S. Health Aff/Sub | 6,000,000 | 3,000,000 | 12,000,000 | 12,000,000 | 25% | 1,500,000 |

The risk-based capital charge for the parent insurer preparing the calculation is a 30 percent charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries as calculated in the prior example. Enter information in the appropriate columns of the worksheet, omitting those columns that do not apply (Column (3) – NAIC Company Code or Alien ID Number and Column (4) Affiliate's RBC After Covariance).

Affiliates/Subsidiaries that are Not Subject to RBC

4. Investment Subsidiaries

An investment subsidiary is a subsidiary that exists only to invest the funds of the parent company. The term investment subsidiary is defined in the annual statement instructions as any subsidiary, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment subsidiary shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. The risk-based capital for an investment in an investment subsidiary is 30 percent of the carrying value of the common and preferred stock.

5. Directly Owned Alien Insurance Affiliates/Subsidiaries

For purposes of this formula, the Risk-Based Capital (RBC) of each directly owned alien insurance affiliate/subsidiary is the annual statement book adjusted carrying value of the reporting company's interest in the affiliate multiplied by 1.000. Enter information for any non-U.S. insurance affiliate/subsidiary: life, property and casualty, and health insurers.

For each affiliate/subsidiary, enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying value of common and preferred stock,
- Total Outstanding value of common and preferred stock,
- Book/adjusted carrying value of the common and preferred stock from Schedule D, Part 6, Section 1, Line 1499999. If no value is reported in the Total Value of Affiliate's common and preferred stock columns (7) and (10), the program will assume 100 percent ownership.

6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries

For Indirectly Owned Alien Insurance Affiliates/Subsidiaries, the carrying value and RBC charge is calculated in a similar manner as for directly owned Alien Insurance Affiliates/Subsidiaries.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned Alien insurer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an Alien insurer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC charge that would be imposed had the Alien insurance affiliate/subsidiary companies been directly held by the reporting insurer. This involves looking down to the first alien insurer affiliate/subsidiary, unless there is an RBC filer in between, and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both the RBC charge and carrying value of the alien insurer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line XXX of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value of an alien insurance affiliate/subsidiary is deducted from the value of the directly held holding company or other entity that in turn directly owns the U.S. Insurance Affiliate/Subsidiary that is subject to RBC, based on the value reported for each insurance subsidiary on the downstream immediate holding company or non-insurance owner's balance sheet. That value is prescribed by the NAIC Accounting Practices and Procedures Manual (SSAP No. 97, paragraph 22.a.). A similar exercise is required for each RBC filing insurer and each non-U.S. insurer in order to determine the remaining excess value of the holding company.

The RBC charge to be applied to each indirectly owned alien insurance affiliate/subsidiary is the annual statement book adjusted carrying value of the reporting company's interest in the affiliate/subsidiary multiplied by 1.0 and adjusted to reflect the reporting company's ownership on the holding company. For example, assume NEWBIE Insurance Company acquired 100 percent shares of Holder (a holding company), and Holder owns an Alien Insurance Company, which represents 50 percent of the book adjusted carrying value of Holder. If Holder has a book adjusted carrying value of $20,000,000, NEWBIE Insurance Company would enter $10,000,000 (1/2 of $20,000,000) as the carrying value of the Alien Insurance Company and the RBC charge for the indirect ownership of the alien insurance affiliate/subsidiary would be $5,000,000 (0.500 times $10,000,000). The risk-based capital charge for the parent insurer preparing the calculation is a 30 percent charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries.

If NEWBIE Insurance Company only acquired 50 percent shares of Holder, NEWBIE Insurance Company would enter $5,000,000 (50 percent of 1/2 of $20,000,000) as the carrying value of the Alien Insurance Company and the RBC charge for the indirect ownership of the Alien insurance affiliate/subsidiary would be $5,000,000 (1.0 times $5,000,000). Enter information for any indirectly owned alien insurance subsidiaries.

| | | XR002 Column | | | | |
|---|---|---|---|---|---|---|
| | | 4 | 5 | 7 | 11 | 12 |
| Affiliate/Subsidiary | Affiliate/Subsidiary Type | 100% RBC | Book Adjusted Carrying Value | Total Value of Affiliate/Subsidiary | % Owned | RBC Required |
| Alien Insurance Company | Indirect Alien Life Affiliate/Subsidiary | 5,000,000 | 10,000,000 | 20,000,000 | 50% | 5,000,000 |

For each affiliate/subsidiary enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying value of common and preferred stock,
- Total Outstanding value of common and preferred stock,
- Book/adjusted carrying value of the common and preferred stock from Schedule D, Part 6, Section 1, Line 1499999. If no value is reported in the Total Value of Affiliate's Common and preferred stock column.

