

Draft date: 5/6/26

Virtual Meeting

CAPITAL ADEQUACY (E) TASK FORCE

Thursday, May 14, 2026

12:30 – 1:30 p.m. ET / 11:30 a.m. – 12:30 p.m. CT / 10:30 – 11:30 a.m. MT / 9:30 – 10:30 a.m. PT

ROLL CALL

NAIC Member

Grace Arnold, Chair
Judith L. French, Vice Chair
Mark Fowler
Heather Carpenter
Peter M. Fuimaono
Ricardo Lara
Michael Conway
Joshua Hershman
Karima M. Woods
Michael Yaworsky
Ann Gillespie
Holly W. Lambert
Doug Ommen
Vicki Schmidt
Sharon P. Clark
Timothy J. Temple
Michael T. Caljouw
Angela L. Nelson
Eric Dunning
Ned Gaines
Susan Ochs
Jon Godfread
Glen Mulready
Michael Humphreys
Elizabeth Kelleher Dwyer
Michael Wise
Amanda Crawford
Scott A. White
Patty Kuderer
Nathan Houdek

Representative

Ben Slutsker
Tom Botsko
Charles Hale
David Phifer
Elizabeth Perri
Thomas Reedy
Rolf Kaumann
Wanchin Chou
Philip Barlow
Bradley Trim
Matt Cheung
Roy Eft
Mike Yanacheak
Tish Becker
Vicki Lloyd
Tom Travis
John Turchi
John F. Rehagen
Andrea Johnson
Diana Branciforte
Susan Ochs
Matt Fischer
Andy Schallhorn
Diana Sherman
Liz Ammerman
Ryan Basnett
Jamie Walker
Doug Stolte/Dan Bumpus
Steve Drutz
Amy Malm

State/Territory

Minnesota
Ohio
Alabama
Alaska
American Samoa
California
Colorado
Connecticut
District of Columbia
Florida
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Massachusetts
Missouri
Nebraska
Nevada
New Jersey
North Dakota
Oklahoma
Pennsylvania
Rhode Island
South Carolina
Texas
Virginia
Washington
Wisconsin

NAIC Committee Support: Eva Yeung/Maggie Chang

AGENDA

1. Consider Exposure of Proposal 2026-03-CA (Underwriting Risk Investment Income Update)—*Steve Drutz (WA)* Attachment A
2. Consider Adoption of Proposal 2025-15-CA (A&H Underwriting Risk Structure Change)—*Steve Drutz (WA)* Attachment B
3. Consider Adoption of Proposal 2026-08-CR (PR027 INT Item D Modification)—*Wanchin Chou (CT)* Attachment C
4. Consider Adoption of Proposal 2025-22-IRE MOD V.2 (CLO RBC Structure)—*Philip Barlow (DC)* Attachment D
5. Consider Adoption of Proposal 2025-14-L MOD (C-3 GOES Implementation)—*Ben Slutsker (MN)* Attachment E
6. Consider Adoption of Proposal 2026-07-L (Longevity Reinsurance)—*Ben Slutsker (MN)* Attachment F
7. Consider Adoption of Proposal 2026-05-CA (Remove Investment Affiliate Code 4)—*Ben Slutsker (MN)* Attachment G
 - A. American Council of Life Insurers (ACLI)—*Shannon Jones and Tip Tipton*
8. Consider Exposure of Proposal 2026-10-CA (Collateral Loan Source Update P/C & Health)—*Ben Slutsker (MN)* Attachment H
9. Consider Exposure of its 2027 Proposed Charges—*Ben Slutsker (MN)* Attachment I
10. Discuss the Investment Designation Analysis (E) Working Group Security Identifier (SID) Summary Referral—*Ben Slutsker (MN)* Attachment J
11. Discuss Any Other Matters Brought Before the Task Force—*Ben Slutsker (MN)*
12. Adjournment

Capital Adequacy (E) Task Force**RBC Proposal Form**

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

| | |
|--|--|
| <p style="text-align: right;">DATE: _____</p> <p>CONTACT PERSON: <u>Derek Noe</u></p> <p>TELEPHONE: <u>816-783-8973</u></p> <p>EMAIL ADDRESS: <u>dnoe@naic.org</u></p> <p>ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Steve Drutz</u></p> <p>TITLE: <u>Chief Financial Analyst/Chair</u></p> <p>AFFILIATION: <u>WA Office of Insurance Commissioner</u></p> <p>ADDRESS: <u>5000 Capital Blvd SE</u> <u>Tumwater, WA 98501</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2026-03-CA</u> Year <u>2026</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>3/23/2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|--|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision for the investment income adjustment.

Update the Underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision on pages XR013, LR019, LR020, PR019, and PR020 for the investment income adjustment.

Implements the stand-alone investment income factor.

Additional Staff Comments:

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

Revised 2-2023

2025 Investment Yield for Investment Income Adjustment

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

| Date ↑ | 1 Mo ↑ | 1.5 Mo ↑ | 2 Mo ↑ | 3 Mo ↑ | 4 Mo ↑ | 6 Mo ↑ | 1 Yr ↑ | 2 Yr ↑ | 3 Yr ↑ |
|------------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| 01/02/2026 | 3.72 | 3.71 | 3.66 | 3.65 | 3.62 | 3.58 | 3.47 | 3.47 | 3.55 |
| 01/05/2026 | 3.71 | 3.68 | 3.64 | 3.64 | 3.61 | 3.57 | 3.47 | 3.46 | 3.53 |
| 01/06/2026 | 3.70 | 3.70 | 3.61 | 3.63 | 3.58 | 3.56 | 3.48 | 3.47 | 3.54 |
| 01/07/2026 | 3.70 | 3.69 | 3.60 | 3.62 | 3.60 | 3.56 | 3.48 | 3.47 | 3.53 |
| 01/08/2026 | 3.70 | 3.69 | 3.63 | 3.62 | 3.60 | 3.56 | 3.48 | 3.49 | 3.56 |
| 01/09/2026 | 3.70 | 3.68 | 3.63 | 3.62 | 3.62 | 3.57 | 3.52 | 3.54 | 3.59 |
| 01/12/2026 | 3.71 | 3.68 | 3.64 | 3.67 | 3.63 | 3.58 | 3.53 | 3.54 | 3.59 |
| 01/13/2026 | 3.72 | 3.72 | 3.66 | 3.67 | 3.63 | 3.59 | 3.51 | 3.53 | 3.57 |
| 01/14/2026 | 3.72 | 3.71 | 3.66 | 3.67 | 3.65 | 3.58 | 3.50 | 3.51 | 3.56 |
| 01/15/2026 | 3.75 | 3.73 | 3.69 | 3.68 | 3.66 | 3.60 | 3.54 | 3.56 | 3.62 |
| 01/16/2026 | 3.75 | 3.72 | 3.68 | 3.67 | 3.66 | 3.60 | 3.55 | 3.59 | 3.67 |
| 01/20/2026 | 3.75 | 3.71 | 3.69 | 3.70 | 3.65 | 3.61 | 3.53 | 3.60 | 3.68 |
| 01/21/2026 | 3.75 | 3.71 | 3.70 | 3.70 | 3.67 | 3.62 | 3.53 | 3.60 | 3.66 |
| 01/22/2026 | 3.79 | 3.71 | 3.72 | 3.71 | 3.67 | 3.61 | 3.53 | 3.61 | 3.68 |
| 01/23/2026 | 3.78 | 3.71 | 3.72 | 3.70 | 3.67 | 3.61 | 3.53 | 3.60 | 3.67 |
| 01/26/2026 | 3.77 | 3.71 | 3.70 | 3.67 | 3.67 | 3.62 | 3.52 | 3.56 | 3.66 |
| 01/27/2026 | 3.77 | 3.72 | 3.70 | 3.67 | 3.66 | 3.61 | 3.50 | 3.53 | 3.65 |
| 01/28/2026 | 3.76 | 3.72 | 3.71 | 3.68 | 3.70 | 3.63 | 3.52 | 3.56 | 3.66 |



AMERICAN ACADEMY
of ACTUARIES

February 27, 2026

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

Re: Request for a standalone Investment Income Adjustment factor to incorporate into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the Health Underwriting Risk Factors Analysis Work Group of the Health Solvency Subcommittee of the American Academy of Actuaries (Academy),¹ I am writing in response to the Health Risk-Based Capital (E) Working Group's request for guidance on how to calculate a standalone Investment Income Adjustment (IIA) factor for use within the H2–Underwriting Risk component of the Health Risk-Based Capital (HRBC) formula.

Definition of a standalone IIA factor

Using the previously provided Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors table (reproduced in Attachment A), a standalone IIA factor for a given product and tier can be calculated as a ratio:

$$\text{IIA}_{p,t}(r) = \frac{F_{p,t}(r)}{F_{p,t}(0.0\%)}$$

where:

- p = product (e.g., Comprehensive Medical),
- t = tier (e.g., High Tier or Low Tier),
- r = assumed investment return, and
- $F_{p,t}(r)$ = the investment-income-adjusted tiered RBC factor from Attachment A at return r .

Under this approach, the IIA factor can be used as a multiplicative adjustment to reflect alternative investment return assumptions. If the working group elects to apply an IIA factor directly to an existing base underwriting factor (rather than re-basing to a 0.0% reference), the denominator should be aligned to the return assumption embedded in that base factor.

Calculation steps

1. Identify the applicable product and tier in Attachment A.
2. Select the assumed investment return r .

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

3. Obtain $F_{p,t}(r)$ from the table. If r falls between listed rows, a linear interpolation between the adjacent rows is likely reasonable.
4. Obtain the corresponding $F_{p,t}(0.0\%)$ from the 0.0% row for that same product and tier.
5. Compute $\text{IIA}_{p,t}(r) = F_{p,t}(r)/F_{p,t}(0.0\%)$.

Worked examples (from Attachment A)

- **Comprehensive Medical, High Tier, 4.0% return:**

$F(4.0\%) = 14.47\%$ and $F(0.0\%) = 15.00\%$, so

$\text{IIA} = 14.47\%/15.00\% = 0.965$.

- **Comprehensive Medical, Low Tier, 4.0% return:**

$F(4.0\%) = 8.50\%$ and $F(0.0\%) = 9.00\%$, so

$\text{IIA} = 8.50\%/9.00\% = 0.944$.

If you have any questions or would like to discuss further, please contact Katie Dzurec, the Academy's State Public Policy Outreach Director, at Dzurec@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA

Chairperson, Health Underwriting Risk Factors Analysis Work Group

American Academy of Actuaries

Cc: Derek Noe, Health RBC Analyst, Financial Regulatory Services, NAIC

Attachment A—Investment Income Adjusted Tiered RBC Factors (excerpted from Feb. 2, 2023, Academy response)

Investment Income Adjusted Tiered RBC Factors

| Assumed Investment Return | Comprehensive Medical (CM) | Medicare Supplement | Dental/Vision |
|----------------------------------|---|----------------------------|----------------------|
| | High Tier (i.e., less than \$3M or less than \$25M) | | |
| 0.0% | 15.00% | 10.50% | 12.00% |
| 3.5% | 14.53% | 10.01% | 11.63% |
| 4.0% | 14.47% | 9.94% | 11.58% |
| 4.5% | 14.40% | 9.87% | 11.53% |
| 5.0% | 14.34% | 9.80% | 11.48% |
| 5.5% | 14.27% | 9.73% | 11.43% |
| 6.0% | 14.21% | 9.67% | 11.38% |
| | Low Tier | | |
| 0.0% | 9.00% | 6.70% | 7.60% |
| 3.5% | 8.56% | 6.23% | 7.25% |
| 4.0% | 8.50% | 6.16% | 7.20% |
| 4.5% | 8.44% | 6.09% | 7.16% |
| 5.0% | 8.38% | 6.03% | 7.11% |
| 5.5% | 8.32% | 5.96% | 7.06% |
| 6.0% | 8.25% | 5.90% | 7.01% |

Health Instructions**Page XR013, Line 12**

Detail Eliminated to Conserve Space



Line (12) Investment Income Adjustment Factor. The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 4.05% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond ([U.S. Department of the Treasury](#)) on each Monday through the month of January and determine if further modification to the 4.05% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions**Page PR020, Line 12**

Detail Eliminated to Conserve Space

Line (12) Investment Income Adjustment Factor

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 4.05% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.05% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

Life Instructions**LR020, Line 12**

Detail Eliminated to Conserve Space

Line (12) Investment Income Adjustment Factor

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 4.05% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.05% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

Confidential when Completed

UNDERWRITING RISK

Experience Fluctuation Risk

| | | (1) Comprehensive (Hospital & Medical) - Individual | (2) Comprehensive (Hospital & Medical) - Group | (3) Title XVIII - Medicare | (4) Title XIX - Medicaid | (5) Medicare Supplement | (6) Vision Only | (7) Dental Only | (8) Stand-Along Medicare Part D Coverage | (9) Other Health | (10) Other Non- Health | (11) Total |
|--------|---|--|---|----------------------------------|--------------------------------|-------------------------------|--------------------|--------------------|---|---------------------|------------------------------|---------------|
| (1) | † Premium | | | | | | | | | | | |
| (2) | † Other Health Risk Revenue | | | | | XXX | | | | | XXX | |
| (3) | Medicaid Pass-Through Payments Reported as Premiums | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | XXX | XXX | |
| (4) | Underwriting Risk Revenue (1) + (2) - (3) | | | | | | | | | | | |
| (5) | † Net Incurred Claims | | | | | | | | | | XXX | |
| (6) | Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | XXX | XXX | |
| (7) | † Fee-For-Service Offset | | | | | XXX | | | | | XXX | |
| (8) | Underwriting Risk Incurred Claims (5) - (6) - (7) | | | | | | | | | | XXX | |
| (9) | Underwriting Risk Claim Ratio (8)/(4) | | | | | | | | | | 1.000 | XXX |
| (10) | Underwriting Risk Factor for Initial Amounts of Premium‡ | 0.1500 | 0.1500 | 0.1500 | 0.1500 | 0.105 | 0.12 | 0.12 | 0.251 | 0.130 | 0.130 | XXX |
| (11) | Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0900 | 0.0900 | 0.0900 | 0.0900 | 0.0670 | 0.0760 | 0.0760 | 0.151 | 0.130 | 0.130 | XXX |
| (12.1) | Investment Income Adjustment Factor Initial Premium | 0.9647 | 0.9647 | 0.9647 | 0.9647 | 0.9467 | 0.9650 | 0.9650 | XXX | XXX | XXX | XXX |
| (12.2) | Investment Income Adjustment Factor Excess Premium | 0.9444 | 0.9444 | 0.9444 | 0.9444 | 0.9194 | 0.9474 | 0.9474 | XXX | XXX | XXX | XXX |
| (13) | Composite Underwriting Risk Factor | | | | | | | | | 0.130 | 0.130 | XXX |
| (14) | Base Underwriting Risk RBC = (4) x (9) x (13) | | | | | | | | | | | |
| (15) | Managed Care Discount Factor* | | | | | | | | | XXX | XXX | XXX |
| (16) | RBC After Managed Care Discount = Lines (14) x (15) | | | | | | | | | | XXX | |
| (17) | Alternate Risk Charge | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$50,000 | \$50,000 | \$50,000 | \$150,000 | \$50,000 | XXX | XXX |
| (18) | Net Alternate Risk Charge*** | | | | | | | | | | XXX | |
| (19) | Net Underwriting Risk RBC (MAX{Line (16), Line (18)}) for Columns (1) through (9), Column (10), Line (14) | | | | | | | | | | | |

| Initial Premium Amount‡ | | | | | | | | | | |
|-------------------------|---|--|---------------------------|-------------------------|------------------------|-------------|-------------|--|--------------|----------------------|
| | Comprehensive (Hospital & Medical) - Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Along Medicare Part D Coverage | Other Health | Other Non- Health |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 | N/A | N/A |

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This row uses the factors calculated on page XR018

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK

Experience Fluctuation Risk

| | (1) Comprehensive (Hospital & Medical) - Individual | (2) Comprehensive (Hospital & Medical) - Group | (3) Title XVIII - Medicare | (4) Title XIX - Medicaid | (5) Medicare Supplement | (6) Vision Only | (7) Dental Only | (8) Stand-Alone Medicare Part D Coverage | (9) Total |
|---|---|---|----------------------------------|--------------------------------|-------------------------------|--------------------|--------------------|---|--------------|
| Line of Business | | | | | | | | | |
| (1.1) Individual Premium † | | XXX | | | | | | | |
| (1.2) Group Premium † | XXX | | | | | | | | |
| (1.3) Total Premium† (1.1) + (1.2) | | | | | | | | | |
| (2) Other Health Risk Rev† | | | | | XXX | | | | |
| (3) Medicaid Pass-Through Payments Reported as Premiums | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | |
| (4) Underwriting Risk Revenue (1.3) + (2) - (3) | | | | | | | | | |
| (5) Net Incurred Claims† | | | | | | | | | |
| (6) Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | |
| (7) Fee-For-Service Offset† | | | | | XXX | | | | |
| (8) Underwriting Risk Incurred Claims (5) - (6) - (7) | | | | | | | | | |
| (9) Underwriting Risk Claim Ratio (8)/(4) | | | | | | | | | XXX |
| (10) Underwriting Risk Factor for Initial Amounts of Premium‡ | 0.1500 | 0.1500 | 0.1500 | 0.1500 | 0.1050 | 0.1200 | 0.1200 | 0.251 | XXX |
| (11) Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0900 | 0.0900 | 0.0900 | 0.0900 | 0.0670 | 0.0760 | 0.0760 | 0.151 | XXX |
| (12.1) Investment Income Adjustment Factor Initial Premium | 0.9647 | 0.9647 | 0.9647 | 0.9647 | 0.9467 | 0.9650 | 0.9650 | XXX | XXX |
| (12.2) Investment Income Adjustment Factor Excess Premium | 0.9444 | 0.9444 | 0.9444 | 0.9444 | 0.9194 | 0.9474 | 0.9474 | XXX | XXX |
| (13) Composite Underwriting Risk Factor | | | | | | | | | XXX |
| (14) Base Underwriting Risk RBC = (4) x (9) x (13) | | | | | | | | | |
| (15) Managed Care Discount Factor (LR022 Line 17) | | | | | | | | | XXX |
| (16) RBC After Managed Care Discount = Lines (14) x (15) | | | | | | | | | |
| (17) Alternate Risk Charge | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$50,000 | \$50,000 | \$50,000 | \$150,000 | |
| (18) Net Alternate Risk Charge | | | | | | | | | |
| (19) Net Underwriting Risk RBC (MAX{Line (16), Line (18)}) | | | | | | | | | |

† The Annual Statement Sources are found on page LR020-A.

| Initial Premium Amount‡ | | | | | | | | |
|-------------------------|--|---|---------------------------|-------------------------|------------------------|-------------|-------------|--|
| | Comprehensive (Hospital & Medical) - Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Alone Medicare Part D Coverage |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 |

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

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR020
 (Experience Fluctuation Risk in Life RBC Formula)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|--|-----------------------------|---------------------------|----------------------------|--------------------|--------------------|---|--------------|
| | <u>Comprehensive Medical Individual</u> | <u>Comprehensive Medical Group</u> | <u>Title XVIII-Medicare</u> | <u>Title XIX-Medicaid</u> | <u>Medicare Supplement</u> | <u>Vision Only</u> | <u>Dental Only</u> | <u>Stand-Alone Medicare Part D Coverage</u> | <u>TOTAL</u> |
| (1.1) Individual Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1.2) Group Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1.3) Total Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Other Health Risk Revenue† | 0 | 0 | 0 | 0 | XXX | 0 | 0 | 0 | 0 |
| (3) Medicaid Pass-Through Payments Reported as Premium | XXX | XXX | XXX | 0 | XXX | XXX | XXX | XXX | 0 |
| (4) Underwriting Risk Revenue = Lines (1.3) + (2) - (3) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (5) Net Incurred Claims | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (6) Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | 0 | XXX | XXX | XXX | XXX | 0 |
| (7) Fee-for-Service Offset† | 0 | 0 | 0 | 0 | XXX | 0 | 0 | 0 | 0 |
| (8) Underwriting Risk Incurred Claims = Lines (5) - (6) - (7) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (9) Underwriting Risk Claim Ratio (8)/(4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (10) Underwriting Risk Factor for Initial Amounts Of Premium‡ | 0.1500 | 0.1500 | 0.1500 | 0.1500 | 0.1050 | 0.1200 | 0.1200 | 0.251 | XXX |
| (11) Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0900 | 0.0900 | 0.0900 | 0.0900 | 0.0670 | 0.0760 | 0.0760 | 0.151 | XXX |
| (12.1) Investment Income Adjustment Factor Initial Premium | 0.9647 | 0.9647 | 0.9647 | 0.9647 | 0.9467 | 0.9650 | 0.9650 | XXX | XXX |
| (12.2) Investment Income Adjustment Factor Excess Premium | 0.9444 | 0.9444 | 0.9444 | 0.9444 | 0.9194 | 0.9474 | 0.9474 | XXX | XXX |
| (13) Composite Underwriting Risk Factor | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.000 | XXX |
| (14) Base Underwriting Risk RBC = Line (4) x Line (9) x Line (13) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (15) Managed Care Discount Factor = PR021 Line (12) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (16) Base RBC After Managed Care Discount = Line (14) x Line (15) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (17) Alternate Risk Charge | 500,000 | 500,000 | 500,000 | 500,000 | 50,000 | 50,000 | 50,000 | 150,000 | XXX |
| (18) Net Alternate Risk Charge | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (19) Net Underwriting Risk RBC (Maximum of Line (16) or Line (18)) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

† Source is company records unless already included in premiums.

| Initial Premium Amount‡ | | | | | | | | |
|-------------------------|--|--|---------------------------|-------------------------|------------------------|-------------|-------------|--|
| | Comprehensive (Hospital & Medical) - Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Alone Medicare Part D Coverage |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 |

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

| | | Treasury Rate | | Factor |
|---------------|-----------|---------------|--------|--------|
| | | 0% | 4% | |
| Comp Med | High Tier | 15.00% | 14.47% | 0.9647 |
| | Low Tier | 9.00% | 8.50% | 0.9444 |
| Med Supp | High Tier | 10.50% | 9.94% | 0.9467 |
| | Low Tier | 6.70% | 6.16% | 0.9194 |
| Dental/vision | High Tier | 12.00% | 11.58% | 0.9650 |
| | Low Tier | 7.60% | 7.20% | 0.9474 |

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|---|--|
| <p style="text-align: right;">DATE: <u>11/4/2025</u></p> <p>CONTACT PERSON: <u>Derek Noe</u></p> <p>TELEPHONE: <u>816-783-8973</u></p> <p>EMAIL ADDRESS: <u>dnoe@naic.org</u></p> <p>ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Steve Drutz</u></p> <p>TITLE: <u>Chief Financial Analyst/Chair</u></p> <p>AFFILIATION: <u>WA Office of Insurance Commissioner</u></p> <p>ADDRESS: <u>5000 Capital Blvd SE</u> <u>Tumwater, WA 98501</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-15-CA-MOD</u> Year <u>2026</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input checked="" type="checkbox"/> TASK FORCE (TF) <u>3/24/2026</u></p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>2/13/2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input checked="" type="checkbox"/> REFERRED TO OTHER NAIC GROUP</p> <p><input type="checkbox"/> (SPECIFY) <u>Capital Adequacy (E) Task Force</u></p> |
|---|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Changes to the structure of pages XR013, XR014, PR019, PR020, PR022, PR025, LR019, and LR020 based on the recommendations from the Academy's H-2 Underwriting Risk Report.

The Academy presented their *H2-Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital Formula Report* to the Health Risk-Based Capital Working Group at their April 30, 2025 meeting. The report presented a revised structure to more closely align the underwriting risk pages with the lines of business as presented in the Analysis of Operations of the Health Annual Statement. The report also advised to change the implementation in the Life and Property and Casualty RBC to mirror the line of business changes in Health.

This proposal also implements a new alternative risk charge based on the recommendation from the Academy that the multiple of maximum individual risk be eliminated.

Additional Staff Comments:

LR029 Line (42) and PR022 Line (5) now include Title XVIII Medicare and Title XIX Medicaid as part of total health premium.

Income adjustment factor instructions and values will be updated during the annual Investment Income Adjustment review.

04/29/26 Revisions

Updated source for line 24.2 on page XR015.

03/11/26 Revisions

Split line 12 into lines 12.1 and 12.2 for more accurate implementation of the standalone investment income factor and updated formulas for line 13.

02/10/26 Revisions

Changes are highlighted in yellow.

Changed numeric references in the health instructions and blanks to match the renumbered lines.

Updated line reference for PR019 to match renumbered lines.

Added description to the PR020 and LR020 line 12 instructions.

Changed verbiage in the instructions for the Alternate Risk Charge

Did not remove lines 1.1, 1.2, and 1.3 from PR020 and LR020 as those lines are used for calculations on other pages. LR019 individual and Group comprehensive were already separated.

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

Revised 2-2023

UNDERWRITING RISK - L(1) THROUGH L(1921) XR013

Underwriting Risk is the largest portion of the risk-based capital charge for most reporting entities. The Underwriting Risk page generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this page comes from the Managed Care Credit Calculation page.

Underwriting risk is present when the next dollar of unexpected claim payments comes directly out of the reporting entity's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, a reporting entity may charge an individual \$100 in premium in exchange for a guaranty that all medical costs will be paid by that reporting entity. If the individual incurs \$101 in claims costs, the reporting entity's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the reporting entity is not at risk for excessive claims payments, such as when an HMO agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claim costs, so the risk of excessive claims experience is borne by the self-insured employer, not the reporting entity. The underwriting risk section of the formula, therefore, requires some adjustments to remove non-underwriting risk business (both premiums and claims) before the RBC requirement is calculated. Appendix 1 contains commonly used terms for general types of health insurance. Refer to INT 05-05: Accounting for Revenue under Medicare Part D Cover for terms specifically used with respect to Medicare Part D coverage of prescription drugs.

Claims Experience Fluctuation

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

A. Underwriting risk revenue, times the underwriting risk claims ratio, times a set of tiered factors. The tiered factors are determined by the underwriting risk revenue volume.

or

B. An **alternate** risk charge that addresses the risk of catastrophic claims on any single individual. ~~The alternative risk charge is equal to multiple of the maximum retained risk on any single individual in a claims year. The alternate risk charge maximum retained risk (level of potential claim exposure) is capped at \$750,000 per individual and \$1,500,000 per line total for medical coverage, \$25,000 per individual and \$50,000 each total for all other coverage except Medicare Part D coverage, and \$25,000 per individual and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e.g., writing more than one coverage type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive – Individual, Comprehensive – Group, Title XVIII – Medicare, Title XIX – Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health. For example, if an organization writes Comprehensive – Individual, Comprehensive – Group, Vision Only, and Dental Only, the alternate risk charge is \$1,000,000 (the cumulative charge for Comprehensive – Individual and Comprehensive – Group, which is higher than the \$100,000 cumulative charge for Vision Only and Dental Only).~~ ~~For each subsequent line of business is reduced by the amount of the highest cap. For example, if an organization is writing both comprehensive (hospital & medical) individual & group (with a cap of \$1,500,000) and dental (with a cap of \$50,000), then only the larger alternative risk charge is considered when calculating the RBC requirement (i.e., the alternative risk charges for each line of business are not cumulative).~~

For RBC reports to be filed by a health organization commencing operations in this reporting year, the health organization shall estimate the initial RBC levels using operating (revenue and expense) projections (considering managed care arrangements) for its first full year (12 months) of managed care operations. The projections, including the risk-based capital requirement, should be the same as those filed as part of a comprehensive business plan that is submitted as part of the application for

licensure. The Underwriting, Credit (capitation risk only), and Business Risk sections of the first RBC report submitted shall be completed using the health organization's actual operating data for the period from the commencement of operations until year-end, plus projections for the number of months necessary to provide 12 months of data. The affiliate, asset and portions of the credit risk section that are based on balance sheet information shall be reported using actual data. For subsequent years' reports, the RBC results for all of the formula components shall be calculated using actual data.

L(1) through L(1921)

There are ~~tensix~~ lines of business used in the formula for calculating the RBC requirement for this risk: (1) Comprehensive (Hospital & Medical) individual-~~& group~~; (2) Comprehensive (Hospital & Medical) group; (3) Title XVIII Medicare; (4) Title XIX Medicaid; (52) Medicare Supplement; (63) ~~Dental~~/Vision Only; (7) Dental Only; (84) Stand-Alone Medicare Part D Coverage; (95) Other Health; and (106) Other Non-Health. Each of these lines of business has its own column in the Underwriting Risk – Experience Fluctuation Risk table. The categories listed in the columns of this page include all risk revenue and risk revenue that is received from another reporting entity in exchange for medical services provided to its members. These categories DO NOT include administrative services contracts (ASC), administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in the Business Risk section of the formula. The descriptions of the items are described as follows:

Column (1) – Comprehensive (Hospital & Medical) Individual-~~& Group~~. Includes policies providing for medical coverages including hospital, surgical, and major medical, ~~Medicare risk coverage (but NOT Medicare Supplement), and Medicaid risk coverage. This category DOES NOT include administrative services contracts (ASC), administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in the Business Risk section of the formula. Neither does~~ it does not include Federal Employees Health Benefit Plan (FEHBP) or TRICARE, which are handled in Line 224 of this section. ~~Medicaid Pass-Through Payments reported as premiums should also be excluded from this category and should be reported in Line 25.2 of this section. The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed \$1,500,000. Prescription drug benefits included in major medical insurance plans (including Medicare Advantage plans with prescription drug coverage) should be reported in this line. These benefits should also be included in the Managed Care Credit calculation.~~

Column (2) – Comprehensive (Hospital & Medical) Group Includes policies providing for medical coverages including hospital, surgical, and major medical. Prescription drug benefits included in major medical insurance plans should be reported in this line. These benefits should also be included in the Managed Care Credit calculation.

Column (3) – Title XVIII Medicare Business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the beneficiary premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans

Column (4) – Title XIX Medicaid Business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicaid subscribers.

Column (52) – Medicare Supplement. This is business reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement and includes Medicare Select. Medicare risk business is reported ~~under Comprehensive (Hospital & Medical) Individual & Group, under Title XVIII Medicare.~~

Column (63) – ~~Dental & Vision~~ Only. This is limited to policies providing for ~~dental-only or vision-only~~ coverage issued as a stand-alone policy or as a rider to a medical policy, which is not related to the medical policy through deductibles or out-of-pocket limits.

Column (7) – Dental Only This is limited to policies providing for dental-only coverage issued as a stand-alone policy or as a rider to a medical policy, which is not related to the medical policy through deductibles or out-of-pocket limits.

Column (84) – Stand-Alone Medicare Part D Coverage. This includes both individual coverage and group coverage of Medicare Part D coverage where the plan sponsor has risk corridor protection. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. Medicare drug benefits included in major medical plans or benefits that do not meet the above criteria are not to be included in this line. Supplemental benefits within Medicare Part D (benefits in excess of the standard benefit design) are addressed separately on page XR015. Employer-based Part D coverage that is in an uninsured plan as defined in *SSAP No. 47—Uninsured Plans* is not to be included here.

Column (95) – Other Health Coverages. This includes other health coverages such as other stand-alone prescription drug benefit plans, that have not been specifically addressed in Columns (1) through (84) listed above and those lines of business addressed separately on page XR015, such as stop loss. Stop-loss premiums are addressed separately in Line (235) on page XR015.

Column (106) – Other Non-Health Coverages. This includes life and property and casualty coverages.

The following paragraphs explain the meaning of each line of the table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium. This is the amount of money charged by the reporting entity for the specified benefit plan. It is the earned amount of prepayments (usually on a per member per month basis) made by a covered group, or individual, CMS, or state agency to the reporting entity in exchange for services to be provided or offered by such organization. However, it does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-underwritten business. Nor does it include federal employees health benefit programs (FEHBP) and TRICARE. Report premium net of payments for stop-loss or other reinsurance. The amounts reported in the individual columns should come directly from Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement. For Stand-Alone Medicare Part D Coverage the premium includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D payment demonstration amounts and risk corridor payment adjustments. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. It does not include revenue received for reinsurance payments or low-income subsidy (cost-sharing portion), which are considered funds received for uninsured plans in accordance with Emerging Accounting Issues Working Group (EAIWG) INT. No. 05-05. Also exclude the beneficiary premium (supplemental benefit portion) for Stand-Alone Medicare Part D coverage.

NOTE: Where premiums are paid on a monthly basis, they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

~~Line (2) Title XVIII Medicare. This is the earned amount of money charged by the reporting entity (net of reinsurance) for Medicare risk business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the beneficiary premium and federal government's direct subsidy for prescription drug coverage under MA PD plans. The total of this line will tie to the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement.~~

~~Line (3) Title XIX Medicaid. This is the earned amount of money charged by the reporting entity for Medicaid risk business where the reporting entity, for a fee, agrees to cover the full medical costs of Medicaid subscribers. The total of this line will tie to the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 of the annual statement. Stand Alone Medicare Part D coverage of low income enrollees is not included in this line.~~

Line (24) Other Health Risk Revenue. This is earned amounts charged by the reporting entity as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders, or members of another insurer or health entity. Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health entity to the reporting entity in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the reporting entity from another

reporting entity. This revenue is reported in the Business Risk section of the formula as non-underwritten and limited risk revenue. The amounts reported in the individual columns will come directly from Page 7, Line 4 of the annual statement.

Line (35) Medicaid Pass-Through Payments Reported as Premiums. Medicaid Pass-Through Payments that are included as premiums in the Analysis of Operations by Lines of Business, Page 7, Lines 1 and 2 should be reported in this line.

Line (46) Underwriting Risk Revenue. The sum of Lines (1) ~~through and~~ (24) minus Line (35).

Line (57) Net Incurred Claims. Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the reporting entity. Paid claims include capitation and all other payments to providers for services to members of the reporting entity, as well as reimbursement directly to members for covered services. Paid claims also include salaries paid to reporting entity employees that provide medical services to members and related expenses. Do not include ASC payments or Federal Employees Health Benefits Program (FEHBP) and TRICARE claims. These amounts are found on Page 7, Line 17 of the annual statement.

For Stand-Alone Medicare Part D Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in INT 05-05: Accounting for Revenue under Medicare Part D Coverage). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claims liabilities should reflect expected recoveries from the reinsurance coverage, for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS. Exclude the beneficiary incurred claims (supplemental benefit portion) for Stand-Alone Medicare Part D coverage and report the incurred claims amount (supplemental benefit portion) on Line (245.1) of page XR015.

Line (68) Medicaid Pass-Through Payments Reported as Claims. Medicaid Pass-Through Payments that are included as claims in the Analysis of Operations by Lines of Business, Page 7, Line 17 should be reported in this line.

~~Line (9) Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims. Line (7) minus Line (8).~~

Line (749) Fee-for-Service Offset. Report fee for service revenue that is directly related to medical expense payments. The fee for service line does not include revenue where there is no associated claim payment (e.g., fees from non-member patients where the provider receives no additional compensation from the reporting entity) and when such revenue was excluded from the pricing of medical benefits. The amounts reported in the individual columns should come directly from Page 7, Line 3 of the annual statement.

Line (844) Underwriting Risk Incurred Claims. Line (59) minus Lines (640) and (7).

Line (942) Underwriting Risk Claims Ratio. For Columns (1) through (95), Line (844)/Line (46). If either Line (46) or Line (844) is zero or negative, Line (942) is zero.

~~Line (10) Underwriting Risk Factor for Initial Amounts of Premium. Factor applied to the first \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to the first \$3,000,000 in premium for columns (5), (6), (7).~~

~~Line (11) Underwriting Risk Factor for Excess of Initial Amount. Factor applied to premium in excess of \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to premium in excess of \$3,000,000 in premium for columns (5), (6), (7).~~

Line (12) Investment Income Adjustment Factor. The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned

by the insurer. The Working Group incorporated a 4.5% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

Line (13) Composite Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (46), Underwriting Risk Revenue. Includes the Investment Income Adjustment Factor The factors for Column (1) through (3) have incorporated an investment income yield of 4.5%.

| | \$0 - \$3 Million | \$3 - \$25 Million | Over \$25 Million |
|--|----------------------|-----------------------|----------------------|
| Comprehensive (Hospital & Medical) Individual & Group | 0.1440 | 0.1440 | 0.0844 |
| Medicare Supplement | 0.0987 | 0.0609 | 0.0609 |
| Dental & Vision | 0.1153 | 0.0716 | 0.0716 |
| Stand-Alone Medicare Part D Coverage | 0.251 | 0.251 | 0.151 |
| Other Health | 0.130 | 0.130 | 0.130 |
| Other Non-Health | 0.130 | 0.130 | 0.130 |

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

Line (14) Base Underwriting Risk RBC. Line (46) x Line (912) x Line (13).

Line (15) Managed Care Discount. For Comprehensive (Hospital & Medical) individual & group, Title XVIII Medicare, Title XIX Medicaid, Medicare Supplement (including Medicare Select), and Dental/Vision, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the uncertainty about future claim payments attributable to the managed care arrangements. The discount factor is from Column (3), Line (17) of the Managed Care Credit Calculation page. An average factor based on the combined results of these ~~three categories~~ is used for all three.

For Stand-Alone Medicare Part D Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (17) of the Managed Care Credit Calculation page.

There is no discount given for the Other Health and Other Non-Health lines of business.

Line (16) RBC After Managed Care Discount. Line (14) x Line (15).

Line (17) Maximum Per Individual Risk After Reinsurance. This is the maximum after reinsurance loss for any single individual. Where specific stop-loss reinsurance protection is in place, the maximum per individual risk after reinsurance is equal to the highest attachment point on such stop-loss reinsurance, subject to the following:

- Where coverage under the stop-loss protection (plus retention) with the highest attachment point is capped at less than \$750,000 per member, the maximum retained loss will be equal to such attachment point plus the difference between the coverage (plus retention) and \$750,000.

- Where the stop loss layer is subject to participation by the reporting entity, the maximum retained risk as calculated above will be increased by the reporting entity's participation in the stop loss layer (up to \$750,000 less retention).

If there is no specific stop loss or reinsurance in place, enter \$9,999,999.

Examples of the calculation are presented below:

EXAMPLE 1 (Reporting entity provides Comprehensive Care):

| | |
|--------------------------------------|---|
| Highest Attachment Point (Retention) | \$100,000 |
| Reinsurance Coverage | 90% of \$500,000 in excess of \$100,000 |
| Maximum reinsured coverage | \$600,000 (\$100,000 + \$500,000) |
| Maximum Ret. Risk = | \$100,000 deductible |
| | + \$150,000 (\$750,000 - \$600,000) |
| | + \$ 50,000 (10% of (\$600,000 - \$100,000) coverage layer) |
| | = \$300,000 |

EXAMPLE 2 (Reporting entity provides Comprehensive Care):

| | |
|--------------------------------------|--|
| Highest Attachment Point (Retention) | \$75,000 |
| Reinsurance Coverage | 90% of \$1,000,000 in excess of \$75,000 |
| Maximum reinsured coverage | \$1,075,000 (\$75,000 + \$1,000,000) |
| Maximum Ret. Risk = | \$ 75,000 deductible |
| | + 0 (\$750,000 - \$1,075,000) |
| | + \$ 67,500 (10% of (\$750,000 - \$75,000) coverage layer) |
| | = \$142,500 |

Line (178) Alternate Risk Charge. This is twice the amount in Line (17) for columns (1), (2), (3) and (5) and Column (4) is six times the amount in Line (17), subject to a maximum of \$1,500,000 for Column (1), \$50,000 for Columns (2), (3) and (5) and \$150,000 for Column (4). Column (6) is excluded from this calculation. \$500,000 for Columns (1), (2), (3), and (4); \$50,000 for Columns (5), (6), (7), and (9); and \$150,000 for Column (8).

Line (19) Alternate Risk Adjustment. This line shows the largest value in Line (18) for the column and all columns left of the column. Column (6) is excluded from this calculation.

Line (1820) Net Alternate Risk Charge. This is the amount in Line (18), less the amount in the previous column of Line (19), but not less than zero. Column (6) is excluded from this calculation. The alternate risk charge is \$500,000 per line for medical coverage, \$50,000 total for all other coverage except Medicare Part D coverage, and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e., writing more than one coverage type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive - Individual, Comprehensive - Group, Title XVIII - Medicare, Title XIX - Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health.

Line (219) Net Underwriting Risk RBC. This is the maximum of Line (16) and Line (1820) for each of columns (1) through (95). This is the amount in Line (14) **for** Column (610). The amount in Column (117) is the sum of the values in Columns (1) through (106).

OTHER UNDERWRITING RISK – L(202) THROUGH L(445) XR015–XR017

In addition to the general risk of fluctuations in the claims experience, there is an additional risk generated when reporting entities guarantee rates for extended periods beyond one year. If rate guarantees are extended between 15 and 36 months from policy inception, a factor of 0.024 is applied against the direct premiums earned for those guaranteed policies. Where a rate guaranty extends beyond 36 months, the factor is increased to 0.064. This calculation only applies to those lines of accident and health business, which include a medical trend risk, (i.e., Comprehensive (Hospital & Medical) individual & group, Medicare Supplement, Dental/Vision, Stand-Alone Medicare Part D Coverage, Supplemental benefits within Medicare Part D Coverage, Stop-Loss, and Minimum Premium). Premiums entered should be earned premium for the current calendar year period and not for the entire period of the rate guarantees. Premium amounts should be shown net of reinsurance only when the reinsurance ceded premium is also subject to the same rate guarantee.