7. Investment in Upstream Affiliate (Parent)

The risk-based capital (RBC) for an investment in an upstream parent is 30.0 percent of the book/adjusted carrying value of the common and preferred stock, regardless of whether that upstream parent is subject to RBC. Report the appropriate information from Schedule D, Part 6, Section 1, Lines 0199999 and 1099999 in Columns (1) through (10).

For each affiliate, enter the following information:

- Company Name,
- Affiliate Type Code,
- NAIC Company Code,
- Book Adjusted carrying value of common stock
- Book Adjusted carrying value of preferred stock,
- Total Outstanding value of common and preferred stock.

8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC

a. Health Insurance Companies and Health Entities Not Subject to RBC
b. Property and Casualty Insurance Companies Not Subject to RBC, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guarantee insurers
c. Life Insurance Companies Not Subject to RBC, such as life insurance subsidiary exempted from RBC

The risk-based capital for insurers not subject to RBC is based on the underlying statute, regulation, or rule governing capital requirements for such entities. If not otherwise specified by statute regulation or rule, the risk-based capital for an investment in a U.S. insurer that is not required to file an RBC formula is 30 percent of the book/adjusted carrying value of the common and preferred stock.

9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC

a. Financial entities with a capital requirement imposed by a regulatory body (e.g., a bank)
b. Other financial entities without regulatory capital requirements
c. Other non-financial entities

The risk-based capital for entity types a, b, and c is 30 percent of the book/adjusted carrying value of the common and preferred stock. The affiliate/subsidiary code for Non-Insurer Affiliates/Subsidiaries Not Subject to RBC is “9”. Reported amounts use Schedule D, Part 6, Section 1, Line 0899999, and Line 1799999 as the basis of reporting.

## APPENDIX 3 – EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 9) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 12). For example:

| Subsidiary Insurance Company | Owner's Book / Adjusted Carrying Value | Percentage Ownership | Total Stock Outstanding |
|---|---|---|---|
| Subsidiary #1 | $1,000,000 | 100% | $1,000,000 |
| Subsidiary #2 | $1,000,000 | 75% | $1,333,333 |
| Subsidiary #3 | $1,000,000 | 50% | $2,000,000 |
| Subsidiary #4 | $1,000,000 | 25% | $4,000,000 |
| Subsidiary #5 | $1,000,000 | 10% | $10,000,000 |