A separate risk factor has been established to recognize the reduced risk associated with safeguards built into the Federal Employees Health Benefit Program (FEHBP) created under Section 8909(f)(1) of Title 5 of the United States Code and TRICARE business. Claims incurred are multiplied by 2% to determine total underwriting RBC on this business.

The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive (Hospital & Medical) individual & group or Other Health Coverages (Page XR013). It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop-Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35% will be applied to the first \$25,000,000 in premium and a factor of 25% will be applied to premium in excess of \$25,000,000. Stop-loss premiums should be reported on a net basis.

Line (245.1) Supplemental Benefits within Stand-Alone Medicare Part D Coverage. A separate risk factor has been established to recognize the different risk (as described in INT 05-05: Accounting for Revenue under Medicare Part D Coverage) for the incurred claims associated with the beneficiaries for these supplemental drug benefits.

Line (245.2) Medicaid Pass-Through Payments Reported as Premium. The treatment of Medicaid Pass-Through Payments varies from state to state, and in some instances is treated as premium. The Health Risk-Based Capital (E) Working Group, however, determined that the risk associated with these payments is more administrative in nature and similar to uninsured plans. As such, the Working Group determined that the charge should follow that of the uninsured plans (ASC and ASO) and apply a 2% factor charge to those Medicaid Pass-Through Payments reported as premiums. This amount should be equal to the amount reported on page XR013, Column (41), Line (35).

Lines (256) through (312) Disability Income. Disability Income Premiums are to be separately entered depending upon category (Individual and Group). For Individual Disability Income, a further split is between noncancellable (NC) or other (guaranteed renewable, etc.). For Group Disability Income, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below \$50,000,000 for similar types. In determining the premiums subject to the higher factors, Individual Disability Income NC and Other are combined. All types of Group and Credit Disability Income are combined in a different category from Individual.

STOP-LOSS ELECTRONIC-ONLY TABLES

The Health Risk-Based Capital (E) Working Group revised the stop-loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop-loss factors as a result of the changes to life-time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop-Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go-forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end 2019, will reflect the incurred data for calendar year 2018 run-out through December 31, 2019.

For those insurers where the stop-loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop Loss (including aggregating specific) = This coverage was included in the 1998 to 2008 factor development.

Aggregate Stop Loss = This coverage was included in the 1998 to 2008 factor development.

HMO Reinsurance = Specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.

Provider Excess = Specific excess written on Providers including IPAs, hospitals, clinics. This coverage was not included in the 1998 to 2008 factor development.

Medical Excess Reinsurance = Specific reinsurance of an insurance company's medical business (first dollar or self-insured). This coverage was not included in the 1998 to 2008 factor development.

Do not include quota share or excess reinsurance written on stop-loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed, e.g., the RBC report filed for 2019 should provide experience information for calendar year 2018 with run-out through December 31, 2019. If the contract year does not follow a calendar year (e.g. 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Contract 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims – These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.

+

Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio – This is equal to (Total Gross Claims + Expenses)/Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims – These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

+

Expenses – These are the net incurred expenses during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Net Combined Ratio – This is equal to (Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Electronic Table 2a – Calendar Year Specific Stop-Loss Contracts by Group Size and Table 2b – Calendar Year Aggregate Stop-Loss Contracts by Group Size

For those insurers where the stop-loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop-loss data and Table 2b should reflect the aggregate stop-loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (e.g. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

The number of covered lives in a group (group size) should be based on the size of the group as of December 31 of the calendar year. The number of covered lives counted should include all enrolled members (that is, total number of lives insured, including dependents).

Number of Groups – list the number of groups for each stop-loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) – The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point (\$) (Table 2a, 50-99 Covered Lives in Group) =
 (Sum of Specific Attachment Points X Reported Lives)/(Sum of Reported Lives)

| Insured Group | Specific Att Point (\$) | Aggregate Att (%) | Number of Lives | Include/Exclude | Reason to Exclude |
|---------------|-------------------------|-------------------|-----------------|-----------------|------------------------|
| 1 | \$200,000 | 115% | 90 | Include | |
| 2 | \$100,000 | 120% | 60 | Include | |
| 3 | \$50,000 | 140% | 40 | Exclude | Not in Group Size Band |
| 4 | \$120,000 | N/A | 50 | Include | |

Calculation: $(200,000 \times 90 + 100,000 \times 60 + 120,000 \times 50)/(90 + 60 + 50) = \$150,000$

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop-loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the expected claims within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =
 (Sum of Expected Claims x Attachment Percentage %)/(Sum of Expected Claims)

| Insured Group | Specific Att Point (\$) | Aggregate Att (%) | Expected Claims | Number of Lives | Include/Exclude | Reason to Exclude |
|---------------|-------------------------|-------------------|-----------------|-----------------|-----------------|----------------------------------|
| 1 | \$200,000 | 115% | \$ 500,000 | 90 | Include | |
| 2 | \$100,000 | 120% | \$ 300,000 | 60 | Include | |
| 3 | \$50,000 | 140% | \$ 200,000 | 40 | Exclude | Not in Group Size Band |
| 4 | \$120,000 | N/A | \$ 400,000 | 50 | Exclude | Aggregate not purchased by group |

Calculation: $(500,000 \times 115\% + 300,000 \times 120\%)/(500,000 + 300,000) = 116.7\%$

Footnote – The number of covered lives for stop-loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 13, Section C. Other Business, Line 2.

If stop-loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

Lines (323) through (401) Long Term Care. Long-Term Care Insurance (LTCI) Premiums are used to determine both a rate risk and the morbidity risk. The rate risk relates to all Noncancellable LTCI premiums. The morbidity risk is partially applied directly to premium with a higher factor (10%) applied to amounts up to \$50,000,000 and a lower factor (3%) applied to premiums in excess of \$50,000,000. In addition, the earned premiums and incurred claims for the last two years are used to determine an average loss ratio (incurred claims divided by earned premiums). This average loss ratio times the current year's premium is called Adjusted LTCI Claims for RBC. A higher factor (25%) is applied to claims up to \$35,000,000 and a lower factor (8%) is applied to claims above \$35,000,000. In certain situations where loss ratios cannot

be used because one of the values is zero or negative, the current year's incurred claims are used. In a situation where the current year's premium is not positive, higher factors are applied to current year's incurred claims to reflect the lack of a premium-based RBC. The RBC for LTCI is the sum of these three calculations.

Line (412) Limited Benefit Plans. There is a factor for certain types of Limited Benefit coverage (Hospital Indemnity, which includes a per diem for intensive care facility stays, and Specified Disease) which includes both a percent of earned premium on such insurance (3.5%) and a flat dollar amount (\$50,000) to reflect the higher variability of small amounts of business.

Line (423) Accidental Death and Dismemberment. There is a factor for Accidental Death and Dismemberment (AD&D) insurance (where a single lump sum is paid) which depends on several items:

1. Three times the maximum amount of retained risk for any single claim;
2. \$300,000 if 3 times the maximum amount of retained risk is larger than \$300,000;
3. 5.5% of earned premium to the extent the premium for AD&D is less than or equal to \$10,000,000; and
4. 1.5% of earned premium in excess of \$10,000,000.

There are places for reporting the total amount of earned premium and maximum retained risk on any single claim. The actual RBC amount will be calculated automatically as the lesser of 1 and 2. That result is then added to 3 and 4.

Line (434) Other Accident. There is a factor for Other Accident coverage that provides for any accident-based contingency other than those contained in Line 43. For example, this line should contain all the premium for policies that provide coverage for accident only disability or accident only hospital indemnity. The premium for policies that contain AD&D in addition to other accident only benefits should be shown on this line.

Line (445) Premium Stabilization Reserves. Premium stabilization reserves are funds held by the company in order to stabilize the premium a group policyholder must pay from year to year. Usually experience-rating refunds are accumulated in such a reserve so that they can be drawn upon in the event of poor future experience. This reduces the insurer's risk.

For health insurance, 50% of the premium stabilization reserves held in the annual statement as a liability (not as appropriated surplus) are permitted as an offset up to the amount of risk-based capital. The 50% factor was chosen to approximate the portion of premium stabilization reserves that would be an appropriate offset if the formula were applied on a contract-by-contract basis, and the reserve offset were limited to the amount of risk-based capital required for each contract.

Companies must list each group having 5% or more of the total premium stabilization reserve of the reporting entity. All other groups may be summarized on one line and labeled as various.

No credit is given here for premium stabilization reserves held for FEHBP and TRICARE coverage, because that coverage is already subject to a lesser percentage of premium in the underwriting risk calculation to reflect its reduced level of risk. Similarly, no credit is given here for any amounts held in connection with stand-alone Medicare Part D Coverage (i.e., amounts held as liabilities to the federal government under the risk-corridor mechanism), since Medicare Part D Coverage premium is already subject to a lesser factor in the underwriting risk calculation to reflect the reduced net level of risk. Amounts held as prepayments from the federal government for reinsurance coverage or low-income subsidy (cost-sharing portion) under Medicare Part D Coverage are not considered premium stabilization reserves as they relate to an uninsured plan.

As such, the company must exclude all amounts relating to FEHBP, TRICARE or stand-alone Medicare Part D Coverage in determining the amount of reserves to be reported.

HEALTH PREMIUMS and HEALTH CLAIMS RESERVES

LR019, LR023 and LR024

Basis of Factors

Risk-based capital factors for health insurance are applied to medical and disability income, long-term care insurance and other types of health insurance premiums and Exhibit 6 claim reserves with an offset for premium stabilization reserves. For health coverage that does not fit into one of the defined categories for risk-based capital, the “Other Health” category is to be used.

Medical Insurance Premium

The business is subdivided by product into categories for individual coverages and for group and credit coverages depending on the risk related to volatility of claims. The factors were developed from a model that determines the minimum amount of surplus needed to protect the company against a worst-case scenario for each type of coverage. The results of the model were then translated into either a uniform percentage or a two-tier formula to be applied to premium. The two-tier formula reflects the decreased risk of a larger in-force block. The formula includes several changes starting in 1998 for some types of health insurance. These changes add several worksheets and are designed to keep the RBC amounts for health coverage consistent regardless of the RBC formula used. If the company has comprehensive medical business (Individual & Group), Title XVIII Medicare, Title XIX Medicaid, Medicare Supplement, Vision, Dental business, or Stand-Alone Medicare Part D coverage through a PDP arrangement, it will be directed to these additional worksheets. The instructions for including paid health claims in the various categories of the Managed Care Discount Factor Calculation can be found in the instructions to LR022 Underwriting Risk – Managed Care Credit. Appendix 32 of these instructions lists commonly used health insurance terms. Appendix 43 of these instructions lists commonly used terms specific to Stand-Alone Medicare Part D coverage. If the company has any of the ~~four~~ mentioned types of medical insurance, it will also be required to complete additional parts of the formula for C-3 Health Credit Risk and C-4 Health Administrative Expenses Risk portion of the Business Risk.

Disability Income Premium

Prior to 2001, the individual disability income factors were based on models of the disability risk completed by several companies with significant experience in this line. The group long-term disability income risk was modeled based on methodology similar to that used by one of the largest writers of this business. The pricing risk was addressed principally as the delayed reaction to increases in incidence of new claims and to the lengthening of claims from slower recoveries than assumed.

Starting in 2001, new categories and new factors are applicable to all types of disability income premiums. These factors are based on new data and apply a model similar to that used for other health premium risk to that data.

Long-Term Care Insurance Premium

Prior to 2005, factors equal to the original disability income factors were used. Starting in 2005, factors based on LTC experience replaced those factors. The difference in the factors used in 2004 and prior years for noncancellable LTC versus other LTC has been retained as a rate risk factor applied to the NC premium. The morbidity risk is partially applied directly to premium with a higher factor applied to amounts up to \$50,000,000 and a lower factor applied to premiums in excess of \$50,000,000. In addition, the earned premiums and incurred claims for the last two years are used to determine an average loss ratio (incurred claims divided by earned premiums). This average loss ratio times the current year’s premium is called Adjusted LTC Claims for RBC. A higher factor is applied to claims up to \$35,000,000 and a lower factor is applied to claims above \$35,000,000.

Claim Reserves

Additional risk-based capital of 5% of claim reserves for both individual and group and credit is required to recognize the risk of the level of recoveries and other claim terminations falling below that assumed in the development of claim reserves. However, claims reserves for workers’ compensation carve-out are excluded from this charge and are separately assessed risk-based capital on page LR021 Underwriting Risk – Other, Line (5); reserves entered for this exclusion should be reported in net balance sheet reserves in Schedule P, Part 1 of the Workers Compensation Carve-Out Supplement.

Pre-Tax and Post-Tax Factors

The formula uses pre-tax factors for all types of health insurance. Because many insurers of some types of health insurance write very little other business, it was determined that there would be no difference between pre-tax and post-tax factors except where substantial investment income is assumed as part of the product pricing. Thus, for disability income, the pre-tax factors in the table below and in LR023 Long-Term Care will be adjusted to post-tax by applying a tax-effect change to RBC in LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital. For reasons of practicality and simplicity, credit disability is included with other disability income and adjusted to post-tax. The pre-tax RBC values for other types of health insurance will not be adjusted.

Specific Instructions for Application of the Formula

The total of all earned premium categories LR019 Health Premiums, Line ~~(3141)~~, (Column (1) should equal Health Supplement Analysis of Operations Part 1 Columns 2 through 13 Line 1 + 2) Column (1) should equal the total in Schedule H, Part 1, Line 2, Column 1 of the annual statement. Earned premium for each of these coverages should be from underlying company records. Earned premium may be reported in Health Supplement Analysis of Operations Schedule H for Administrative Services Contracts (ASC) and/or the Federal Employees Health Benefits Plan (FEHBP) and/or Workers Compensation Carve-Out, which are included in order that Line ~~(3141)~~ will equal the total in Schedule H Health Supplement Analysis of Operations. As such, there is no RBC factor applied to any premium reported on Lines ~~(1826), (2836), (38)~~ or ~~(2939)~~. For some of the coverages, two-tier formulas apply. The calculations for these coverages shown below will not appear on the RBC filing software but will automatically be calculated by the software.

Lines ~~13, 16, 17, 18, 19, 23-26, 29-33, 39, 42~~ and ~~343~~ are not applicable to Fraternal Benefit Societies.

Line (1)

Health premiums for usual and customary major medical and hospital (including comprehensive major medical and expense reimbursement hospital/medical coverage) written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (1), Line (1.1).

Line (2)

Health premiums for Title XVIII Medicare written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (3), Line (1.1).

Line (3)

Health premiums for Title XIX Medicaid written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (4), Line (1.1).

Line (42)

Health premiums for Medicare supplement written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column ~~(52)~~, Line (1.1).

Line (53)

Health premiums for ~~dental or~~ vision only coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column ~~(63)~~, Line (1.1).

Line (56)

Health premiums for dental only coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (7), Line (1.1).

Line (74)

Health premium for Stand-Alone Medicare Part D coverage written on individual contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor payment adjustments. See Appendix 43 for definition of these terms. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (31). No RBC requirement is calculated in Column (2). The premium is carried forward to page LR020 Underwriting Risk – Experience Fluctuation Risk Column (84) Line (1.1).

Line (85)

Health incurred claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on individual contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible. This does not include the low-income subsidy (cost sharing portion), which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Stand-Alone Medicare Part D Coverage on LR019.

Line (96) and (2216)

Medicaid pass-through payments reported as premium ~~and excluded from Line (1) should be reported in Line (6) or (16).~~

Line (107) and Line (2347)

There is a factor for certain types of limited benefit coverage (hospital indemnity, which includes a per diem for intensive care facility stays, and specified disease) which includes both a percent of earned premium on such insurance (3.5%) and a flat dollar amount (\$50,000) to reflect the higher variability of small amounts of business.

Line (118) and Line (2418)

The factor for accidental death and dismemberment (AD&D) insurance (where a single lump sum is paid) depends on several items:

1. Three times the maximum amount of retained risk for any single claim;
2. \$300,000 if three times the maximum amount of retained risk is larger than \$300,000;
3. 5.5% of earned premium to the extent the premium for AD&D is less than or equal to \$10,000,000; and
4. 1.5% of earned premium in excess of \$10,000,000.

There are places for reporting the total amount of earned premium and the maximum retained risk on any single claim. The actual RBC Requirement will be calculated automatically as the sum of (a) the lesser of items 1 and 2 plus (b) items 3 plus 4.

Line (129) and Line (2519)

The factor for Other Accident coverage provides for any accident-based contingency other than those contained in Lines (811) or (4824). For example, this line should contain all the premium for policies that provide coverage for accident-only disability or accident-only hospital indemnity. The premium for policies that contain AD&D in addition to other accident-only benefits should also be shown on this line.

Line (130)

Health premiums for usual and customary major medical and hospital (including comprehensive major medical and expense reimbursement hospital/medical coverage) written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (24), Line (1.2).

Line (14)

Health premiums for Title XVIII Medicare written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (3), Line (1.2).

Line (15)

Health premiums for Title XIX Medicaid written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (4), Line (1.2).

Line (16+)

Health premiums for ~~dental or~~ vision only coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (63), Line (1.2).

Line (17)

Health premiums for dental only coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (7), Line (1.2).

Line (182)

The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Line (3240)). It is not expected that the transfer of risk through the

various managed care credits will reduce the risk of stop-loss coverage. Medical Stop Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35% will be applied to the first \$25,000,000 in premium and a factor of 25% will be applied to the premium in excess of \$25,000,000. Stop loss premiums should be reported on a net basis.

Line (193)
Health premiums for Medicare supplement written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to LR020 Underwriting Risk – Experience Fluctuation Risk, Column (52), Line (1.2).

Line (204)
Health premium for Stand-Alone Medicare Part D coverage written on group contracts only if the plan sponsor has risk corridor protection for the contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor protection payments. See Appendix 3-4 for definition of these terms. Stand-Alone Medicare Part D coverage written on group contracts without risk corridor protection is reported in Line (340) Other Health. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (1429). No RBC requirement is calculated in Column (2). The premium is carried forward to page LR020 Underwriting Risk – Experience Fluctuation Risk Column (84) Line (1.2).

Line (22145)
Health incurred claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on group contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible where the plan sponsor has risk corridor protection for the group contract’s standard benefit design coverage. This does not include the low-income subsidy (cost-sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Part D Coverage on LR019.

Lines (21627) through (22733)
Disability income premiums are to be separately entered depending upon category (individual and group). For Individual, a further split is between noncancellable (NC) or other (GR, etc.) For group, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below \$50,000,000 for similar types. Starting in 2001, in determining the premiums subject to the higher factors, individual disability income noncancellable and other is combined. All types of group and credit are combined in a different category from individual.

The following table describes the calculation process used to assign RBC charges to disability income business. The reference to line numbers (e.g., Line 19) represent the actual line numbers used in the formula page, but the subdivisions of those lines [e.g., a), b) etc.] do not exist in the formula page. The total RBC Requirement shown in the last (Total) subdivision of each line will be included in Column (2) for that line in the formula page.

| | <u>Disability Income Premium</u> | <u>Annual Statement Source</u> | (1) <u>Statement Value</u> | <u>Factor</u> | (2) <u>RBC Requirement</u> |
|-------------------|---|---|-------------------------------|---------------|-------------------------------|
| <u>Line (274)</u> | Noncancellable Disability Income - Individual Morbidity | Earned Premium included in <u>Schedule H, Part 1, Line 2, Health Supplement Analysis of Operations 11, Line 1 + 2</u> , in part | _____ | | |
| a) | First \$50 Million Earned Premium of Line (274) | Company Records | _____ | X 0.4435 = | _____ |
| b) | Over \$50 Million Earned Premium of Line (274) | Company Records | _____ | X 0.1901 = | _____ |
| c) | Total Noncancellable Disability Income - Individual Morbidity | a) of Line (274) + b) of Line (274), Column (2) | _____ | | ===== |

| | | | | | |
|------------------------------|--|--|--|------------|--|
| <u>Line</u> <u>(282)</u> | Other Disability Income - Individual Morbidity | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part | | | |
| a) | Earned Premium in Line (282) [up to \$50 million less premium in a) of Line (274)] | Company Records | | X 0.3168 = | |
| b) | Earned Premium in Line (282) not included in a) of Line (282) | Company Records | | X 0.0889 = | |
| c) | Total Other Disability Income - Individual Morbidity | a) of Line (282) + b) of Line (282), Column (2) | | | |
| <u>Line</u> <u>(293)</u> | Disability Income - Credit Monthly Balance | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part | | | |
| a) | First \$50 Million Earned Premium of Line (293) | Company Records | | X 0.2534 = | |
| b) | Over \$50 Million Earned Premium of Line (293) | Company Records | | X 0.0378 = | |
| c) | Total Disability Income - Credit Monthly Balance | a) of Line (293) + b) of Line (293), Column (2) | | | |
| <u>Line</u> <u>(3024)</u> | Disability Income – Group Long-Term | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part | | | |
| a) | Earned Premium in Line (3024) [up to \$50 million less premium in a) of Line (293)] | Company Records | | X 0.1901 = | |
| b) | Earned Premium in Line (3024) not included in a) of Line (3024) | Company Records | | X 0.0378 = | |
| c) | Total Disability Income – Group Long-Term | a) of Line (3024) + b) of Line (3024), Column (2) | | | |
| <u>Line</u> <u>(3125)</u> | Disability Income - Credit Single Premium with Additional Reserves | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part. This amount to be reported on LR019 Health Premiums, Line (3125) | | | |
| a) | Additional Reserves for Credit Disability Plans | LR019 Health Premiums Column (1) Line (4234) | | | |
| b) | Additional Reserves for Credit Disability Plans, Prior Year | LR019 Health Premiums Column (1) Line (4335) | | | |
| c) | Subtotal Disability Income - Credit Single Premium with Additional Reserves | Line (3125) - a) of Line (3125) + b) of Line (3125) | | | |
| d) | Earned Premium in c) [up to \$50 million less premium in a) of Line (293) + a) of Line (3024)] | Company Records | | X 0.1901 = | |
| e) | Earned Premium in c) of Line (3125) not included in d) of Line (3125) | Company Records | | X 0.0378 = | |
| f) | Total Disability Income - Credit Single Premium with Additional Reserves | d) of Line (3125) + e) of Line (3125), Column (2) | | | |

| | | | | | |
|------------------------------|---|--|-------|------------|-------|
| <u>Line</u> <u>(3226)</u> | Disability Income – Credit Single Premium without Additional Reserves | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part | _____ | | _____ |
| a) | Earned Premium in Line <u>(3226)</u> [up to \$50 million less premium in a) of Line <u>(293)</u> + a) of Line <u>(3024)</u> + d) of Line <u>(3125)</u>] | Company Records | _____ | X 0.1267 = | _____ |
| b) | Earned Premium in Line <u>(3226)</u> not included in a) of Line <u>(3226)</u> | Company Records | _____ | X 0.0378 = | _____ |
| c) | Total Disability Income – Credit Single Premium without Additional Reserves | a) of Line <u>(3226)</u> + b) of Line <u>(3226)</u> , Column (2) | ===== | | ===== |
| | | | | | |
| <u>Line</u> <u>(3327)</u> | Disability Income – Group Short-Term | Earned Premium included in <u>Health Supplement Analysis of Operations Column 11, Line 1 + 2, Schedule H, Part 1, Line 2</u> , in part | _____ | | _____ |
| a) | Earned Premium in Line <u>(3327)</u> [up to \$50 million less premium in a) of Line <u>(293)</u> + a) of Line <u>(3024)</u> + d) of Line <u>(3125)</u> + a) of Line <u>(3226)</u>] | Company Records | _____ | X 0.0634 = | _____ |
| b) | Earned Premium in Line <u>(3327)</u> not included in a) of Line <u>(3327)</u> | Company Records | _____ | X 0.0378 = | _____ |
| c) | Total Disability Income – Group Short-Term | a) of Line <u>(3327)</u> + b) of Line <u>(3327)</u> , Column (2) | ===== | | ===== |

Lines (3528) and (3629)

Premiums for noncancellable long-term care insurance are included on Line (3528) to reflect the additional risk when rate increases are not permitted. Line (3629) includes premiums for Other LTC coverage but with no RBC value on this page (the RBC is determined on LR023 Long-Term Care) so that the validation check to Schedule H Health Supplement Analysis of Operations can still be performed.

Line (394)

Premiums for Workers’ Compensation Carve-Out are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The RBC Requirement assessed on these premiums can be found on page LR021 Underwriting Risk – Other, Line (4).

Line (4032)

It is anticipated that most health premium will have been included in one of the other lines. In the event that some coverage does not fit into any of these categories, the “Other Health” category continues the RBC factor from the 1998 and prior formula for Other Limited Benefits Anticipating Rate Increases. Stop loss premiums are addressed separately in Line (182).

Stop Loss Electronic Only Tables

The Health Risk-Based Capital (E) Working Group revised the stop loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop loss factors as a result of the changes to life time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end 2018, will reflect the incurred data for calendar year 2017 run-out through December 31st, 2018.

For those insurers where the stop loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop Loss = (including aggregating specific). This coverage was included in the 1998 to 2008 factor development.

Aggregate Stop Loss = This coverage was included in the 1998 to 2008 factor development.

HMO Reinsurance = specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.

Provider Excess = specific excess written on Providers including IPAs, hospitals, clinics. This coverage was not included in the 1998 to 2008 factor development.

Medical Excess Reinsurance = specific reinsurance of an insurance company's medical business (first dollar or self-insured). This coverage was not included in the 1998 to 2008 factor development.

Please do not include quota share or excess reinsurance written on Stop Loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed; e.g., the RBC report filed for 2018 should provide experience information for calendar year 2017 with run-out through December 31st, 2018. If the contract year does not follow a calendar year (i.e. 7/1- 6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Treaty 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims - These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.

+

Expenses - These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance - This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims - These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

+ Expenses – These are the net incurred expenses during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Net Combined Ratio – This is equal to I(Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Table 2a – Calendar Year Specific Stop Loss Contracts By Group Size and Table 2b – Calendar Year Aggregate Stop Loss Contracts by Group Size

For those insurers where the stop loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer’s total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop loss data and Table 2b should reflect the aggregate stop loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (i.e. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

The number of covered lives in a group (group size) should be based on the size of the group as of December 31 of the calendar year. The number of covered lives counted should include all enrolled members (that is, total number of lives insured, including dependents).

Number of Groups – list the number of groups for each stop loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) - The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point (\$) (Table 2a, 50-99 Covered Lives in Group) =
 (Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

| Insured Group | Specific Att Point (\$) | Aggregate Att (%) | Number of Lives | Include Exclude | Reason to Exclude |
|---------------|-------------------------|-------------------|-----------------|-----------------|------------------------|
| 1 | \$ 200,000 | 115% | 90 | Include | |
| 2 | \$ 100,000 | 120% | 60 | Include | |
| 3 | \$ 50,000 | 140% | 40 | Exclude | Not in Group Size Band |
| 4 | \$ 120,000 | N/A | 50 | Include | |

Calculation: (200,000 x 90 + 100,000 x 60 + 120,000 x 50) / (90 + 60 + 50) = \$150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the count of covered lives within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =
 (Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

| <u>Insured Group</u> | <u>Specific Att Point (\$)</u> | <u>Aggregate Att (%)</u> | <u>Expected Claims</u> | <u>Number of Lives</u> | <u>Include Exclude</u> | <u>Reason to Exclude</u> |
|----------------------|--------------------------------|--------------------------|------------------------|------------------------|------------------------|----------------------------------|
| 1 | \$ 200,000 | 115% | \$ 500,000 | 90 | Include | |
| 2 | \$ 100,000 | 120% | \$ 300,000 | 60 | Include | |
| 3 | \$ 50,000 | 140% | \$ 200,000 | 40 | Exclude | Not in Group Size Band |
| 4 | \$ 120,000 | N/A | \$ 400,000 | 50 | Exclude | Aggregate not purchased by group |

Calculation: $(500,000 \times 115\% + 300,000 \times 120\%) / (500,000 + 300,000) = 116.7\%$

Footnote – The number of covered lives for stop loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 6, Section C. Other Business, Line 2.

If stop loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

UNDERWRITING RISK – EXPERIENCE FLUCTUATION RISK

LR020

The underwriting risk generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this worksheet comes from LR022 Underwriting Risk – Managed Care Credit.

Underwriting risk is present when the next dollar of unexpected claims payments comes directly out of the company's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, an insurer may charge an individual \$100 in premium in exchange for a guaranty that all medical costs will be paid by the insurer. If the individual incurs \$101 in claims costs, the company's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the insurer is not at risk for excessive claims payments, such as when an insurer agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claims costs, so the risk of excessive claims experience is borne by the self-insured employer, not the insurer. The underwriting risk section of the RBC formula, therefore, requires some adjustments to remove non-risk business (premiums and claims) before the RBC requirement is calculated.

For Stand-Alone Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10) through (13) of LR022 will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

Claims Experience Fluctuation

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

- A. Underwriting risk revenue times the underwriting risk claims ratio times a set of factors.

or

- B. An alternate risk charge that addresses the risk of catastrophic claims on any single individual. The alternate risk charge is \$500,000 per line for medical coverage, \$50,000 total for all other coverage except Medicare Part D coverage, and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e., writing more than one coverage type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive – Individual, Comprehensive – Group, Title XVIII – Medicare, Title XIX – Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health. For example, if an organization writes Comprehensive – Individual, Comprehensive – Group, Vision Only, and Dental Only, the alternate risk charge is \$1,000,000 (the cumulative charge for Comprehensive – Individual and Comprehensive – Group, which is higher than the \$100,000 cumulative charge for Vision Only and Dental Only.) The alternate risk charge is calculated for each type of health coverage, but only the largest value is compared to the value from A. above for that type. The alternate risk charge is equal to a multiple of the maximum retained risk on any single individual in a claims year. The maximum retained risk (level of potential claim exposure) is capped at two times the maximum or \$1,500,000 for Comprehensive Medical; two times the maximum or \$50,000 for each of Medicare Supplement business and dental coverage and six times the maximum or \$150,000 for Stand Alone Medicare Part D coverage.

Line (1) through Line (198)

There are ~~eight~~^{four} lines of business used in the life and fraternal RBC formula for calculating the RBC requirement in this worksheet. Other health coverages will continue to use the factors on LR019 Health Premiums. The ~~four~~^{eight} lines of business are: Column (1) Comprehensive Medical and Hospital - Individual; Column (2) Comprehensive Medical and Hospital - Group; Column (3) Title XVIII Medicare; Column (4) Title XIX Medicaid; Column (5) Medicare Supplement; Column (6) Dental & Vision Only; Column (7) Dental Only; and Column (8) Stand-Alone Medicare Part D coverage. Each of the ~~four~~^{eight} lines of business has its own column in the Underwriting Risk - Experience Fluctuation Risk table. The

categories listed in the columns of this worksheet include premiums plus all risk revenue that is received from another reporting entity in exchange for medical services provided to its members.

For details of each category refer to LR019 instructions.

~~The descriptions of the items are as follows:~~

~~Comprehensive Medical & Hospital~~

~~Includes policies providing for medical coverages, including hospital, surgical, major medical, Medicare risk coverage (but NOT Medicare supplement) and Medicaid risk coverage. This includes Medicare Advantage, with or without prescription drug benefits. This category DOES NOT include administrative services contracts (ASC) or administrative services only (ASO) contracts. These programs are reported in the Business Risk section of the formula. Neither does it include Federal Employees Health Benefits Program (FEHBP) business, which is reported on LR021 Underwriting Risk – Other, Line (3). The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed \$1,500,000.~~

~~Medical Only (non-hospital professional services)~~

~~Include in Comprehensive Medical.~~

~~Medicare Supplement~~

~~This is business reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement. Medicare risk business is reported under comprehensive medical and hospital.~~

~~Dental & Vision~~

~~These are premiums for policies providing for dental or vision only coverage issued as stand-alone dental or as a rider to a medical policy that is not related to the medical policy through deductibles or out-of-pocket limits.~~

~~Stand-Alone Medicare Part D Coverage~~

~~Includes policies and contracts providing the standard coverage for individuals enrolled in Stand-Alone Medicare Part D and the insurance is a federally approved PDP with risk corridor protection. It does not include risk revenue for Supplemental benefits within Stand-Alone Medicare Part D coverage that is a portion of the PDP's approved package. It does not include employer coverage unless the coverage meets the above criteria. Where there is a federal subsidy to the employer in lieu of risk corridor protection, the premiums are to be reported as "Other Health."~~

~~Other Health Coverages~~

~~Include in the appropriate line on LR019 Health Premiums.~~

The following paragraphs explain the meaning of each line of the worksheet table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium

This is the amount of money charged by the insurer for the specified benefit plan. It is the earned premium, net of reinsurance. It does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-risk business; or premium for the Federal Employees Health Benefit Programs (FEHBP), which has a risk factor relating to incurred claims reported separately under LR021 Underwriting Risk – Other, Line (3).

NOTE: Where premiums are paid on a monthly basis, they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

For Stand-Alone Medicare Part D Coverage, this will include only certain amounts paid by the individual, an employer or CMS. See Appendix 3-4 for details of what is and is not premium income.

Line (2) Title XVIII Medicare

~~This is the earned amount of money charged by the insurer (net of reinsurance) for Medicare risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans.~~

Line (3) Title XIX Medicaid

~~This is the earned amount of money charged by the insurer for Medicaid risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicaid subscribers. Revenue from Stand-Alone Medicare Part D coverage under the low-income subsidy (cost sharing portion) and low-income subsidy (premium portion) are not included in this line.~~

Line (242) Other Health Risk Revenue

Earned amounts charged by the reporting company as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders or members of another insurer or managed care organization (MCO). Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or MCO to the company in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the company from another reporting entity. This revenue is reported in the business risk section of the formula as health ASO/ASC and limited risk revenue.

Line (3) Medicaid Pass-Through Payments Reported as Premiums

Medicaid Pass-Through Payments that are included as premiums. Equals the total of LR019 Lines (9) and (22)

Line (45) Underwriting Risk Revenue

~~The sum of Lines (1.3) through + (24) - (3).~~

Line (56) Net Incurred Claims

Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the insurer. Paid claims ~~includes~~include capitation and all other payments to providers for services to covered lives, as well as reimbursement directly to insureds (or their providers) for covered services. Paid claims also include salaries paid to company employees that provide medical services to covered lives and related expenses. Line (56) does not include ASC payments or Federal Employees Health Benefit Program (FEHBP) claims.

~~Column (1) claims come from Schedule H, Part 5, Columns 1 and 2 Line 13 less the amounts reported as incurred claims for administrative services contracts (ASC) in Line (54) of LR029 Business Risk and Federal Employee Health Benefit Program (FEHBP) in Line (3) of LR021 Underwriting Risk—Other. Column (2) for Medicare supplement should be net of reinsurance, the same as the other columns. Column (2) for Medicare supplement should use the direct claims from General Interrogatories Part 2, Line 1.5 after adjusting them for reinsurance. Column (3) dental claims come from Schedule H, Part 5, Column 5, Line 13.~~

For Stand-Alone Medicare Part D Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in Appendix 34). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claim liabilities should reflect expected recoveries from the reinsurance coverage – for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS.

Line (6) Medicaid Pass-Through Payments Reported as Claims.

Medicaid Pass-Through Payments that are included as claims.Line (7) Fee-for-Service Offset

Report fee-for-service revenue that is directly related to medical expense payments. The fee-for-service line does not include revenue where there is no associated claim payment (e.g., fees or charges to non-member/insured of the company where the provider of the service receives no additional compensation from the company) and when such revenue was excluded from the pricing of medical benefits.

Line (8) Underwriting Risk Incurred Claims

Lines ~~(56)~~ – ~~minus Line (67)~~ – (7).

Line (9) Underwriting Risk Claims Ratio

Line (8) / Line ~~(45)~~. If either Line ~~(45)~~ or Line (8) is zero or negative, Line (9) is zero.

Line (10) ~~Underwriting Risk Factor~~ Underwriting Risk Factors for Initial Amounts of Premium

~~Factor applied to the first \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to the first \$3,000,000 in premium for columns (5), (6), (7),~~

~~A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.~~

| | \$0 - \$3 Million | \$3 - \$25 Million | Over \$25 Million |
|--------------------------------------|----------------------|-----------------------|----------------------|
| Comprehensive Medical | 0.14341440 | 0.14341440 | 0.08380844 |
| Medicare Supplement | 0.09800987 | 0.06030609 | 0.06030609 |
| Dental | 0.11481153 | 0.07110716 | 0.07110716 |
| Stand Alone Medicare Part D Coverage | 0.251 | 0.251 | 0.151 |

Line (11) Underwriting Risk Factors for Excess of Initial Amount

~~Factor applied to premium in excess of \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to premium in excess of \$3,000,000 in premium for columns (5), (6), (7),~~

Line (12) Investment Income Adjustment Factor

~~The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 4.5% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.~~

Line (13) Composite Underwriting Risk Factor.

~~A weighted average factor based on the amount reported in Line (4), Underwriting Risk Revenue. Includes the Investment Income Adjustment Factor.~~

Line (14) Base Underwriting Risk RBC

Line ~~(45)~~ x Line (9) x Line ~~(130.3)~~.

Line (15) Managed Care Discount Factor

For Comprehensive Medical & Hospital Individual, Comprehensive Medical & Hospital Group, Title XVIII Medicare, Title XIX Medicaid, Medicare Supplement (including Medicare Select), Vision, and Dental, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the

uncertainty about future claims payments attributable to the managed care arrangements. The discount factor is from Column (3) Line (17) of LR022 Underwriting Risk – Managed Care Credit. An average factor based on the combined results of these ~~three~~ categories is used ~~for all three~~.

For Stand-Alone Medicare Part D Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (17) of LR022 Underwriting Risk – Managed Care Credit.

Line (163) Base RBC After Managed Care Discount

Line (141) x Line (152).

Line (14) RBC Adjustment for Individual

~~The average experience fluctuation risk charge is increased by 20% for the portion relating to individual medical expense premiums in Column (1). Other types of health coverage do not differentiate individual and group. The additional time necessary to develop sufficient data to make a premium filing with states and then to implement the premium increase was modeled to calculate this factor.~~

Line (15) Maximum Per Individual Risk After Reinsurance

~~This is the maximum loss after reinsurance for any single individual. Where specific stop loss reinsurance protection is in place, the maximum per individual risk after reinsurance is equal to the highest attachment point on such stop loss reinsurance, subject to the following:~~

- ~~• Where coverage under non-proportional reinsurance or stop loss protection with the highest attachment point is capped at less than \$750,000 per insured for comprehensive medical and \$25,000 for the other three lines, the maximum retained loss will be equal to such attachment point plus the difference between the coverage maximum per claim and \$750,000 or \$25,000, whichever is applicable.~~
- ~~• Where the non-proportional reinsurance or stop loss protection is subject to participation by the company, the maximum retained risk as calculated above will be increased by the company's participation in claims in excess of the attachment point, but not to exceed \$750,000 for comprehensive medical and \$25,000 for the other three coverages.~~

~~If there is no specific stop loss or reinsurance in place, enter the largest amount payable (within a calendar year), or \$9,999,999 if there is no limit.~~

~~Examples of the calculation are presented below:~~

EXAMPLE 1 (Insurer provides Comprehensive Care):

| | |
|---|--|
| _____ Highest Attachment Point (Retention) | _____ \$100,000 |
| _____ Reinsurance Coverage | _____ 90% of \$500,000 in excess of \$100,000 |
| _____ Maximum Reinsured Coverage | _____ \$600,000 (\$100,000 + \$500,000) |
| _____ Maximum Retained Risk = | _____ \$100,000 deductible |
| | _____ +\$150,000 (\$750,000 – \$600,000) |
| | _____ +\$50,000 (10% of \$500,000 coverage layer) |
| | _____ = \$300,000 |

EXAMPLE 2 (Insurer provides Comprehensive Care):

| | |
|---|---------------------------|
| _____ Highest Attachment Point (Retention) | _____ \$75,000 |
|---|---------------------------|

| | |
|---------------------------------------|--|
| Reinsurance Coverage | 90% of \$1,000,000 in excess of \$75,000 |
| Maximum Reinsured Coverage | \$1,075,000 (\$75,000 + \$1,000,000) |
| Maximum Retained Risk = | \$75,000 deductible |
| | + 0 (\$750,000 - \$1,075,000) |
| | +\$67,500 (10% of \$675,000 coverage layer) |
| | -\$142,500 |

Line (176) Alternate Risk Charge

~~Twice the amount in Line (15), subject to a maximum of \$1,500,000 for comprehensive medical and \$50,000 for Medicare Supplement and Dental. Six times the amount in Line (15), subject to a maximum of \$150,000 for Stand-Alone Medicare Part D Coverage. \$500,000 for Columns (1), (2), (3), and (4); \$50,000 for Columns (5), (6), and (7); and \$150,000 for Column (8).~~

Line (187) Net Alternate Risk Charge

~~The largest value from Line (16) is retained for that column in Line (17) and all others are ignored. The alternate risk charge is \$500,000 per line for medical coverage, \$50,000 total for all other coverage except Medicare Part D coverage, and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e., writing more than one coverage type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive – Individual, Comprehensive – Group, Title XVIII – Medicare, Title XIX – Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health.~~

Line (198) Net Underwriting Risk RBC

The maximum of Line (164) and Line (187).

**LRBC FORMULA APPLICATION FOR P&C COMPANY'S A&H BUSINESS
PR019 – PR026**

If the reporting company writes 5% or more of its premiums in A&H lines in 20243, 20254 or 20265, this section of the formula must be completed. To determine if that applies, take the sum of Lines 13, 14 and 15 of the Underwriting and Investment Exhibit Part 1B Column 6 and divide by Line 35 Column 6, and round to three decimals for each individual year. If the result is at least 0.050 in any year, this exhibit and the appropriate Schedule P adjustment must be completed.