~~AFFILIATED COMPANIES RISK - DETAILS~~

Attachment E

**DETAILS FOR AFFILIATED STOCKS**

| | (1) Name of Affiliate | (2) Affil Type ~~Code~~ | (3) NAIC Company Code or Alien ID Number | (4) Affiliate's RBC after Covariance Before Basic Operational Risk XR025 Line (37) PR032 Line (67) LR031 Line (67) + (71) | (5) Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock | (6) Valuation Basis of Col (5) M - Market Value after any "discount" A - All Other | (7) Total Value of Affiliate's Outstanding Common Stock | (8) ~~Total~~ Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned) | (9) Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock | (10) Total Value of Affiliate's Outstanding Preferred Stock | (11) Percent Owned (Cols 5 + 9) / (Cols 7 + 10) | (12) RBC Required (H0 Compoenent) | (13) Market Value Excess Component Affiliated Common Stock RBC Required (H1 Component) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (01) | | | | | | | | | | | 100.000% | | |
| (02) | | | | | | | | | | | 100.000% | | |
| (03) | | | | | | | | | | | 100.000% | | |
| (04) | | | | | | | | | | | 100.000% | | |
| (05) | | | | | | | | | | | 100.000% | | |
| (06) | | | | | | | | | | | 100.000% | | |
| (07) | | | | | | | | | | | 100.000% | | |
| (08) | | | | | | | | | | | 100.000% | | |
| (09) | | | | | | | | | | | 100.000% | | |
| (10) | | | | | | | | | | | 100.000% | | |
| (11) | | | | | | | | | | | 100.000% | | |
| (12) | | | | | | | | | | | 100.000% | | |
| (13) | | | | | | | | | | | 100.000% | | |
| (14) | | | | | | | | | | | 100.000% | | |
| (15) | | | | | | | | | | | 100.000% | | |
| (16) | | | | | | | | | | | 100.000% | | |
| (17) | | | | | | | | | | | 100.000% | | |
| (18) | | | | | | | | | | | 100.000% | | |
| (19) | | | | | | | | | | | 100.000% | | |
| (20) | | | | | | | | | | | 100.000% | | |
| (21) | | | | | | | | | | | 100.000% | | |
| (22) | | | | | | | | | | | 100.000% | | |
| (23) | | | | | | | | | | | 100.000% | | |
| (24) | | | | | | | | | | | 100.000% | | |
| (25) | | | | | | | | | | | 100.000% | | |
| (26) | | | | | | | | | | | 100.000% | | |
| (27) | | | | | | | | | | | 100.000% | | |
| (28) | | | | | | | | | | | 100.000% | | |
| (29) | | | | | | | | | | | 100.000% | | |
| (30) | | | | | | | | | | | 100.000% | | |
| (31) | | | | | | | | | | | 100.000% | | |
| (32) | | | | | | | | | | | 100.000% | | |
| (33) | | | | | | | | | | | 100.000% | | |
| (34) | | | | | | | | | | | 100.000% | | |
| (35) | | | | | | | | | | | 100.000% | | |
| (36) | | | | | | | | | | | 100.000% | | |
| (37) | | | | | | | | | | | 100.000% | | |
| (38) | | | | | | | | | | | 100.000% | | |
| (39) | | | | | | | | | | | 100.000% | | |
| (40) | | | | | | | | | | | 100.000% | | |
| (41) | | | | | | | | | | | 100.000% | | |
| (42) | | | | | | | | | | | 100.000% | | |
| (43) | | | | | | | | | | | 100.000% | | |
| (44) | | | | | | | | | | | 100.000% | | |
| (45) | | | | | | | | | | | 100.000% | | |
| (46) | | | | | | | | | | | 100.000% | | |
| (47) | | | | | | | | | | | 100.000% | | |
| (48) | | | | | | | | | | | 100.000% | | |
| (49) | | | | | | | | | | | 100.000% | | |
| (50) | | | | | | | | | | | 100.000% | | |
| (9999999) | Total | XXX | XXX | 0 | 0 | XXX | 0 | 0 | 0 | 0 | XXX | 0 | 0 |

Remark: Subcategory 8a, 8b and 8c are referring to the directly owned insurance affiliates not subject to RBC look-through
Indirectly owned insurance affiliate not subject to RBC will be included Category 4

~~If Col (2) < 5 and Col (6) = F Do Calculation~~

~~**Calculation**~~

~~Col (12) = Min [Col (4) x Col (11), Col (8) x Col (11)]~~

~~If Col (5) + Col (9) > Max [Col (4) x Col (11), Col (8) x Col (11)] then~~

~~Col (13) = Max {[Col (5) + Col (9) - Col (8) x Col (11)] x .225, [Col (4) - Col (8)] x Col (11)}~~