If the company writes less than 5% of its premiums in A&H lines in 20243, 20254 and 20265, disregard this section.

PR019 - Health Premiums

Basis of Factors

Risk-based capital factors for health insurance are applied to medical, disability income, long-term care insurance and other types of health insurance premiums and claim reserves with an offset for premium stabilization reserves. For health coverage that does not fit into one of the defined categories for risk-based capital, the “Other Health” category is to be used.

Medical Insurance Premium

The business is subdivided by product into categories for individual coverages and for group and credit coverages depending on the risk related to volatility of claims. The factors were developed from a model that determines the minimum amount of surplus needed to protect the company against a worst-case scenario for each type of coverage. The results of the model were then translated into either a uniform percentage or a two-tier formula to be applied to premium. The two-tier formula reflects the decreased risk of a larger in-force block. The formula includes several changes starting in 1999 for some types of health insurance. These changes add several additional worksheets and are designed to keep the RBC amounts for health coverage consistent regardless of the RBC formula used. If the company has Comprehensive Medical business, Medicare Supplement, Dental & Vision business, or Stand-Alone Medicare Part D coverage through a PDP arrangement, it will be directed to these additional worksheets. The instructions for including paid health claims in the various categories of the Managed Care Discount Factor Calculation can be found in the instructions to PR021 Underwriting Risk – Managed Care Credit. Appendix 1 - Commonly Used Health Insurance Terms haves been added to these instructions. Appendix 2 of these instructions lists commonly used terms of Stand-Alone Medicare Part D coverage. If the company has any of the three mentioned types of medical insurance, it will also be required to complete additional parts of the formula for Health Credit Risk (PR013) and Health Administrative Expenses portion in PR022.

Disability Income Premium

Prior to 2001, the individual disability income factors were based on models of the disability risk completed by several companies with significant experience in this line. The group long-term disability income risk was modeled based on methodology similar to that used by one of the largest writers of this business. The pricing risk was addressed principally as the delayed reaction to increases in incidence of new claims and to the lengthening of claims from slower recoveries than assumed.

Starting in 2001, new categories and new factors are applicable to all types of disability income premiums. These factors are based on new data and apply a model similar to that used for other health premium risk to that data.

All premium should be reported on a net of reinsurance basis.

Specific Instructions for Application of the Formula

The total of all earned premium categories PR019 Health Premiums, Line (3626), Column (1) should equal the total in ~~Schedule H Underwriting and Investment Exhibit~~, Part 1, Line 13.1 through 15.92, Column 41 of the Annual Statement. Earned premium for each of these coverages should be from underlying company records. Earned premium may be reported in ~~Schedule H Underwriting and Investment Exhibit~~ for Administrative Services Contract (ASC) and/or the Federal Employees Health Benefit Program (FEHBP) which are included in order that Line (3626) will equal the total in ~~Schedule H Underwriting and Investment Exhibit~~. As such, there is no RBC factor applied to any premium reported on lines (2214), (3223)

or (3424). For some of the coverages, two tier formulas apply. The calculations for these coverages shown below will not appear on the RBC filing software but will automatically be calculated by the software.

Line (1)

Health premiums for comprehensive (medical and hospital), which includes expense reimbursement hospital/medical coverage) written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (1) Line (1.1). ~~Medicaid Pass Through Payments reported as premium in the annual statement filing should be excluded from the premium amounts reported in Line 1 and reported in Line (3.3) and (10.3), respectively.~~

Line (2)

~~Health premiums for Title XVIII Medicare written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.1).~~

Line (3)

~~Health premiums for Title XIX Medicaid written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (4) Line (1.1).~~

Line (42)

Health premiums for Medicare supplement written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (52) Line (1.1).

Line (53)

Health premiums for ~~dental or~~ vision **only** coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (63) Line (1.1).

Line (6)

~~Health premiums for dental **only** coverage written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (7) Line (1.1).~~

Line (73.1)

Health premium for Stand-Alone Medicare Part D coverage written on individual contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor payment adjustments. See Appendix 2 for definition of these terms. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (21). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (84) Line (1.1).

Line (73.2)

Health incurred claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on individual contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible. This does not include the low-income subsidy (cost sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Stand-Alone Medicare Part D Coverage on PR019.

Line (73.3)

Medicaid pass-through payments reported as premium ~~and excluded from Line (1) should be reported in Line (3.3).~~

Line (84) and Line (191)

There is a factor for certain types of limited benefit coverage (Hospital Indemnity, which includes a per diem for intensive care facility stays, and Specified Disease) which includes both a percent of earned premium on such insurance (3.5%) and a flat dollar amount (\$50,000) to reflect the higher variability of small amounts of business.

Line (95) and Line (2012)

There is a factor for accidental death and dismemberment (AD&D) insurance (where a single lump sum is paid) which depends on several items:

1. The maximum amount of retained risk for any single claim;
2. \$300,000 if three times the maximum amount of retained risk is larger than \$300,000;
3. 5.5% of earned premium to the extent the premium for AD&D is less than or equal to \$10,000,000; and
4. 1.5% of earned premium in excess of \$10,000,000.

There are places for reporting the total amount of earned premium and the maximum retained risk on any single claim. The actual RBC amount will be calculated automatically as the sum of (a) the lesser of items 1 and 2; plus (b) items 3 plus 4.

Line (106) and Line (2143)

A 5% factor for Other Accident coverage provides for any accident based contingency other than those contained in Lines (95) or (2012). For example, this line should contain all the premium for policies that provide coverage for accident only disability or accident only hospital indemnity. The premium for policies that contain AD&D in addition to other accident only benefits should be shown on this line.

Line (117)

Health premiums for comprehensive (medical and hospital), which includes expense reimbursement hospital/medical coverage) written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (24) Line (1.2).

Line (12)

Health premiums for Title XVIII Medicare written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (3) Line (1.2).

Line (13)

Health premiums for Title XIX Medicaid written on individual contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (4) Line (1.2).

Line (148)

Health premiums for ~~dental or~~ vision **only** coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (63) Line (1.2).

Line (15)

Health premiums for dental **only** coverage written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (7) Line (1.2).

Line (169)

The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group in 2016 to apply a tiered risk factor approach to the Stop-Loss Premium. The premiums for this coverage should not be included within Comprehensive Medical or Other Health Coverages (Line (325)). It is not expected that the transfer of risk through the various managed care credits will reduce the risk of stop-loss coverage. Medical Stop-Loss exhibits a much higher variability than Comprehensive Medical. A factor of 35% will be applied to the first \$25,000,000 in premium and a factor of 25% will be applied to the premium in excess of \$25,000,000. Stop-loss premiums should be reported on a net basis.

Line (170)

Health premiums for Medicare supplement written on group contracts are entered in Column (1) for this line, but no RBC Requirement is calculated in Column (2). The premiums are carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (52) Line (1.2).

Line (180.1)

Health premium for Stand-Alone Medicare Part D coverage written on group contracts only if the plan sponsor has risk corridor protection for the contracts - includes beneficiary premium (standard coverage portion), direct subsidy, low-income subsidy (premium portion), Part D Payment Demonstration amounts and risk corridor protection payments. See Appendix 2 for definition of these terms. Stand-Alone Medicare Part D coverage written on group contracts without risk corridor protection is reported in Line (325) Other Health. This does not include Medicare-Advantage prescription drug coverage (MA-PD) premiums which are to be included in Line (169). No RBC requirement is calculated in Column (2). The premium is carried forward to page PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision, Column (84) Line (1.2).

Line (180.2)

Health Incurred Claims for Supplemental benefits within Stand-Alone Medicare Part D coverage written on group contracts that is beneficiary payment (supplemental benefit portion) – e.g., coverage in the coverage gap, use of co-pays of less value than the minimum regulatory coinsurance and reduced deductible where the plan sponsor has risk corridor protection for the group contract's standard benefit design coverage. This does not include the low-income subsidy (cost-sharing portion) which is not a component of reported revenue. RBC is calculated for Supplemental benefits within Part D Coverage on PR019.

Line (180.3)

Medicaid pass-through payments reported as premium ~~and excluded from Line (7) should be reported in Line (10.3).~~

Lines (2315) through (3424)

Disability income premiums are to be separately entered depending on category (Individual and Group). For Individual, a further split is between noncancellable (NC) or other (GR, etc.) For Group, the further splits are between Credit Monthly Balance, Credit Single Premium (with additional reserves), Credit Single Premium (without additional reserves), Group Long-Term (benefit periods of two years or longer) and Group Short-Term (benefit periods less than two years). For long-term care insurance, premiums are reported separately for Individual noncancellable, Individual (other than NC) and Group LTCI. The RBC factors vary by the amount of premium reported such that a higher factor is applied to amounts below \$50,000,000 for similar types. Starting in 2001, in determining the premiums subject to the higher factors, individual disability income noncancellable and other is combined. All types of Group and Credit are combined in a different category from Individual. For long-term care, all types (Individual and Group) are combined.

The following table describes the calculation process used to assign RBC charges to disability income business. The reference to line numbers (e.g., Line 2315) represent the actual line numbers used in the formula page, but the subdivisions of those lines [e.g., a), b), etc.] do not exist in the formula page. The total RBC Requirement shown in the last (Total) subdivision of each line will be included in Column (2) for that line in the formula page.

| | | <u>Annual Statement Source</u> | <u>Statement Value</u> | <u>Factor</u> | <u>RBC Requirement</u> |
|---------------|--|--|------------------------|---------------|------------------------|
| <u>Line</u> | <u>Disability Income Premium</u> | | | | |
| <u>(2315)</u> | Noncancellable Disability Income - Individual Morbidity | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3 Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | |
| a) | First \$50 Million Earned Premium of Line (2315) | Company Records | _____ | X 0.350 = | _____ |
| b) | Over \$50 Million Earned Premium of Line (2315) | Company Records | _____ | X 0.150 = | _____ |
| c) | Total Noncancellable Disability Income - Individual Morbidity | a) of Line (2315) + b) of Line (2315), Column (2) | _____ | | ===== |
| <u>Line</u> | Other Disability Income – Individual Morbidity | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3 Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | |
| <u>(2416)</u> | | | | | |
| a) | Earned Premium in Line (2416) [up to \$50 million less premium in a) of Line (2315)] | Company Records | _____ | X 0.250 = | _____ |
| b) | Earned Premium in Line (2416) not included in a) of Line (2416) | Company Records | _____ | X 0.070 = | _____ |
| c) | Total Other Disability Income - Individual Morbidity | a) of Line (2416) + b) of Line (2416), Column (2) | _____ | | ===== |
| <u>Line</u> | Disability Income - Credit Monthly Balance | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3 Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | |
| <u>(2517)</u> | | | | | |
| a) | First \$50 Million Earned Premium of Line (2517) | Company Records | _____ | X 0.200 = | _____ |
| b) | Over \$50 Million Earned Premium of Line (2517) | Company Records | _____ | X 0.030 = | _____ |
| c) | Total Disability Income - Credit Monthly Balance | a) of Line (2517) + b) of Line (2517), Column (2) | _____ | | ===== |
| <u>Line</u> | Disability Income – Group Long Term | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3 Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | |
| <u>(2618)</u> | | | | | |
| a) | Earned Premium in Line (2618) [up to \$50 million less premium in a) of Line (2517)] | Company Records | _____ | X 0.150 = | _____ |
| b) | Earned Premium in Line (2618) not included in a) of Line (2618) | Company Records | _____ | X 0.030 = | _____ |
| c) | Total Disability Income – Group Long Term | a) of Line (2618) + b) of Line (2618), Column (2) | _____ | | ===== |

| | | <u>Annual Statement Source</u> | <u>Statement Value</u> | <u>Factor</u> | <u>RBC Requirement</u> |
|--------------------|--|---|------------------------|---------------|------------------------|
| <u>Line (2719)</u> | <u>Disability Income Premium</u> Disability Income - Credit Single Premium with Additional Reserves | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3Schedule H, Part 1, Column 21, Line 2</u> , in part. This amount to be reported on Health Premiums, Line (2719) | _____ | | _____ |
| a) | Additional Reserves for Credit Disability Plans | PR019 Health Premiums Column (1) Line (3727) | _____ | | _____ |
| b) | Additional Reserves for Credit Disability Plans, Prior Year | PR019 Health Premiums Column (1) Line (3828) | _____ | | _____ |
| c) | Subtotal Disability Income - Credit Single Premium with Additional Reserves | Line (2719) - a) of Line (2719) + b) of Line (2719) | ===== | | ===== |
| d) | Earned Premium in c) [up to \$50 million less premium in a) of Line (2517) + a) of Line (2618)] | Company Records | _____ | X 0.100 = | _____ |
| e) | Earned Premium in c) of Line (2719) not included in d) of Line (2719) | Company Records | _____ | X 0.030 = | _____ |
| f) | Total Disability Income - Credit Single Premium with Additional Reserves | d) of Line (2719) + e) of Line (2719), Column (2) | ===== | | ===== |
| <u>Line (280)</u> | Disability Income – Credit Single Premium without Additional Reserves | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | _____ |
| a) | Earned Premium in Line (280) [up to \$50 million less premium in a) of Line (2517) + a) of Line (2618) + d) of Line (2719)] | Company Records | _____ | X 0.150 = | _____ |
| b) | Earned Premium in Line (280) not included in a) of Line (280) | Company Records | _____ | X 0.030 = | _____ |
| c) | Total Disability Income – Credit Single Premium without Additional Reserves | a) of Line (280) + b) of Line (280), Column (2) | ===== | | ===== |
| <u>Line (291)</u> | Disability Income – Group Short Term | Earned Premium included in <u>U&I Part 1, Column 4 Line 15.3Schedule H, Part 1, Column 21, Line 2</u> , in part | _____ | | _____ |
| a) | Earned Premium in Line (291) [up to \$50 million less premium in a) of Line (2517) + a) of Line (2618) + d) of Line (2719) + a) of Line (280)] | Company Records | _____ | X 0.050 = | _____ |
| b) | Earned Premium in Line (291) not included in a) of Line (291) | Company Records | _____ | X 0.030 = | _____ |
| c) | Total Disability Income – Group Short Term | a) of Line (291) + b) of Line (291), Column (2) | ===== | | ===== |
| <u>Line (3122)</u> | Noncancellable Long-Term Care Premium – Rate risk | Earned Premium (<u>U&I Part 1, Column 4 Line 15.7Schedule H, Part 1, Column 23, Line 2</u> , in part) | _____ | X 0.100 = | _____ |

Line (235)
Most Health Premium will have been included in one of the prior lines. In the event that some coverage does not fit into any of these categories, “Other Health” category is applied with a 12% factor, which is from 1998 formula for Other Limited Benefits Anticipating Rate Increases. Stop-loss premiums are addressed separately in Line (169).

Stop-Loss Electronic-Only Tables

The Health Risk-Based Capital (E) Working Group revised the stop-loss factors in 2017. The American Academy of Actuaries submitted a report to the Health Risk-Based Capital (E) Working Group and suggested that the factors be revised based on data from 1998-2008. The Health Risk-Based Capital (E) Working Group agreed to continue analyzing the stop-loss factors as a result of the changes to life-time maximum amounts included in the Federal Affordable Care Act.

Electronic Table 1 – Stop-Loss Interrogatories

The interrogatories are designed to gather the information by product type and will be reviewed on a go-forward basis. The data will be used in the continued evaluation of the factors. The data collected will be collected on a one-year run-out basis. For example, the RBC filed at year-end **2018**, will reflect the incurred data for calendar year **2017** run-out through December 31, **2018**.

For those insurers where the stop-loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 1.

The categories used in the interrogatories are separated as follows:

Product Type

Specific Stop-Loss (including aggregating specific) = This coverage was included in the 1998 to 2008 factor development.

Aggregate Stop-Loss = This coverage was included in the 1998 to 2008 factor development.

HMO Reinsurance = Specific reinsurance of an HMO's commercial, Medicare, Medicaid or Point of Service products. This coverage was not included in the 1998 to 2008 factor development.

Provider Excess = Specific excess written on Providers including IPAs, hospitals, clinics. This coverage was not included in the 1998 to 2008 factor development.

Medical Excess Reinsurance = Specific reinsurance of an insurance company's medical business (first dollar or self-insured). This coverage was not included in the 1998 to 2008 factor development.

Please do not include quota share or excess reinsurance written on stop-loss business.

Calendar Year - Submit experience information for the calendar year preceding the year for which the RBC report is being filed; e.g., the RBC report filed for **2019** should provide experience information for calendar year **2018** with run-out through December 31, **2019**. If the contract year does not follow a calendar year (e.g., 7/1-6/30), the impact on the interrogatories would be spread across two years in the same manner it would be reported in two annual statements (i.e., half of premium and the applicable portion of the liability/expense would hit the first year, the remainder would hit the second year). Report based on the calendar year even if the calendar year includes two separate contracts (For example: Contract 1 started on 7/1/2017 and ran through 6/30/2018. Contract 2 started on 7/1/2018 and ran through 6/30/2019. The 2018 calendar year experience information would be comprised of the experience information in Contract 1 from 1/1/2018 through 6/30/2018 AND Contract 2 from 7/1/2018 to 12/31/2018.). Contracts that do not follow a calendar year should NOT be excluded.

Total [Gross/Net] Premium - This is the [gross/net] premium revenue, [before/after] ceded reinsurance and including commissions. Report the data as reported for the prior calendar year including amounts paid for the prior year through the end of the current calendar year. Do not adjust for any anomalies in the experience.

Total Gross Claims + Expenses =

Total Gross Claims - These are the gross incurred claims, before ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining gross claim liability.

+ Expenses – These are the gross incurred expense during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Gross Combined Ratio - This is equal to (Total Gross Claims + Expenses) / Total Gross Premium.

Premiums Net of Reinsurance – This is the net premium revenue, net of reinsurance. Report data as reported in the annual statement and do not adjust for any anomalies in the experience.

Total Net Claims + Expenses =

Total Net Claims - These are the net incurred claims after ceded reinsurance. Do not adjust for any anomalies in the experience. Claims are defined as claims incurred during prior calendar year and paid through the end of the current calendar (reporting) year, plus any remaining net claim liability.

+

Expenses – These are the net incurred expenses during the prior calendar year and paid through the end of the current reporting year plus any incurred expenses that are unpaid as of the end of the run-out period. Premium tax amounts should be included in the expense amounts; however, income taxes would be excluded.

Net Combined Ratio – This is equal to (Total Net Claims + Expenses)/Premiums Net of Reinsurance.

Table 2a – Calendar Year Specific Stop-Loss Contracts by Group Size and Table 2b – Calendar Year Aggregate Stop-Loss Contract by Group Size

For those insurers where the stop-loss gross premium written is both under \$2,000,000 and is less than 10% of the insurer's total gross premium written are exempt from completing Table 2.

Table 2a should reflect the specific stop-loss data and Table 2b should reflect the aggregate stop-loss data.

Report the number of groups, average specific attachment point and average aggregate attachment as of December 31st of the calendar (reporting) year. If the contract does not follow a calendar year (e.g. 7/1-6/30), report the policies written during the year of the annual statement and in effect at the end of the calendar year.

The number of covered lives in a group (group size) should be based on the size of the group as of December 31 of the calendar year. The number of covered lives counted should include all enrolled members (that is, total number of lives insured, including dependents).

Number of Groups – list the number of groups for each stop-loss contract based on the number of covered lives in the group.

Average Specific Attachment Point (Table 2a) - The average should be weighted by the number of covered lives in the respective group size bracket, excluding the count of covered lives within the denominator where specific/aggregate coverage was not provided.

Example: Average Specific Attachment Point (\$) (Table 2a, 50-99 Covered Lives in Group) =

(Sum of Specific Attachment Points X Reported Lives) / (Sum of Reported Lives)

| Insured Group | Specific Att Point (\$) | Aggregate Att (%) | Number of Lives | Include Exclude | Reason to Exclude |
|---------------|-------------------------|-------------------|-----------------|-----------------|------------------------|
| 1 | \$ 200,000 | 115% | 90 | Include | |
| 2 | \$ 100,000 | 120% | 60 | Include | |
| 3 | \$ 50,000 | 140% | 40 | Exclude | Not in Group Size Band |
| 4 | \$ 120,000 | N/A | 50 | Include | |

Calculation: $(200,000 \times 90 + 100,000 \times 60 + 120,000 \times 50) / (90 + 60 + 50)$
= \$150,000

Average Aggregate Attachment Percentage (Table 2b) – Is based on expected claims. Subgroups that have separate stop-loss contracts should be aggregated in terms of determining the group size. The average should be weighted by expected claims in the respective group size bracket, excluding the expected claims within the denominator where aggregate coverage was not provided.