~~If Col (4) x Col (11) > Col (5) + Col (9) > Col (8) x Col (11) then~~

~~Col (13) = Col (5) + Col (9) - Col (8) x Col (11)~~

~~Otherwise~~

~~Col (13) = 0~~

~~Col (12) and (13) cannot be less than 0~~

## SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS
## ~~AFFILIATED COMPANIES RISK~~

| | ~~Type of Affiliate~~ Affiliate Type | Type Code | Basis | (1) Number of Companies | (2) Total RBC Required |
|---|---|---|---|---|---|
| (1) | Directly Owned Health Insurance Companies or Health Entities | 1a | ~~Affiliate's RBC*~~ Sub's RBC After Covariance | 0 | $0 |
| (2) | Directly Owned Property and Casualty Insurance Affiliates | 1b | ~~Affiliate's RBC*~~ Sub's RBC After Covariance | 0 | $0 |
| (3) | Directly Owned Life Insurance Affiliates | 1c | ~~Affiliate's RBC*~~ Sub's RBC After Covariance | 0 | $0 |
| (4) | Indirectly Owned Health Insurance Companies or Health Entities | 2a | ~~Affiliate's RBC*~~ Sub's RBC After Covariance | 0 | $0 |
| (5) | Indirectly Owned Property and Casualty Insurance Affiliates | 2b | Sub's RBC After Covariance | 0 | $0 |
| (6) | Indirectly Owned Life Insurance Affiliates | 2c | Sub's RBC After Covariance | 0 | $0 |
| (7) | Holding Company in Excess of Indirect Subs | 3 | 0.300 | 0 | $0 |
| (8) | Investment Subsidiary | 4 | 0.300 | 0 | $0 |
| (9) | Directly Owned Alien Health Insurance Companies or Health Entities | 5a | 1.000 | 0 | $0 |
| (10) | Directly Owned Alien Property and Casualty Insurance Affiliates | 5b | 1.000 | 0 | $0 |
| (11) | Directly Owned Alien Life Insurance Affiliates | 5c | 1.000 | 0 | $0 |
| (12) | Indirectly Owned Alien Health Insurance Companies or Health Entities | 6a | 1.000 | 0 | $0 |
| (13) | Indirectly Owned Alien Property and Casualty Insurance Affiliates | 6b | 1.000 | 0 | $0 |
| (14) | Indirectly Owned Alien Life Insurance Affiliates | 6c | 1.000 | 0 | $0 |
| (15) | Investment in Upstream Affiliate (Parent) | 7 | 0.300 | 0 | $0 |
| (16) | Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | 8a | 0.300 | 0 | $0 |
| (17) | Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | 8b | 0.300 | 0 | $0 |
| (18) | Directly Owned Life Insurance Companies Not Subject to RBC | 8c | 0.300 | 0 | $0 |
| (19) | Non-Insurance Entities with a Capital Eequirement Imposed by a Eegulatory Body | 9a | 0.300 | 0 | $0 |
| (20) | Non-Insurance Other Financial Entities without Regulatory Capital Requirements | 9b | 0.300 | 0 | $0 |
| (21) | Other Non-financial Entites | 9c | 0.300 | 0 | $0 |
| (22) | Total | | | 0 | $0 |

~~CROSSCHECKING FOR AFFILIATED INVESTMENTS~~

## SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES

| | Affiliated Preferred Stock<br>Schedule D Part 6 Section 1 C7 | Annual Statement Line Number | (1)<br>Annual Statement Total Preferred Stock | (2)<br>Total From RBC Report | (3)<br>Difference |
|---|---|---|---|---|---|
| (1) | Parent | 0199999 | 0 | #VALUE! | #VALUE! |
| (2) | U.S. P&C Insurer | 0299999 | 0 | #VALUE! | #VALUE! |
| (3) | U.S. Life Insurer | 0399999 | 0 | #VALUE! | #VALUE! |
| (4) | U.S. Health Insurer | 0499999 | 0 | #VALUE! | #VALUE! |
| (5) | Alien Insurer | 0599999 | 0 | #VALUE! | #VALUE! |
| (6) | Non-Insurer Which Controls Insurer | 0699999 | 0 | #VALUE! | #VALUE! |
| (7) | Investment Subsidiary | 0799999 | 0 | #VALUE! | #VALUE! |
| (8) | Other Affiliates | 0899999 | | #VALUE! | #VALUE! |
| (9) | Subtotal | 0999999 | 0 | #VALUE! | #VALUE! |

| | Affiliated Common Stock<br>Schedule D Part 6 Section 1 C7 | Annual Statement Line Number | (1)<br>Annual Statement Total Common Stock | (2)<br>Total From RBC Report | (3)<br>Difference |
|---|---|---|---|---|---|
| (10) | Parent | 1099999 | | #VALUE! | #VALUE! |
| (11) | U.S. P&C Insurer | 1199999 | | #VALUE! | #VALUE! |
| (12) | U.S. Life Insurer | 1299999 | | #VALUE! | #VALUE! |
| (13) | U.S.Health Insurer | 1399999 | | #VALUE! | #VALUE! |
| (14) | Alien Insurer | 1499999 | | #VALUE! | #VALUE! |
| (15) | Non-Insurer Which Controls Insurer | 1599999 | | #VALUE! | #VALUE! |
| (16) | Investment Subsidiary | 1699999 | | #VALUE! | #VALUE! |
| (17) | Other Affiliates | 1799999 | | #VALUE! | #VALUE! |
| (18) | Subtotal | 1899999 | 0 | #VALUE! | #VALUE! |