Example: Average Aggregate Attachment Percentage (%) (Table 2b, 50-99 Covered Lives in Group) =

(Sum of Expected Claims x Attachment Percentage %) / (Sum of Expected Claims)

| Insured Group | Specific Att Point (\$) | Aggregate Att (%) | Expected Claims | Number of Lives | Include Exclude |
|---------------|-------------------------|-------------------|-----------------|-----------------|-----------------|
| 1 | \$ 200,000 | 115% | \$ 500,000 | 90 | Include |
| 2 | \$ 100,000 | 120% | \$ 300,000 | 60 | Include |
| 3 | \$ 50,000 | 140% | \$ 200,000 | 40 | Exclude |
| 4 | \$ 120,000 | N/A | \$ 400,000 | 50 | Exclude |

Calculation: $(500,000 \times 115\% + 300,000 \times 120\%) / (500,000 + 300,000)$
= 116.7%

Footnote – The number of covered lives for stop-loss coverage is reported in the Accident and Health Policy Experience Exhibit for Year (April 1st filing) in Column 13, Section C. Other Business, Line 2.

If stop-loss policies are sold on a Per Employee Per Month basis and the actual number of covered lives is unknown, it would be reasonable to estimate the number of covered lives if the exact information is not administratively available to the reporting entity. This method of estimation may be similar to estimations provided for the Accident and Health Policy Experience Exhibit for Year. If estimated, an explanation of the method used to estimate the number of covered lives should be provided in the footnote.

PR020 - Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental and Vision

(Underwriting Risk – Experience Fluctuation Factor in the LRBC Formula)

The underwriting risk generates the RBC requirement for the risk of fluctuations in underwriting experience. The credit that is allowed for managed care in this worksheet comes from PR021 Underwriting Risk - Managed Care Credit.

The columns are as follows:

Column (1) – Comprehensive (Hospital & Medical) Individual Policies that provide fully insured indemnity, HMO, PPO, or Fee for Service coverage for hospital, medical, and surgical expenses. This category excludes Short-Term Medical Insurance, the Federal Employees Health Benefit Program and non-comprehensive coverage such as basic hospital only, medical only, hospital confinement indemnity, surgical, outpatient indemnity, specified disease, intensive care, and organ and tissue transplant coverage as well as any other coverage described in the other categories of this exhibit.

Column (2) – Comprehensive (Hospital & Medical) Group Policies that provide fully insured indemnity, HMO, PPO, or Fee for Service coverage for hospital, medical, and surgical expenses. This category excludes Short-Term Medical Insurance, the Federal Employees Health Benefit Program and non-comprehensive coverage such as basic hospital only, medical only, hospital confinement indemnity, surgical, outpatient indemnity, specified disease, intensive care, and organ and tissue transplant coverage as well as any other coverage described in the other categories of this exhibit.

Column (3) – Title XVIII Medicare Policies issued as Medicare Advantage Plans providing Medicare benefits to Medicare eligible beneficiaries created by title XVIII of the Social Security Act of 1965. This includes Medicare Managed Care Plans (i.e., HMO and PPO) and Medicare Private Fee-for-Service Plans. This also includes all Medicare Part D Prescription Drug Coverage through a Medicare Advantage product and whether sold directly to an individual or through a group.

Column (4) – Title XIX Medicaid Policies issued in association with the Federal/State entitlement program created by Title XIX of the Social Security Act of 1965 that pays for medical assistance for certain individuals and families with low incomes and resources.

Column (5) – Medicare Supplement. Policies that qualify as Medicare Supplement policy forms as defined in the NAIC Medicare Supplement Insurance Minimum Standards Model Act. This includes standardized plans, pre-standardized plans and Medicare select. Does not include Medicare (Title XVIII) or Medicaid (Title XIX) risk contracts.

Column (6) – Vision Only Policies providing for vision only coverage issued as stand-alone vision or as a rider to a medical policy that is not related to the medical policy through premiums, deductibles or out-of-pocket limits. Does not include self-insured business, federal employees health benefit plans (FEHBP), or Medicare and Medicaid programs.

Column (7) – Dental Only Policies providing for dental only coverage (dental treatment benefits such as routine dental examinations, preventive dental work, and dental procedures needed to treat tooth decay and diseases of the teeth and jaw) issued as stand-alone dental or as a rider to a medical policy that is not related to the medical policy through premiums, deductibles or out-of-pocket limits. If dental benefits are part of a comprehensive medical plan, then include data under comprehensive/major medical category. Does not include self-insured business, as well as federal employee's health benefits plans (FEHBP), or Medicare and Medicaid programs.

Column (8) – Stand-Alone Medicare Part D Coverage. This includes both individual coverage and group coverage of Medicare Part D coverage where the plan sponsor has risk corridor protection. See INT 05-05: Accounting for Revenue under Medicare Part D Coverage for definition of these terms. Medicare drug benefits included in major medical plans or benefits that do not meet the above criteria are not to be included in this line. Supplemental benefits within Medicare Part D (benefits in excess of the standard benefit design) are addressed separately on page PR019. Employer-based Part D coverage that is in an uninsured plan as defined in SSAP No. 47—Uninsured Plans is not to be included here

Description from *Life Risk-Based Capital Report Including Overview & Instructions*:

Underwriting risk is present when the next dollar of unexpected claims payments comes directly out of the company's capital and surplus. It represents the risk that the portion of premiums intended to cover medical expenses will be insufficient to pay such expense. For example, an insurer may charge an individual \$100 in premium in exchange for a guaranty that all medical costs will be paid by the insurer. If the individual incurs \$101 in claims costs, the company's surplus will decline because it did not charge a sufficient premium to pick up the additional risk for that individual.

There are other arrangements where the insurer is not at risk for excessive claims payments, such as when an insurer agrees to serve as a third-party administrator for a self-insured employer. The self-insured employer pays for actual claims costs, so the risk of excessive claims experience is borne by the self-insured employer, not the insurer. The underwriting risk section of the RBC formula, therefore, requires some adjustments to remove non-risk business (both premiums and claims) before the RBC requirement is calculated.

For Stand-Alone Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10.1) through (10.4) of PR021 will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

Claims Experience Fluctuation

The RBC requirement for claims experience fluctuation is based on the greater of the following calculations:

A. Underwriting risk revenue times the underwriting risk claims ratio times a set of factors.

or

B. An alternate risk charge that addresses the risk of catastrophic claims on any single individual. The alternate risk charge is \$500,000 per line for medical coverage, \$50,000 total for all other coverage except Medicare Part D coverage, and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e., writing more than one coverage type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive – Individual, Comprehensive – Group, Title XVIII – Medicare, Title XIX – Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health. For example, if an organization writes Comprehensive – Individual, Comprehensive – Group, Vision Only, and Dental Only, the alternate risk charge is \$1,000,000 (the cumulative charge for Comprehensive – Individual and Comprehensive – Group, which is higher than the \$100,000 cumulative charge for Vision Only and Dental Only.) ~~The alternate risk charge is calculated for each type of health coverage, but only the largest value is compared to the value from A. above for that type. The alternate risk charge is equal to a multiple of the maximum retained risk on any single individual in a claims year. The maximum retained risk (level of potential claim exposure) is capped at two times the maximum or \$1,500,000 for Comprehensive Medical; two times the maximum or \$50,000 for each of Medicare Supplement business and dental coverage and six times the maximum or \$1,500,000 for Stand Alone Medicare Part D coverage.~~

Line (1) through Line (198)

There are ~~four-eight~~ lines of business used in the property/casualty RBC formula for calculating the RBC requirement in this worksheet. Other health coverages will continue to use the factors on PR019 Health Premiums. The ~~four-eight~~ lines of business are Column (1) Comprehensive Medical and Hospital Individual; Column (2) Comprehensive Medical Group; Column (3) Title XVIII Medicare; Column (4) Title XIX Medicaid; Column (5) Medicare Supplement; Column (6) Dental & Vision; Column (7) Dental; and Column (8) Stand-Alone Medicare Part D coverage. Each of the ~~four-eight~~ lines of business has its own column in the Underwriting Risk – Premium Risk table. The categories listed in the columns of this worksheet include premiums plus all risk revenue that is received from another health entity in exchange for medical services provided to such Health entity's members. ~~The descriptions of the items are as follows:~~

Comprehensive Medical & Hospital

~~Includes policies providing for medical coverages including hospital, surgical, major medical, Medicare risk coverage (but NOT Medicare Supplement), and Medicaid risk coverage. This includes Medicare Advantage, with or without prescription drug benefits. This category DOES NOT include administrative services contracts (ASC) or administrative services only (ASO) contracts, or any non-underwritten business. These programs are reported in PR022 Underwriting Risk – Other, Business Risk section of the formula. Neither does it include Federal Employees Health Benefit Program (FEHBP) business, which is reported on Line (3) of PR022 Underwriting Risk – Other. The alternative risk charge, which is twice the maximum retained risk after reinsurance on any single individual, cannot exceed \$1,500,000.~~

Medical Only (non-hospital professional services)

~~Include in Comprehensive Medical.~~

Medicare Supplement

~~This is business reported in the Medicare Supplement Insurance Experience Exhibit of the annual statement. Medicare risk business is reported under comprehensive medical and hospital.~~

Dental & Vision

~~These are premiums for policies providing for dental or vision only coverage issued as stand-alone dental or vision or as a rider to a medical policy that is not related to the medical policy through deductibles or out-of-pocket limits.~~

Stand-Alone Medicare Part D Coverage

~~Includes policies and contracts providing the standard coverage for individuals enrolled in Stand-Alone Medicare Part D and the insurance is a federally approved PDP with risk corridor protection. It does not include risk revenue for Supplemental benefits within Stand-Alone Medicare Part D coverage that is a portion of the PDP's approved package. It does not include employer coverage unless the coverage meets the above criteria. Where there is a federal subsidy to the employer in lieu of risk corridor protection, the premiums are to be reported as "Other Health."~~

Other Health Coverages

~~Include in the appropriate line on PR019 Health Premiums.~~

The following paragraphs explain the meaning of each line of the worksheet table for computing the experience fluctuation underwriting risk RBC.

Line (1) Premium

This is the amount of money charged by the insurer for the specified benefit plan. It is the earned premium, net of reinsurance. It does not include receipts under administrative services only (ASO) contracts; or administrative services contracts (ASC); or any non-risk business; or premium for the Federal Employees Health Benefit Programs (FEHBP), which has a risk factor relating to incurred claims reported separately under PR022 Underwriting Risk – Other, Line (3).

NOTE: Where premiums are paid on a monthly basis, they are generally fully earned at the end of the month for which coverage is provided. In cases where the mode of payment is less frequent than monthly, a portion of the premium payment will be unearned at the end of any given reporting period.

For Stand-Alone Medicare Part D Coverage, this will include only certain amounts paid by the individual, an employer or CMS. See Appendix 2 for details of what is and is not premium income.

The Line 1.3 sources for each column are given in the table below:

PR020 Column

Comprehensive Medical Individual

Comprehensive Medical Group

Title XVIII Medicare

Title XIX Medicaid

Medicare Supplement

Vision

Dental

Stand-Alone Medicare Part D Coverage

Annual Statement Source

U&I Part 1, Column 4 Line 13.1

U&I Part 1, Column 4 Line 13.2

U&I Part 1, Column 4 Line 15.6

U&I Part 1, Column 4 Line 15.5

U&I Part 1, Column 4 Line 15.4

U&I Part 1, Column 4 Line 15.1

U&I Part 1, Column 4 Line 15.2

Company Records, Earned Premium Net of Reinsurance

Line (2) Title XVIII Medicare

~~This is the earned amount of money charged by the insurer (net of reinsurance) for Medicare risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicare subscribers. This includes the premium and federal government's direct subsidy for prescription drug coverage under MA-PD plans.~~

Line (3) Title XIX Medicaid

~~This is the earned amount of money charged by the insurer for Medicaid risk business where the insurer, for a fee, agrees to cover the full medical costs of Medicaid subscribers. Revenue from Stand-Alone Medicare Part D coverage under the low-income subsidy (cost sharing portion) and low-income subsidy (premium portion) are not included in this line.~~

Line (24) Other Health Risk Revenue

Earned amounts charged by the reporting company as a provider or intermediary for specified medical (e.g., full professional, dental, radiology, etc.) services provided to the policyholders or members of another insurer or health insurance company (Health). Unlike premiums, which are collected from an employer group or individual member, risk revenue is the prepaid (usually on a capitated basis) payments, made by another insurer or health insurance company to the company in exchange for services to be provided or offered by such organization. Payments to providers under risk revenue arrangements are included in the RBC calculation as underwriting risk revenue and are included in the calculation of managed care credits. Exclude fee-for-service revenue received by the company from a health entity. This revenue is reported in the business risk section of the formula as health ASO/ASC and limited risk revenue.

Line (3) Medicaid Pass-Through Payments Reported as Premiums.

Amount is equal to the total amount reported in PR019 Lines 7.3 and Line 18.3

Line (45) Underwriting Risk Revenue

The sum of Lines (1.3) + Lines (2) – Line (3) through (4).

Line (56) Net Incurred Claims

Claims incurred (paid claims + change in unpaid claims) during the reporting year (net of reinsurance) that are arranged for or provided by the insurer. Paid claims include capitation and all other payments to providers for services to covered lives, as well as reimbursement directly to insureds (or their providers) for covered services. Paid claims also include salaries paid to company employees that provide medical services to covered lives and related expenses. This line does not include ASC payments or Federal Employees Health Benefit Program (FEHBP) claims.

PR020 ColumnComprehensive Medical IndividualComprehensive Medical GroupTitle XVIII MedicareTitle XIX MedicaidMedicare SupplementVisionDentalStand-Alone Medicare Part D CoverageAnnual Statement SourceU&I Part 2, Column 7 Line 13.1U&I Part 2, Column 7 Line 13.2U&I Part 2, Column 7 Line 15.6U&I Part 2, Column 7 Line 15.5U&I Part 2, Column 7 Line 15.4U&I Part 2, Column 7 Line 15.1U&I Part 2, Column 7 Line 15.2Company Records

~~Column (1) claims come from Annual Statement, Schedule H, Part 5 Column 1+2+7+8 Line D1 less the amounts reported as incurred claims for Administrative Services Contracts (ASC) in Line (8) of PR013 and Federal Employee Health Benefit Plan (FEHBP) in Line (3) of PR022. Column (2) claims come from Schedule H, Part 5, Column 3, Line D1. Column (3) dental and vision claims come from Schedule H, Part 5, Columns 4+5, Line D11.~~

For Stand-Alone Medicare Part D Coverage, net incurred claims should reflect claims net of reinsurance coverage (as defined in Appendix 2). Where there has been prepayment under the reinsurance coverage, paid claims should be offset from the cumulative deposits. Unpaid claim liabilities should reflect expected recoveries from the reinsurance coverage – for claims unpaid by the PDP or for amounts covered under the reinsurance coverage that exceed the cumulative deposits. Where there has not been any prepayment under the reinsurance coverage, unpaid claim liabilities should reflect expected amounts still due from CMS.

Line (6) Medicaid Pass-Through Payments Reported as Claims.

Medicaid pass-through payments that were included as claims reported in Line (5)

Line (7) Fee-for-Service Offset

Report fee-for-service revenue that is directly related to medical expense payments. The fee-for-service line does not include revenue where there is no associated claim payment (e.g., fees or charges to nonmember/insured of the company where the provider of the service receives no additional compensation from the company) and when such revenue was excluded from the pricing of medical benefits.

Line (8) Underwriting Risk Incurred Claims

Line (56) – ~~Line (6)~~ minus Line (7).

Line (9) Underwriting Risk Claims Ratio

Line (8) / Line (45). If either Line (45) or Line (8) is zero or negative, Line (9) is zero.

Line (10) Underwriting Risk Factor for Initial Amounts of Premium. Factor applied to the first \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to the first \$3,000,000 in premium for columns (5), (6), (7).

Line (11) Underwriting Risk Factor for Excess of Initial Amount. Factor applied to premium in excess of \$25,000,000 in premium for columns (1), (2), (3), (4), and (8) and applied to premium in excess of \$3,000,000 in premium for columns (5), (6), (7).

Line (12) Investment Income Adjustment Factor

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 4.5% income yield that was based on the yield of a 6-month U.S. Treasury bond. Each year, the Working Group will identify the yield of the 6-month U.S. Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modification to the 4.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

| | \$0 - \$3 Million | \$3 - \$25 Million | Over \$25 Million |
|--------------------------------------|----------------------|-----------------------|----------------------|
| Comprehensive Medical | 0.14270.1440 | 0.14270.1440 | 0.08320.0844 |
| Medicare Supplement | 0.09730.0987 | 0.05960.0609 | 0.05960.0609 |
| Dental & Vision | 0.11430.1153 | 0.07060.0716 | 0.07060.0716 |
| Stand Alone Medicare Part D Coverage | 0.251 | 0.251 | 0.151 |

Line (13) Composite Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (4), Underwriting Risk Revenue. **Includes the Investment Income Adjustment Factor**

Line (14) Base Underwriting Risk RBC

Line (45) x Line (9) x Line (130.3).

Line (15) Managed Care Discount

For Comprehensive Medical & Hospital Individual, Comprehensive Medical & Hospital Group, Title XVIII Medicare, Title XIX Medicaid, Medicare Supplement (including Medicare Select), Vision, and Dental, a managed care discount, based on the type of managed care arrangements an organization has with its providers, is included to reflect the reduction in the uncertainty about future claims payments attributable to the managed care arrangements. The discount factor is from Column (3), Line (12) of PR021 Underwriting Risk - Managed Care Credit. An average factor based on the combined results of these ~~three~~ categories ~~is used for all three~~.

For Stand-Alone Medicare Part D Coverage, a separate managed care discount (or federal program credit) is included to reflect only the reduction in uncertainty about future claims payments attributable to federal risk arrangements. The discount factor is from Column (4), Line (12) of PR021 Underwriting Risk - Managed Care Credit.

Line (16) Base RBC After Managed Care Discount

Line (14) x Line (15).

Line (14) RBC Adjustment for Individual

The average Experience Fluctuation Risk charge is increased by 20% for the portion relating to Individual Medical Expense premiums in Column (1). Other types of health coverage do not differentiate between Individual and Group. The additional time necessary to develop sufficient data to make a premium filing with states and then to implement the premium increase was modeled to calculate this factor.

Line (15) Maximum Per Individual Risk After Reinsurance

This is the maximum loss after reinsurance for any single individual. Where specific stop loss reinsurance protection is in place, the maximum per individual risk after reinsurance is equal to the highest attachment point on such stop loss reinsurance, subject to the following:

- Where coverage under non-proportional reinsurance or stop loss protection with the highest attachment point is capped at less than \$750,000 per insured for Comprehensive Medical and \$25,000 for the other three lines, the maximum retained loss will be equal to such attachment point plus the difference between the coverage maximum per claim and \$750,000 or \$25,000, whichever is applicable.
- Where the non-proportional reinsurance or stop loss protection is subject to participation by the company, the maximum retained risk as calculated above will be increased by the company's participation in claims in excess of the attachment point, but not to exceed \$750,000 for Comprehensive Medical and \$25,000 for the other three coverages.

If there is no specific stop loss or reinsurance in place, enter the largest amount payable (within a calendar year) or \$9,999,999 if there is no limit.

Examples of the calculation are presented below:

EXAMPLE 1 (Insurer provides Comprehensive Care):

| | |
|--------------------------------------|--|
| Highest Attachment Point (Retention) | \$100,000 |
| Reinsurance Coverage | 90% of \$500,000 in excess of \$100,000 |
| Maximum Reinsured Coverage | \$600,000 (\$100,000 + \$500,000) |
| Maximum Retained Risk = | \$100,000 deductible |
| | + \$150,000 (\$750,000 - \$600,000) |
| | + \$50,000 (10% of \$500,000 coverage layer) |
| | = \$300,000 |

EXAMPLE 2 (Insurer provides Comprehensive Care):

| | |
|--------------------------------------|--|
| Highest Attachment Point (Retention) | \$75,000 |
| Reinsurance Coverage | 90% of \$1,000,000 in excess of \$75,000 |
| Maximum Reinsured Coverage | \$1,075,000 (\$75,000 + \$1,000,000) |
| Maximum Retained Risk = | \$75,000 deductible |
| | + \$0 (\$750,000 - \$1,075,000) |
| | + \$67,500 (10% of \$675,000 coverage layer) |
| | = \$142,500 |

Line (176) Alternate Risk Charge

\$500,000 for Columns (1), (2), (3), and (4); \$50,000 for Columns (5), (6), and (7); and \$150,000 for Column (8). Twice the amount in Line (15), subject to a maximum of \$1,500,000 for comprehensive medical and \$50,000 for Medicare Supplement and Dental. Six times the amount in Line (15), subject to maximum of \$150,000 for Stand Alone Medicare Part D Coverage.

Line (187) Net Alternate Risk Charge

The largest value from Line (16) is retained for that column in line (17) and all others are ignored. The alternate risk charge is \$500,000 per line for medical coverage, \$50,000 total for all other coverage except Medicare Part D coverage, and \$150,000 total for Medicare Part D coverage. Additionally, for multi-line organizations (i.e., writing more than one coverage

type), the total alternate risk charge is the highest of the cumulative alternate risk charges for each of the following: Comprehensive (Comprehensive – Individual, Comprehensive – Group, Title XVIII – Medicare, Title XIX – Medicaid); Medicare Supplement; Dental & Vision (Dental only, Vision Only); Medicare Part D; and Other Health.

Line (198) Net Underwriting Risk RBC

The maximum of Line (164) and Line (187).

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UNDERWRITING RISK

Experience Fluctuation Risk

| | (1) Comprehensive (Hospital & Medical) Individual | (2) Comprehensive (Hospital & Medical) - Group | (3) Title XVIII - Medicare | (4) Title XIX - Medicaid | (5) Medicare Supplement | (6) Vision Only | (7) Dental Only | (8) Stand-Alone Medicare Part D Coverage | (9) Other Health | (10) Other Non- Health | (11) Total |
|--------|--|---|----------------------------------|--------------------------------|-------------------------------|--------------------|--------------------|---|---------------------|------------------------------|---------------|
| (1) † | Premium | | | | | | | | | | |
| (2) † | Other Health Risk Revenue | | | | XXX | | | | | XXX | |
| (3) | Medicaid Pass-Through Payments Reported as Premiums | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| (4) | Underwriting Risk Revenue (1) + (2) - (3) | | | | | | | | | | |
| (5) † | Net Incurred Claims | | | | | | | | | XXX | |
| (6) | Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| (7) † | Fee-For-Service Offset | | | | XXX | | | | | XXX | |
| (8) | Underwriting Risk Incurred Claims (5) - (6) - (7) | | | | | | | | | XXX | |
| (9) | Underwriting Risk Claim Ratio (8)/(4) | | | | | | | | | 1.000 | XXX |
| (10) | Underwriting Risk Factor for Initial Amounts of Premium‡ | 0.1440 | 0.1440 | 0.1440 | 0.1440 | 0.0987 | 0.1153 | 0.1153 | 0.251 | 0.130 | 0.130 |
| (11) | Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0844 | 0.0844 | 0.0844 | 0.0844 | 0.0609 | 0.0716 | 0.0716 | 0.151 | 0.130 | 0.130 |
| (12.1) | Investment Income Adjustment Factor Initial Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX | XXX |
| (12.2) | Investment Income Adjustment Factor Excess Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX | XXX |
| (13) | Composite Underwriting Risk Factor | A1 | A1 | A1 | A1 | A2 | A2 | A2 | A3 | 0.130 | 0.130 |
| (14) | Base Underwriting Risk RBC = (4) x (9) x (13) | | | | | | | | | | |
| (15) | Managed Care Discount Factor* | | | | | | | | XXX | XXX | XXX |
| (16) | RBC After Managed Care Discount = Lines (14) x (15) | | | | | | | | | XXX | XXX |
| (17) | Alternate Risk Charge | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$50,000 | \$50,000 | \$50,000 | \$150,000 | \$50,000 | XXX |
| (18) | Net Alternate Risk Charge*** | B0 | B0 | B0 | B0 | B1 | B2 | B2 | B3 | B4 | XXX |
| (19) | Net Underwriting Risk RBC (MAX{Line (16), Line (18)}) for Columns (1) through (9), Column (10), Line (14) | | | | | | | | | | |

| Initial Premium Amount‡ | | | | | | | | | | |
|-------------------------|---|--|---------------------------|-------------------------|------------------------|-------------|-------------|--|--------------|----------------------|
| | Comprehensive (Hospital & Medical) Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Alone Medicare Part D Coverage | Other Health | Other Non- Health |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 | N/A | N/A |

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.


* This row uses the factors calculated on page XR018

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

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† Annual Statement Source

| | | (1) Comprehensive (Hospital & Medical) - Individual | (2) Comprehensive (Hospital & Medical) - Group | (3) Title XVIII - Medicare | (4) Title XIX - Medicaid | (5) Medicare Supplement | (6) Vision Only | (7) Dental Only | (8) Stand-Alone Medicare Part D Coverage | (9) Other Health | (10) Other Non-Health | (11) Total |
|-----|---------------------------|--|--|-----------------------------------|-----------------------------------|---------------------------------|----------------------------------|----------------------------------|---|---------------------|-----------------------------------|---------------|
| (1) | Premium | Page 7, Columns 2, Lines 1 + 2 | Page 7, Columns 3, Lines 1 + 2 | Page 7, Columns 8, Lines 1 + 2 | Page 7, Columns 9, Lines 1 + 2 | Page 7, Column 4, Line 1 + 2 | Page 7, Columns 5, Line 1 + 2 | Page 7, Columns 6, Line 1 + 2 | | | Page 7, Column 14, Lines 1 + 2 | |
| (2) | Other Health Risk Revenue | Page 7, Columns 2, Line 4 | Page 7, Columns 3, Line 4 | Page 7, Columns 8, Line 4 | Page 7, Columns 9, Line 4 | XXX | Page 7, Columns 5, Line 4 | Page 7, Columns 6, Line 4 | | | XXX | |
| (5) | Net Incurred Claims | Page 7, Columns 2, Line 17 | Page 7, Columns 3, Line 17 | Page 7, Columns 8, Line 17 | Page 7, Columns 9, Line 17 | Page 7, Column 4, Line 17 | Page 7, Columns 5, Line 17 | Page 7, Columns 6, Line 17 | | | XXX | |
| (7) | Fee-For-Service Offset | Page 7, Columns 2, Line 3 | Page 7, Columns 3, Line 3 | Page 7, Columns 8, Line 3 | Page 7, Columns 9, Line 3 | XXX | Page 7, Columns 5, Line 3 | Page 7, Columns 6, Line 3 | | | XXX | |

 Denotes items that must be manually entered on filing software.

XR013 Formulas

Cell Label Formula

A1 ={{Min[Line (4) x Line (10), 25,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 25,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A2 ={{Min[Line (4) x Line (10), 3,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 3,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A3 ={Min[Line (4) x Line (10), 25,000,000 x Line (10)] + Max[0, (Line (4) - 25,000,000) x Line (11)]} / Line (4)

B0 =if[OR[Line (4) > 0, Line (8) > 0], 500,000, 0]

B1 =if[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18)], 0]

B2 =if[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18)], 0]

B3 =if[OR[Line (4) > 0, Line (8) > 0], Max[0, 150,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18)], 0]

B4 =if[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18) - C(8) L(18)], 0]

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| | Annual Statement Source | (1) Amount | Factor | (2) RBC Requirement |
|---|----------------------------------|---------------|--------|------------------------|
| Other Underwriting Risk | | | | |
| (20) Business with Rate Guarantees Between 15-36 Months - Direct Premium Earned | Gen Int Part 2 Line 9.21 | | 0.024 | |
| (21) Business with Rate Guarantees Over 36 Months - Direct Premium Earned | Gen Int Part 2 Line 9.22 | | 0.064 | |
| (22) FEHBP and TRICARE Claims Incurred | UI, Part 2, Column 7, Line 12.4 | | 0.020 | |
| (23) Stop Loss and Minimum Premium | Company Records | | * | |
| (24.1) Supplemental Benefits within Stand-Alone Medicare Part D Coverage (Claims Incurred) | Company Records | | 0.500 | |
| (24.2) Medicaid Pass-Through Payments Reported as Premiums | XR013, Column (4), Line (3) | | 0.020 | |
| (24.3) Total Other Underwriting Risk | Sum of Lines (20) through (24.2) | | | |
| Disability Income Premium | | | | |
| (25) Noncancellable Disability Income - Individual Morbidity | Company Records | | | |
| (25.1) First \$50 Million Earned Premium of Line (25) | | | 0.350 | |
| (25.2) Over \$50 Million Earned Premium of Line (25) | | | 0.150 | |
| (25.3) Total Noncancellable Disability Income - Individual Morbidity | Lines (25.1) + (25.2) | | | |
| (26) Other Disability Income - Individual Morbidity | Company Records | | | |
| (26.1) Earned Premium in Line (26) [up to \$50 Million less Premium in Line (25.1)] | | | 0.250 | |
| (26.2) Earned Premium in Line (26) not included in Line (26.1) | | | 0.070 | |
| (26.3) Total Other Disability Income - Individual Morbidity | Lines (26.1) + (26.2) | | | |
| (27) Disability Income - Credit Monthly Balance Plans | Company Records | | | |
| (27.1) First \$50 Million Earned Premium of Line (27) | | | 0.200 | |
| (27.2) Over \$50 Million Earned Premium of Line (27) | | | 0.030 | |
| (27.3) Total Disability Income - Credit Morbidity | Lines (27.1) + (27.2) | | | |
| (28) Disability Income - Group Long-Term | Company Records | | | |
| (28.1) Earned Premium in Line (28) [up to \$50 Million less Premium in Line (27.1)] | | | 0.150 | |
| (28.2) Earned Premium in Line (28) not included in Line (28.1) | | | 0.030 | |
| (28.3) Total Disability Income - Group Long-Term | Lines (28.1) + (28.2) | | | |
| (29) Disability Income - Credit Single Premium with Additional Reserves | Company Records | | | |
| (29.1) Additional Reserves for Credit Disability Plans | Company Records | | | |
| (29.2) Additional Reserves for Credit Disability Plans, Prior Year | Company Records | | | |
| (29.3) Sub-Total Disability Income - Credit Single Prem w/Addl Reserves | Lines (29) - (29.1) + (29.2) | | | |
| (29.4) Earned Premium in Line (29.3) [up to \$50 Million less Premium in Lines (27.1) + (28.1)] | | | 0.100 | |
| (29.5) Earned Premium in Line (29.3) not included in Line (29.4) | | | 0.030 | |
| (29.6) Total Disability Income - Credit Single Premium with Additional Reserves | Lines (29.4) + (29.5) | | | |
| (30) Disability Income - Credit Single Premium without Additional Reserves | Company Records | | | |
| (30.1) Earned Prem in Line (30) [up to \$50 Million less Prem in Lines (27.1) + (28.1) + (29.4)] | | | 0.150 | |
| (30.2) Earned Premium in Line (30) not included in Line (30.1) | | | 0.030 | |
| (30.3) Total Disability Income - Credit Single Premium without Additional Reserves | Lines (30.1) + (30.2) | | | |
| (31) Disability Income - Group Short-Term | Company Records | | | |
| (31.1) Earned Prem in Line (31) [up to \$50 Million less Prem in Lines (27.1) + (28.1) + (29.4) + (30.1)] | | | 0.050 | |
| (31.2) Earned Premium in Line (31) not included in Line (31.1) | | | 0.030 | |
| (31.3) Total Disability Income - Group Short-Term | Lines (31.1) + (31.2) | | | |

Denotes items that must be manually entered on filing software.

* A factor of .350 will be applied to the first \$25,000,000 in Column (1), Line (23) and a factor of .250 will be applied to the remaining premium in excess of \$25,000,000.

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| Long-Term Care (LTC) Insurance Premium | | Annual Statement Source | (1) <u>Amount</u> | Factor | (2) <u>RBC Requirement</u> |
|---|--|---|----------------------|--------|-------------------------------|
| (32) | Noncancellable LTC Premium - Rate Risk | Company Records | | 0.100 | * |
| (33) | All LTC Premium - Morbidity Risk (to \$50 Million) | Line (36.1) Column (1) up to \$50 Million | | 0.100 | |
| (34) | LTC Premium (over \$50 Million) - Morbidity Risk | Remainder of Line (36.1) Column (1) over \$50 Million | | 0.030 | |
| (35) | Premium-Based RBC | Column (2), Lines (32) + (33) + (34) | | | |

| Historical Loss Ratio Experience | | Annual Statement Source | (1) <u>Premiums</u> | (2) <u>Incurred Claims</u> | (3) <u>Column (2)/(1) §</u> | (4) <u>RBC Requirement</u> |
|---|---|--|------------------------|-------------------------------|--------------------------------|-------------------------------|
| (36.1) | Current Year | Company Records | | | | |
| (36.2) | Immediate Prior Year | Company Records | | | | |
| (36.3) | Average Loss Ratio | If loss ratios are used, [Column (3), Line (36.1) + Line (36.2)/2, otherwise zero] | | | | |
| (37) | Adjusted LTC Claims for RBC | If Column (3) Line (36.3) < 0, then [Column (1), Line (33) + Line (34)] x Column (3), Line (36.3), else Column (2) Line (36.1) | | | | |
| (37.1) | Claims (to \$35 Million) - Morbidity Risk | Lower of Column (2), Line (37) and \$35 Million | | | 0.370 | † |
| (37.2) | Claims (over \$35 Million) - Morbidity Risk | Excess of Column (2), Line (37) over \$35 Million | | | 0.120 | ‡ |
| (38) | LTC Claims Reserves | Company Records | | | 0.050 | |
| (39) | Claims-Based RBC | Column (4), Lines (37.1) + (37.2) | | | | |
| (40) | LTC RBC | Column (2), Line (35) + Column (4), Lines (38) + (39) | | | | |

* The factor applies to all Noncancellable premium.

† If Column (1), Line (36.1) is positive, then a factor of 0.250 is used. Otherwise, a higher factor of 0.370 is used

‡ If Column (1), Line (36.1) is positive, then a factor of 0.080 is used. Otherwise, a higher factor of 0.120 is used


§ If Column (1), Line (36.1) or (36.2) are less than or equal to zero or if Column (2), Line (36.1) or (36.2) are less than zero, the loss ratios are not used and Column (3), Line (36.3) is set to zero.

Denotes items that must be manually entered on filing software.

Confidential when Completed

| Limited Benefit Plans (Individual and Group Combined) | | Annual Statement Source | (1) <u>Amount</u> | Factor | (2) <u>RBC Requirement</u> |
|---|--|--|----------------------|--------|-------------------------------|
| (41) | Hospital Indemnity and Specified Disease | Included in Page 7, Column 13, Line 1 and 2, in part | | 0.035 | |
| (41.1) | \$50,000 if Line (41) is Greater Than Zero | | | | |
| (41.2) | Total Hospital Indemnity and Specified Disease | Lines (41) + (41.1) | | | |
| (42) | Accidental Death & Dismemberment | Included in Page 7, Column 13, Line 1 and 2, in part | | | |
| (42.1) | First \$10 Million Earned Premium of Line (42) | | | 0.055 | |
| (42.2) | Over \$10 Million Earned Premium of Line (42) | | | 0.015 | |
| (42.3) | Maximum Retained Risk for Any Single Claim | Company Records | | | |
| (42.4) | Three Times Line (42.3) | | | | |
| (42.5) | Lesser of Line (42.4) or \$300,000 | | | | |
| (42.6) | Total AD&D | Lines (42.1) + (42.2) + (42.5) | | | |
| (43) | Other Accident | Included in Page 7, Column 13, Line 1 and 2, in part | | 0.050 | |
| (44) | Premium Stabilization Reserves | Included in U&I, Part 2D, Column 1, Line 4 | | -0.500 | Φ |
| (45) | Total Other Underwriting Risk | Lines (24.3) + (25.3) + (26.3) + (27.3) + (28.3) + (29.6) + (30.3) + (31.3) + (40) + (41.2) + (42.6) + (43) + (44) | | | |

Φ This is limited to the Total Net Underwriting RBC on XR013, Column (11), Line (19) Less Column (8), Line (19) and XR015, Column (2), Lines (24.3), (25.3), (26.3), (27.3), (28.3), (29.6), (30.3), (31.3), XR016 Column (2), Line (35) and XR017 Column (2), Lines (41.2), (42.6), and (43).

 Denotes items that must be manually entered on filing software.

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BUSINESS RISK

| | <u>Annual Statement Source</u> | (1) <u>Amount</u> | <u>Factor</u> | (2) <u>RBC Requirement</u> |
|---|---|----------------------|---------------|-------------------------------|
| Administrative Expense Risk | | | | |
| (1) Claims Adjustment Expenses | Page 4, Column 2, Line 20 | | | |
| (2) General Administrative Expenses | Page 4, Column 2, Line 21 | | | |
| (3) Less the Net Amount of ASC Revenue and Expenses Included in Lines 1 and 2 | Company Records | | | |
| (4) Less the Net Amount of ASO Revenue and Expenses Included in Lines 1 and 2 | Company Records | | | |
| (5) Less Admin Expenses for Commission & Premium Taxes | Underwriting & Investment Exhibit Part 3, Line 3, in part | | | |
| (6) Administrative Expenses Base RBC | Lines (1) + (2) - (3) - (4) - (5) | | * | |
| (7) Proration of Admin Expense to Experience Fluctuation Risk | Lines (6) x (20)/(Lines (21) + (22)) | | | |
| Non-Underwritten and Limited-Risk | | | | |
| (8) Administrative Expenses for ASC Arrangements | Company Records | | 0.020 | |
| (9) Administrative Expenses for ASO Arrangements | Company Records | | 0.020 | |
| (10) Medical Costs Paid Through ASC Arrangements (Including Fee-for Service Received From Other Health Entities) | Company Records | | 0.010 | |
| (11) Non-Underwritten and Limited Risk Business RBC | | | | |
| Guaranty Fund Assessment Risk | | | | |
| (12) Premiums Subject to Guaranty Fund Assessment | Included in Sch T - Company Records | | 0.005 | |
| Excessive Growth Risk | | | | |
| (13) UW Risk Revenue, Prior Year | 2025 XR013, Column (7), Line (6) <i>(manual entry)</i> † | | | |
| (14) UW Risk Revenue, Current Year | 2026 XR013, Column (11), Line (4) | | | |
| (15) Net UW Risk RBC, Prior Year | 2025 XR013, Column (7), Line (21) <i>(manual entry)</i> † | | | |
| (16) Net UW Risk RBC, Current Year | 2026 XR013, Column (11), Line (19) | | | |
| (17) RBC Growth Safe Harbor | [Lines (14)/(13)+.10] x Line (15) | | | |
| (18) Excess of RBC Growth Over Safe Harbor | Max{0, Lines (16) - (17)} | | | |
| (19) Excessive Growth Risk RBC | .5 x Line (18) | | | |
| | | <u>Premium</u> | <u>Weight</u> | <u>Weighted Premium</u> |
| (20) Experience Fluctuation Risk Revenue | XR013, Column (11), Line (4) | | | |
| (21) Premiums Earned | Page 4, Column 2, Lines 2 + 3 | | | |
| (22) Risk Revenue | Page 4, Column 2, Line 5 | | | |
| (23) Tier 1 - \$0 to \$25 Million of Line (20) | | | 0.070 | |
| (24) Tier 2 - Amount Over \$25 Million of Line (20) | | | 0.040 | |
| (25) Total Experience Fluctuation Risk Revenue | Lines (23) + (24) | | | |
| (26) Administrative Expenses Base RBC Factor | Column (2), Line (25) / Column (1), Line (25) | | | |

* The factor for the Administrative Expenses Base RBC is calculated as a weighted average, based on premium volume from XR013.

† For start-up health companies using projected amounts from the domicile state approved proforma, complete Footnote 1.

Denotes items that must be manually entered on filing software.

Footnote 1: If your company is a start-up health company that has received approval from your domiciliary state to use projected amounts in Lines (13) and (15), please explain the projections used.

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

| | | (1) <u>RBC Amount</u> |
|--|--|--------------------------|
| H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS | | |
| (1) Off-Balance Sheet Items | XR005, Off-Balance Sheet Page, Line (21) | _____ |
| (2) Directly Owned Health Insurance Companies or Health Entities | XR003, Affiliates Page, Column (2), Line (1) | _____ |
| (3) Directly Owned Property and Casualty Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (2) | _____ |
| (4) Directly Owned Life Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (3) | _____ |
| (5) Indirectly Owned Health Insurance Companies or Health Entities | XR003, Affiliates Page, Column (2), Line (4) | _____ |
| (6) Indirectly Owned Property and Casualty Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (5) | _____ |
| (7) Indirectly Owned Life Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (6) | _____ |
| (8) Affiliated Alien Insurers - Directly Owned | XR003, Affiliates Page, Column (2), Line (9) + (10) + (11) | _____ |
| (9) Affiliated Alien Insurers - Indirectly Owned | XR003, Affiliates Page, Column (2), Line (12) + (13) + (14) | _____ |
| (10) Total H0 | Sum Lines (1) through (9) | ===== |
| H1 - ASSET RISK - OTHER | | |
| (11) Holding Company in Excess of Indirect Subs | XR003, Affiliates Page, Column (2), Line (7) | _____ |
| (12) Investment Subsidiary | XR003, Affiliates Page, Column (2), Line (8) | _____ |
| (13) Investment in Upstream Affiliate (Parent) | XR003, Affiliates Page, Column (2), Line (15) | _____ |
| (14) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (16) | _____ |
| (15) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (17) | _____ |
| (16) Directly Owned Life Insurance Companies Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (18) | _____ |
| (17) Affiliated Non-Insurer | XR003, Affiliates Page, Column (2), Line (19) + (20) + (21) | _____ |
| (18) Fixed Income Assets | XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR007, Fixed Income Assets - Bonds, Line (27) + XR008, Fixed Income Assets - Miscellaneous, Line (26) | _____ |
| (19) Replication & Mandatory Convertible Securities | XR009, Replication/MCS Page, Line (9999999) | _____ |
| (20) Unaffiliated Preferred Stock | XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7) | _____ |
| (21) Unaffiliated Common Stock & Market Value Excess Affiliated Stocks | XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (13) | _____ |
| (22) Property & Equipment | XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9) | _____ |
| (23) Asset Concentration | XR012, Grand Total Asset Concentration Page, Line (26) | _____ |
| (24) Total H1 | Sum Lines (11) through (23) | ===== |
| H2 - UNDERWRITING RISK | | |
| (25) Net Underwriting Risk | XR013, Underwriting Risk Page, Line (19) | _____ |
| (26) Other Underwriting Risk | XR015, Underwriting Risk Page, Line (24.3) | _____ |
| (27) Disability Income | XR015, Underwriting Risk Page, Lines (25.3) + (26.3) + (27.3) + (28.3) + (29.6) + (30.3) + (31.3) | _____ |
| (28) Long-Term Care | XR016, Underwriting Risk Page, Line (40) | _____ |
| (29) Limited Benefit Plans | XR017, Underwriting Risk Page, Lines (41.2) + (42.6) + (43) | _____ |
| (30) Premium Stabilization Reserve | XR017, Underwriting Risk Page, Line (44) | _____ |
| (31) Total H2 | Sum Lines (25) through (30) | ===== |

Denotes items that must be manually entered on filing software.