## EQUITY ASSETS

| | | Annual Statement Source | (1) Bk/Adj Carrying Value | Factor | (2) RBC Requirement |
|---|---|---|---|---|---|
| PREFERRED STOCK - UNAFFILIATED | | | | | |
| (1) | NAIC 01 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.003 | $0 |
| (2) | NAIC 02 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.010 | $0 |
| (3) | NAIC 03 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.020 | $0 |
| (4) | NAIC 04 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.045 | $0 |
| (5) | NAIC 05 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.100 | $0 |
| (6) | NAIC 06 Preferred Stock | Included in Schedule D, Part 2, Section 1 | | 0.300 | $0 |
| (7) | Total - Unaffiliated Preferred Stock | Sum of Lines (1) through (6) | $0 | | $0 |
| | (Should equal Page 2, Column 3, Line 2.1 less Sch D Sum, Column 1, Line 18) | | | | |
| COMMON STOCK - UNAFFILIATED | | | | | |
| (8) | Federal Home Loan Bank Stock | Company Records | | 0.023 | $0 |
| (9) | Total Common Stock | Schedule D, Summary, Column 1, Line 25 | | | |
| (10) | Affiliated Common Stock | Schedule D, Summary, Column 1, Line 24 | | | |
| (11) | Other Unaffiliated Common Stock | Lines (9) - (8) - (10) | $0 | 0.150 | $0 |
| **(12)** | **Market Value Excess Affiliated Common Stock** | **XR002 C(13) L(9999999)** | | | $0 |
| **(13)** | Total Unaffiliated Common Stock | Lines (8) + (11) **+ (12)** | $0 | | $0 |

## CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

| | | | (1) RBC Amount |
|---|---|---|---|
| **H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS** | | | |
| (1) | Off-Balance Sheet Items | XR005, Off-Balance Sheet Page, Line (21) | $0 |
| **(2)** | **Directly Owned Health Insurance Companies or Health Entities** | **XR003, Affiliates Page, Column (2), Line (1)** | $0 |
| **(3)** | **Directly Owned Property and Casualty Insurance Affiliates** | **XR003, Affiliates Page, Column (2), Line (2)** | $0 |
| **(4)** | **Directly Owned Life Insurance Affiliates** | **XR003, Affiliates Page, Column (2), Line (3)** | $0 |
| **(5)** | **Indirectly Owned Health Insurance Companies or Health Entities** | **XR003, Affiliates Page, Column (2), Line (4)** | $0 |
| **(6)** | **Indirectly Owned Property and Casualty Insurance Affiliates** | **XR003, Affiliates Page, Column (2), Line (5)** | $0 |
| **(7)** | **Indirectly Owned Life Insurance Affiliates** | **XR003, Affiliates Page, Column (2), Line (6)** | $0 |
| **(8)** | **Affiliated Alien Insurers - Directly Owned** | **XR003, Affiliates Page, Column 2, Line (9) + (10) + (11)** | **$0** |
| **(9)** | **Affiliated Alien Insurers - Indirectly Owned** | **XR003, Affiliates Page, Column 2, Line (12) + (13) + (14)** | **$0** |
| **(10)** | Total H0 | **Sum Lines (1) through (9)** | $0 |
| **H1 - ASSET RISK - OTHER** | | | |
| ~~(11)~~ | ~~Investment Affiliates~~ | ~~XR003, Affiliates Page, Line (5)~~ | ~~$0~~ |
| ~~(12)~~ | ~~Holding Company Excess of Subsidiaries~~ | ~~XR003, Affiliates Page, Line (6)~~ | ~~$0~~ |
| ~~(13)~~ | ~~Investment in Parent~~ | ~~XR003, Affiliates Page, Line (9)~~ | ~~$0~~ |
| ~~(14)~~ | ~~Other Affiliates~~ | ~~XR003, Affiliates Page, Line (10)~~ | ~~$0~~ |
| ~~(15)~~ | ~~Fair Value Excess Affiliate Common Stock~~ | ~~XR003, Affiliates Page, Line (11)~~ | ~~$0~~ |
| **(11)** | **Holding Company in Excess of Indirect Subs** | **XR003, Affiliates Page, Column (2), Line (7)** | $0 |
| **(12)** | **Investment Subsidiary** | **XR003, Affiliates Page, Column (2), Line (8)** | $0 |
| **(13)** | **Investment in Upstream Affiliate (Parent)** | **XR003, Affiliates Page, Column (2), Line (15)** | $0 |
| **(14)** | **Directly Owned Health Insurance Companies or Health Entities No** | **XR003, Affiliates Page, Column (2), Line (16)** | $0 |
| **(15)** | **Directly Owned Property and Casualty Insurance Companies Not S** | **XR003, Affiliates Page, Column (2), Line (17)** | $0 |
| **(16)** | **Directly Owned Life Insurance Companies Not Subject to RBC** | **XR003, Affiliates Page, Column (2), Line (18)** | $0 |
| **(17)** | Affiliated Non-Insurer | **XR003, Affiliates Page, Column 2, Line (19) + (20) + (21)** | $0 |
| **(18)** | Fixed Income Assets | XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR008, Fixed Income Assets Page Line (51) | $0 |
| **(19)** | Replication & Mandatory Convertible Securities | XR009, Replication/MCS Page, Line (9999999) | $0 |
| **(20)** | Unaffiliated Preferred Stock | XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7) | $0 |
| **(21)** | Unaffiliated Common Stock | XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, **Line (13)** | $0 |
| **(22)** | Property & Equipment | XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9) | $0 |
| **(23)** | Asset Concentration | XR012, Grand Total Asset Concentration Page, Line (27) | $0 |
| **(24)** | Total H1 | **Sum Lines (11) through (23)** | $0 |
| **H2 - UNDERWRITING RISK** | | | |
| **(25)** | Net Underwriting Risk | XR013, Underwriting Risk Page, Line (21) | $0 |
| **(26)** | Other Underwriting Risk | XR015, Underwriting Risk Page, Line (25.3) | $0 |
| **(27)** | Disability Income | XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3) | $0 |
| **(28)** | Long-Term Care | XR016, Underwriting Risk Page, Line (41) | $0 |
| **(29)** | Limited Benefit Plans | XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44) | $0 |
| **(30)** | Premium Stabilization Reserve | XR017, Underwriting Risk Page, Line (45) | $0 |
| **(31)** | Total H2 | **Sum Lines (25) through (30)** | $0 |

## CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

| | | | (1) RBC Amount |
|---|---|---|---|
| **H3 - CREDIT RISK** | | | |
| **(32)** | Total Reinsurance RBC | XR020, Credit Risk Page, Line (17) | $0 |
| **(33)** | Intermediaries Credit Risk RBC | XR020, Credit Risk Page, Line (24) | $0 |
| **(34)** | Total Other Receivables RBC | XR021, Credit Risk Page, Line (30) | $0 |
| **(35)** | Total H3 | **Sum Lines (32) through (34)** | $0 |
| **H4 - BUSINESS RISK** | | | |
| **(36)** | Administrative Expense RBC | XR022, Business Risk Page, Line (7) | $0 |
| **(37)** | Non-Underwritten and Limited Risk Business RBC | XR022, Business Risk Page, Line (11) | $0 |
| **(38)** | Premiums Subject to Guaranty Fund Assessments | XR022, Business Risk Page, Line (12) | $0 |
| **(39)** | Excessive Growth RBC | XR022, Business Risk Page, Line (19) | $0 |
| **(40)** | Total H4 | **Sum Lines (36) through (39)** | $0 |
| **(41)** | RBC after Covariance Before Basic Operational Risk | H0 + Square Root of $(H1^2 + H2^2 + H3^2 + H4^2)$ | $0 |
| **(42)** | Basic Operational Risk | 0.030 x Line **(41)** | $0 |
| **(43)** | C-4a of U.S. Life Insurance Subsidiaries | Company Records | |
| **(44)** | Net Basic Operational Risk | Line **(42) - (43)** (Not less than zero) | $0 |
| **(45)** | RBC After Covariance Including Basic Operational Risk | **Lines (41) + (44)** | $0 |
| **(46)** | Authorized Control Level RBC | .50 x Line **(45)** | $0 |

## CALCULATION OF TOTAL ADJUSTED CAPITAL

| | | Annual Statement Source | (1) Amount | Factor | (2) Adjusted Capital |
|---|---|---|---|---|---|
| **Company Amounts** | | | | | |
| (1) | Capital and Surplus | Page 3, Column 3, Line 33 | | 1.000 | $0 |
| **Subsidiary Adjustments** | | | | | |
| (2) | AVR - Life Subs | Affiliate's Statement § | | 1.000 | $0 |
| (3) | Dividend Liability - Life Subsidiaries | Affiliate's Statement | | 0.500 | $0 |
| (4) | Tabular Discounts - P&C Subsidiaries | Affiliate's Statement | | -1.000 | $0 |
| (5) | Non-Tabular Discounts - P&C Subsidiaries | Affiliate's Statement | | -1.000 | $0 |
| **(6)** | **Carrying Value of Non-Admitted Insurance Affiliates** | **Included in XR002 Column 5 and Column 9** | 0 | **1.000** | **$0** |
| **(7)** | Total Adjusted Capital, Post-Deferred Tax | | | | $0 |
| **SENSITIVITY TEST:** | | | | | |
| **(8)** | DTA Value for Company | Page 2, Column 3, Line 18.2 | | 1.000 | $0 |
| **(9)** | DTL Value for Company | Page 3, Column 3, Line 10.2 | | 1.000 | $0 |
| **(10)** | DTA Value for Insurance Subsidiaries | Company Records | | 1.000 | $0 |
| **(11)** | DTL Value for Insurance Subsidiaries | Company Records | | 1.000 | $0 |
| **(12)** | Total Adjusted Capital, Pre-**D**eferred Tax (**S**ensitivity) | **Lines (7) - (8) + (9) - (10) + (11)** | | | $0 |
| **Ex DTA ACL RBC Ratio Sensitivity Test** | | | | | |
| **(13)** | Deferred Tax Asset | Page 2 Column 3, Line 18.2 | | 1.000 | $0 |
| **(14)** | Total Adjusted Capital Less Deferred Tax Asset | **Lines (7) less (13)** | | | $0 |
| **(15)** | Authorized Control Level RBC | XR027 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4) | | | $0 |
| **(16)** | Ex DTA ACL RBC Ratio | **Line (14)/(15)** | | | 0.000% |

§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

July 13, 2022

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Comprehensive Review of the H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries (Academy)[1] Health Solvency Subcommittee ("subcommittee"), I am pleased to provide this letter the NAIC Health Risk-Based Capital (E) Working Group ("working group"). The subcommittee drafted this letter in response to the request from the working group after its previous report to provide a timeline to analyze and comprehensively review the H2—Underwriting Risk component and the managed care credit calculation in the health risk-based capital (HRBC) formula.

The subcommittee's January 2022 report included the following six recommendations for the HRBC Working Group's consideration:

1. Refresh factors based on updated insurer data
2. Develop factors at a more granular product level
3. Develop factors specific to more relevant block sizes and consider an indexing factor for cut points to change over time
4. Model risk factors over an NAIC-defined prospective time horizon with a defined safety level that can be refreshed regularly
5. Refresh of managed care credit formula and factors to be more relevant and reflective of common contracting approaches and other risk factors associated with these contracting approaches
6. Analyze long-term care insurance (LTCI) underwriting performance to create a more nuanced set of risk factors that considers pricing changes over time

The subcommittee plans to proceed with an analysis to support recommendations 1-5 above across three work tracks. Concerning recommendation No. 6, the subcommittee suggests that the working group discuss any potential changes to LTCI risk factors with the NAIC Life Risk-

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Based Capital (E) Working Group because most LTCI premium is written on life blanks. Please revisit the previous report for additional detail related to the six recommendations.

The three work tracks that will be needed to support the recommendations are:

1. Redesign HRBC Pages XR013/XR014 (Experience Fluctuation Risk) [2]
2. Develop Tiered RBC Factors
3. Redesign HRBC Pages XR018/XR019 (Managed Care Credit)

As the subcommittee completes each work track, it will share the results with the working group for their consideration and feedback. The remainder of this letter provides more details regarding our proposed analyses.

**1. HRBC Pages XR013 and XR014 (Experience Fluctuation Risk) redesign**

The current RBC formula for Experience Fluctuation Risk utilizes data from Page 7—Analysis of Operations by Line of Business—then aggregated to six product columns instead of the nine shown on Page 7. Alternatively, the RBC formula could use the Supplemental Health Care Exhibit ("SHCE")—Part 1, the Accident and Health Policy Experience Exhibit ("A&H Exhibit"), or the Exhibit of Premiums, Enrollment, and Utilization. While the SHCE and A&H Exhibits benefit from additional product detail, the limitation is that they are not filed until April 1—after insurers have filed their RBC calculations. The alternative—the Exhibit of Premiums, Enrollment, and Utilization—is limited by the fact that premiums and claims are presented on a gross basis.

Given that the later timing of the supplements would create a mismatch in timing between the RBC calculation and the availability of data, the subcommittee would suggest utilizing Exhibit of Premiums, Enrollment, and Utilization, at least until insurers file the supplements with the rest of the core financial statement pages.

The subcommittee will likely need to make some adjustments during the risk factor development process (e.g., utilizing data from the historical supplements or other sources) to remedy the gross basis presentation. Additionally, for the RBC filing, Company Records may be required to move from gross to net premiums and claims. Lastly, given the significant A&H volume on life blanks, the Analysis of Operations by Lines of Business—Accident and Health would likely need to be utilized.

Additional changes to XR013/XR014 would include:

- Company-specific experience adjustments, based on historical company-specific experience—likely between five and 10 years
- An adjustment for investment income, tailored to the cash flows of health products
- A premium diversification discount factor

[2] Based on the 2021 HRBC formula and layout. Additionally, the subcommittee does not expect to make changes to XR015 as part of this exercise given potential data limitations on the Supplemental pages and the Exhibit of Premiums, Enrollment, and Utilization.

- Adjustments to the tiering thresholds

This work track would produce a brief discussion document with a corresponding workbook with the proposed calculation and health blank data sourcing with mock data. The subcommittee expects this work track to take approximately 18 weeks, given the complexity of the redesign.

**2. Tiered RBC factor development**

The development of the new Tiered RBC factors would be conceptually similar to the exercise performed by the Academy's Property and Casualty Risk-Based Capital Committee for the P&C RBC formula. That is, the premium risk factors would reflect the risk that the subsequent year[3] of net premium would produce adverse underwriting experience. The Premium Risk Factors for each line of business would be derived from the net loss ratio for each company that has submitted statutory financials over some predefined period (potentially up to 10 years). The premium risk factors would correspond to some percentile confidence level, as determined by the working group.

This work track would ultimately produce a brief discussion document with a corresponding workbook summarizing the data and results for each line of business at various confidence levels. Given the time needed for data collection and analysis, the subcommittee expects this work track to take approximately 28 weeks.

**3. HRBC XR018 and XR019 (Managed Care Credit) redesign**

As discussed in the previous January 2022 report, the current Managed Care Credit does not reflect the current nature of provider contracts or contractual risk-sharing provisions. As a result, the subcommittee recommended that the Managed Care Credit be updated. Given the limited data collected within Exhibit 7, this exercise would only include the design of a new HRBC page based on company records (or potentially a new health blank exhibit) for the working group's consideration. As the new data is collected, the new Managed Care Credit could eventually be incorporated into the Experience Fluctuation Risk calculation. Alternatively, to accelerate the redesigned Managed Care Credit adoption, the working group could ask that the subcommittee estimate both the effectiveness of each Managed Care mechanism (and the corresponding discount factor) and the industry distribution of claim payment based on Exhibit 7 reporting. This estimation would require some speculation, which may be inaccurate once the NAIC collects and analyzes data in the future.

This work track would produce a brief discussion document with a corresponding workbook with the proposed Managed Care Credit data collection template and calculation. The subcommittee expects this work track to take approximately 18 weeks, given the complexity of the redesign.

[3] This one-year time horizon would imply that contractual obligations and pricing are generally locked in for a year; however, the NAIC may consider (and request) an alternative time horizon

**4. Next Steps**

The subcommittee would like to discuss the timing of this work and data availability with the working group. The subcommittee would also like to discuss the approach for factor development—namely:

- Which schedules from the health blanks should be utilized for the Experience Fluctuation Risk calculation? Relatedly, is there any receptivity to either delaying the RBC calculation until the supplemental reports are filed or to accelerating the timing of when the supplemental reports need to be filed?
- Should the Managed Care Credit changes be included as part of this Experience Fluctuation Risk refresh or later, when data becomes available?

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Thank you for the opportunity to provide this response to the request of the working group to provide a work plan to perform an update for the Experience Fluctuation Risk calculations. Members of the subcommittee welcome the opportunity to speak with you in more detail and answer any questions you might have regarding this letter. If you would like to discuss this letter and its recommendations, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

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