HEALTH PREMIUMS

| | Annual Statement Source | (1) | (2) |
|---|--|-----------------|-----------------|
| | | Statement Value | RBC Requirement |
| <u>Medical Insurance Premiums - Individual</u> | | | |
| (1) Comprehensive Medical and Hospital | Earned Premium (Health Supplement Analysis of Operations Column 2 Line 1 + 2) | | † XXX |
| (2) Title XVIII Medicare | Earned Premium (Health Supplement Analysis of Operations Column 8 Line 1 + 2 in part) | | † XXX |
| (3) Title XIX Medicaid | Earned Premium (Health Supplement Analysis of Operations Column 9 Line 1 + 2 in part) | | † XXX |
| (4) Medicare Supplement | Earned Premium (Health Supplement Analysis of Operations Column 4 Line 1 + 2 in part) | | † XXX |
| (5) Vision Only | Earned Premium (Health Supplement Analysis of Operations Column 5 Line 1 + 2 in part) | | † XXX |
| (6) Dental Only | Earned Premium (Health Supplement Analysis of Operations Column 6 Line 1 + 2 in part) | | † XXX |
| (7) Stand-Alone Medicare Part D Coverage | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | | † XXX |
| (8) Supplemental benefits within Stand-Alone Part D Coverage (Claims Incurred) | Company Records | X 0.500 = | |
| (9) Medicaid Pass-Through Payments Reported as Premium | Company Records | X 0.020 = | |
| (10) Hospital Indemnity and Specified Disease | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X * | = |
| (11) AD&D (Maximum Retained Risk Per Life | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X ‡ | = |
| (12) Other Accident | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X 0.050 = | |
| <u>Medical Insurance Premiums - Group and Credit</u> | | | |
| (13) Comprehensive Medical and Hospital | Earned Premium (Health Supplement Analysis of Operations Column 3 Line 1 + 2) | | † XXX |
| (14) Title XVIII Medicare | Earned Premium (Health Supplement Analysis of Operations Column 8 Line 1 + 2 in part) | | † XXX |
| (15) Title XIX Medicaid | Earned Premium (Health Supplement Analysis of Operations Column 9 Line 1 + 2 in part) | | † XXX |
| (16) Vision Only | Earned Premium (Health Supplement Analysis of Operations Column 5 Line 1 + 2 in part) | | † XXX |
| (17) Dental Only | Earned Premium (Health Supplement Analysis of Operations Column 6 Line 1 + 2 in part) | | † XXX |
| (18) Stop Loss and Minimum Premium | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X ¥ = | |
| (19) Medicare Supplement | Earned Premium (Health Supplement Analysis of Operations Column 4 Line 1 + 2 in part) | | † XXX |
| (20) Stand-Alone Medicare Part D Coverage (see instructions for limits) | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | | † XXX |
| (21) Supplemental benefits within Stand-Alone Part D Coverage (Claims Incurred) | Company Records | X 0.500 = | |
| (22) Medicaid Pass-Through Payments Reported as Premium | Company Records | X 0.020 = | |
| (23) Hospital Indemnity and Specified Disease | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X * | = |
| (24) AD&D (Maximum Retained Risk Per Life) | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X ‡ | = |
| (25) Other Accident | Earned Premium (Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X 0.050 = | |
| (26) Federal Employee Health Benefit Plan | Earned Premium (Health Supplement Column 7 Line 1 + 2) | X 0.000 = | |
| <u>Disability Income Premium</u> | | | |
| (27) Noncancellable Disability Income - Individual Morbidity | Earned Premium (Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (28) Other Disability Income - Individual Morbidity | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (29) Disability Income - Credit Monthly Balance Plans | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (30) Disability Income - Group Long-Term | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (31) Disability Income-Credit Single Premium with Additional Reserves | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (32) Disability Income-Credit Single Premium without Additional Reserves | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (33) Disability Income - Group Short-Term | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2 in part) | X ‡ | = |
| (34) Total Disability Income | Earned Premium Health Supplement Analysis of Operations Column 11 Line 1 + 2) | | |
| <u>Long-Term Care</u> | | | |
| (35) Noncancellable Long-Term Care Premium - Rate Risk** | Earned Premium Health Supplement Analysis of Operations Column 12 Line 1 + 2 in part) | X 0.127** = | |
| (36) Other Long-Term Care Premium ‡‡ | Earned Premium Health Supplement Analysis of Operations Column 12 Line 1 + 2 in part) | X 0.000 = | ‡‡ |
| (37) Total Long Term Care | Earned Premium Health Supplement Analysis of Operations Column 12 Line 1 + 2) | | |
| <u>Health Premium With Limited Underwriting Risk</u> | | | |
| (38) ASC Business Reported as Revenue Premium | Earned Premium Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X 0.000 = | |
| <u>Other Health</u> | | | |
| (39) Workers Compensation Carve-Out | Earned Premium Health Supplement Analysis of Operations Column 13 Line 1 + 2 in part) | X 0.000 = | |
| (40) Other Health | Earned Premium Health Supplement Analysis of Operations Column 10 and 13 Line 1 + 2 in part) | X 0.120 = | |
| (41) Total Earned Premiums | Sum of Lines (1) through (26) excluding (9) and (22); Line (34); and Line (37) through (40) | | |
| (Column (1) should equal sum of Health Supplement Analysis of Operations Columns 2 through 13 Line 1 + 2) | | | |
| (42) Additional Reserves for Credit Disability Plans | Exhibit 6, Column 10, Line 2 | | \$ |
| (43) Additional Reserves for Credit Disability Plans, prior year | Exhibit 6, Column 10, Line 2, prior year | | \$ |

† The premium amounts in these lines are transferred to LR020 Underwriting Risk – Experience Fluctuation Risk Lines (1.1) and (1.2) for the calculation of risk-based capital. The premium amounts are included here to assist in the balancing of total health premium. If managed care arrangements have been entered into, the company may also complete LR022 Underwriting Risk – Managed Care Credit. In which case, the company will also need to complete LR028 Health Credit Risk in the (C-3) portion of the formula. If there are amounts in any of lines (1) through (6), (13) through (17), or (19) on page LR019 Health Premiums, the company will also be directed to complete the Health Administrative Expense portion of LR029 Business Risk in the (C-4) portion of the formula.

‡ The two tiered calculation is illustrated in the risk-based capital instructions for LR019 Health Premiums.

‡‡ The balance of the RBC requirement for Long Term Care - Morbidity Risk is calculated on page LR023. The premium is shown to allow totals to check to Health Supplement Analysis of Operations.

* If there is premium included on either or both of these lines, the RBC requirement in Column (2) will include 3.5 percent of such premium and \$50,000 (included in the line with the larger premium).

** The factor applies to all Noncancellable premium.

§ These amounts are used to adjust the premium base for single premium credit disability plans that carry additional tabular reserves.

¥ A factor of .350 will be applied to the first \$25,000,000 in Column (1), Line (12) and a factor of .250 will be applied to the remaining premium in excess of \$25,000,000.

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

UNDERWRITING RISK

Experience Fluctuation Risk

| | (1) Comprehensive (Hospital & Medical) - Individual | (2) Comprehensive (Hospital & Medical) - Group | (3) Title XVIII - Medicare | (4) Title XIX - Medicaid | (5) Medicare Supplement | (6) Vision Only | (7) Dental Only | (8) Stand-Alone Medicare Part D Coverage | (9) Total |
|---|---|---|----------------------------------|--------------------------------|-------------------------------|--------------------|--------------------|---|--------------|
| Line of Business | | | | | | | | | |
| (1.1) Individual Premium † | | XXX | | | | | | | |
| (1.2) Group Premium † | XXX | | | | | | | | |
| (1.3) Total Premium† (1.1) + (1.2) | | | | | | | | | |
| (2) Other Health Risk Rev† | | | | | XXX | | | | |
| (3) Medicaid Pass-Through Payments Reported as Premiums | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | |
| (4) Underwriting Risk Revenue (1.3) + (2) - (3) | | | | | | | | | |
| (5) Net Incurred Claims† | | | | | | | | | |
| (6) Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | | XXX | XXX | XXX | XXX | |
| (7) Fee-For-Service Offset† | | | | | XXX | | | | |
| (8) Underwriting Risk Incurred Claims (5) - (6) - (7) | | | | | | | | | |
| (9) Underwriting Risk Claim Ratio (8)/(4) | | | | | | | | | XXX |
| (10) Underwriting Risk Factor for Initial Amounts of Premium‡ | 0.1440 | 0.1440 | 0.1440 | 0.1440 | 0.0987 | 0.1153 | 0.1153 | 0.251 | XXX |
| (11) Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0844 | 0.0844 | 0.0844 | 0.0844 | 0.0609 | 0.0716 | 0.0716 | 0.151 | XXX |
| (12.1) Investment Income Adjustment Factor Initial Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX |
| (12.2) Investment Income Adjustment Factor Excess Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX |
| (13) Composite Underwriting Risk Factor | A1 | A1 | A1 | A1 | A2 | A2 | A2 | A3 | XXX |
| (14) Base Underwriting Risk RBC = (4) x (9) x (13) | | | | | | | | | |
| (15) Managed Care Discount Factor (LR022 Line 17) | | | | | | | | | XXX |
| (16) RBC After Managed Care Discount = Lines (14) x (15) | | | | | | | | | |
| (17) Alternate Risk Charge | \$500,000 | \$500,000 | \$500,000 | \$500,000 | \$50,000 | \$50,000 | \$50,000 | \$150,000 | |
| (18) Net Alternate Risk Charge | B0 | B0 | B0 | B0 | B1 | B2 | B2 | B3 | |
| (19) Net Underwriting Risk RBC (MAX{Line (16), Line (18)}) | | | | | | | | | |

† The Annual Statement Sources are found on page LR020-A.

| | Initial Premium Amount‡ | | | | | | | |
|--|--|---|---------------------------|-------------------------|------------------------|-------------|-------------|--|
| | Comprehensive (Hospital & Medical) - Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Alone Medicare Part D Coverage |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 |

* The Line (17) Alternate Risk Charge is calculated as follows:

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

† Annual Statement Source

| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (11) |
|-------|---------------------------|--|--|--|--|--|---|---|--------------------------------------|-------|
| | Line of Business | Comprehensive (Hospital & Medical) Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision Only | Dental Only | Stand-Alone Medicare Part D Coverage | Total |
| (1.3) | Premium | Health Supp Analysis of Operations, Columns 2, Lines 1 + 2 | Health Supp Analysis of Operations, Columns 3, Lines 1 + 2 | Health Supp Analysis of Operations, Columns 8, Lines 1 + 2 | Health Supp Analysis of Operations, Columns 9, Lines 1 + 2 | Health Supp Analysis of Operations, Column 4, Line 1 + 2 | Health Supp Analysis of Operations, Columns 5, Line 1 + 2 | Health Supp Analysis of Operations, Columns 6, Line 1 + 2 | | |
| (2) | Other Health Risk Revenue | Health Supp Analysis of Operations, Columns 2, Line 4 | Health Supp Analysis of Operations, Columns 3, Line 4 | Health Supp Analysis of Operations, Columns 8, Line 4 | Health Supp Analysis of Operations, Columns 9, Line 4 | XXX | Health Supp Analysis of Operations, Columns 5, Line 4 | Health Supp Analysis of Operations, Columns 6, Line 4 | | |
| (5) | Net Incurred Claims | Health Supp Analysis of Operations, Columns 2, Line 17 | Health Supp Analysis of Operations, Columns 3, Line 17 | Health Supp Analysis of Operations, Columns 8, Line 17 | Health Supp Analysis of Operations, Columns 9, Line 17 | Analysis of Operations, Column 4, Line 17 | Health Supp Analysis of Operations, Columns 5, Line 17 | Health Supp Analysis of Operations, Columns 6, Line 17 | | |
| (7) | Fee-For-Service Offset | Health Supp Analysis of Operations, Columns 2, Line 3 | Health Supp Analysis of Operations, Columns 3, Line 3 | Health Supp Analysis of Operations, Columns 8, Line 3 | Health Supp Analysis of Operations, Columns 9, Line 3 | XXX | Health Supp Analysis of Operations, Columns 5, Line 3 | Health Supp Analysis of Operations, Columns 6, Line 3 | | |

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

LR020 Formulas

Cell Label Formula

A1 ={{Min[Line (4) x Line (10), 25,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 25,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A2 ={{Min[Line (4) x Line (10), 3,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 3,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A3 ={Min[Line (4) x Line (10), 25,000,000 x Line (10)] + Max[0, (Line (4) - 25,000,000) x Line (11)]} / Line (4)

B0 =If[OR[Line (4) > 0, Line (8) > 0], 500,000, 0]

B1 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18)], 0]

B2 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18)], 0]

B3 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 150,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18)], 0]

HEALTH CLAIMS RESERVES

| | (1) | (2) | (3) | (4) |
|--|--|-------------------------------------|--------------|-----------------|
| | Statement Value | Less Workers Compensation Carve Out | RBC Subtotal | RBC Requirement |
| <u>Individual Claim Reserves</u> | | | | |
| (1) Exhibit 6 Total Individual Claim Reserves | Company Records | | | |
| (2) Line is to be left blank or zero-filled for 2025 | | | | |
| (3) Line is to be left blank or zero-filled for 2025 | | | | |
| (4) Line is to be left blank or zero-filled for 2025 | | | | |
| (5) Line is to be left blank or zero-filled for 2025 | | | | |
| (6) Line is to be left blank or zero-filled for 2025 | | | | |
| (7) Modified Coinsurance Assumed Reserves | Schedule S Part 1 Section 2 Column 12, in part † | | | |
| (8) Less Modified Coinsurance Ceded Reserves | Schedule S Part 3 Section 2 Column 13, in part † | | | |
| (9) Disability Income and Long-Term Care Claim Reserves | Company Records | | X 0.063 = | |
| (10) Total Individual Claim Reserves | Lines (1) + (2) + (3) + (4) + (5) + (6) + (7) - (8) - (9) | | X 0.050 = | |
| <u>Group and Credit Claim Reserves</u> | | | | |
| (11) Exhibit 6 Total Group & Credit Claim Reserves | Company Records | | | |
| (12) Line is to be left blank or zero-filled for 2025 | | | | |
| (13) Modified Coinsurance Assumed Reserves | Schedule S Part 1 Section 2 Column 12, in part † | | | |
| (14) Less Modified Coinsurance Ceded Reserves | Schedule S Part 3 Section 2 Column 13, in part † | | | |
| (15) Disability Income and Long-Term Care Claim Reserves | Company Records | | X 0.063 = | |
| (16) Total Exhibit 6 Group and Credit Claim Reserves | Lines (11) + (12) + (13) - (14) - (15) | | X 0.050 = | |
| (17) Total Claim Reserves | Lines (9) + (10) + (15) + (16) | | | |
| (18) Total Health RBC | LR019 Health Premiums Column (2) Line (41) + LR020 Underwriting Risk Experience Fluctuation Risk Column (9) Line (19) + LR021 Underwriting Risk Other Column (2) Line (7) + LR023 Long-Term Care Morbidity Risk Column (4) Line (7) + LR024 Health Claim Reserves Column (4) Line (17) | | | |

† Include only the portion which relates to claim reserves that, if written on a direct basis, would be included on Exhibit 6.

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

PREMIUM STABILIZATION RESERVES

| | | (1) | | (2) |
|---|---|--|---------------|------------------------|
| | <u>Annual Statement Source</u> | <u>Statement Value</u> | <u>Factor</u> | <u>RBC Requirement</u> |
| <u>Group and Credit Life and Health Reported Premium Stabilization Reserves</u> | | | | |
| (1) | Stabilization Reserves and Experience Rating Refunds included in Line 3 | Page 3 Column 1 Line 3 in part | X 0.500 | = |
| (2) | Provision for Experience Rating Refunds | Page 3 Column 1 Line 9.2 in part | X 0.500 | = |
| (3) | Reserve for Group Rate Credits | Company Records | X 0.500 | = |
| (4) | Reserve for Credit Rate Credits | Company Records | X 0.500 | = |
| (5) | Premium Stabilization Reserves | Page 3 Column 1 Line 25 in part | X 0.500 | = |
| (6) | Total of Preliminary Premium Stabilization Reserve Credit | Sum of Lines (1) through (5) | | |
| <u>Group & Credit Life and Health Risk-Based Capital</u> | | | | |
| (7) | Life | LR025 Life Insurance Column (2) Line (12) | | |
| (8) | Health | LR024 Health Claim Reserves Column (4) Line (16) + [LR024 Column (4) Line (15) x 0.65] + LR019 Health Premiums Column (2) Lines (18), (23), (24) and (25) + [[LR019 Column (2) Lines (29), (30), and (33)] x 0.65] + [LR020 Underwriting Risk - Experience Fluctuation Risk Column (9) Line (19) - Column (8) Line (19) x Column 9 Line (1.2) / (1.3)] | | |
| (9) | Maximum Risk-Based Capital | Lines (7) + (8) | | |
| (10) | Final Premium Stabilization Reserve | Column (2) Line (6), but not more than Column (1) Line (9) | X -1.000 | = |


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

\$0

BUSINESS RISK

| | <u>Annual Statement Source</u> | (1) <u>Statement Value</u> | <u>Factor</u> | (2) <u>RBC Requirement</u> |
|---|---|-------------------------------|---------------|-------------------------------|
| <u>Life Insurance Premiums</u> | | | | |
| (1) Total Life Premiums | Schedule T Column 2 Line 59 | _____ | | |
| (2) Less American Samoa Life Premiums | Schedule T Column 2 Line 52 | _____ | | |
| (3) Less Guam Life Premiums | Schedule T Column 2 Line 53 | _____ | | |
| (4) Less Puerto Rico Life Premiums | Schedule T Column 2 Line 54 | _____ | | |
| (5) Less U.S. Virgin Islands Life Premiums | Schedule T Column 2 Line 55 | _____ | | |
| (6) Less Northern Mariana Islands Life Premiums | Schedule T Column 2 Line 56 | _____ | | |
| (7) Less Canada Life Premiums | Schedule T Column 2 Line 57 | _____ | | |
| (8) Less Other Alien Life Premiums | Schedule T Column 2 Line 58 | _____ | | |
| (9) Subtotal Net Life Premiums | Line (1) less the Sum of Lines (2) through (8) | _____ | | |
| (10) Plus Foreign Variable and Other Life Premiums | See Instructions† | _____ | | |
| (11) Less Total Variable and Other Life Premiums | See Instructions† | _____ | | |
| (12) Net Life Premiums | Line (9) plus Line (10) less Line (11) | _____ | X 0.0253 = | _____ |
| <u>Annuity Considerations</u> | | | | |
| (13) Total Annuity Considerations | Schedule T Column 3 Line 59 | _____ | | |
| (14) Less American Samoa Annuity Considerations | Schedule T Column 3 Line 52 | _____ | | |
| (15) Less Guam Annuity Considerations | Schedule T Column 3 Line 53 | _____ | | |
| (16) Less Puerto Rico Annuity Considerations | Schedule T Column 3 Line 54 | _____ | | |
| (17) Less U.S. Virgin Islands Annuity Considerations | Schedule T Column 3 Line 55 | _____ | | |
| (18) Less Northern Mariana Islands Annuity Considerations | Schedule T Column 3 Line 56 | _____ | | |
| (19) Less Canada Annuity Considerations | Schedule T Column 3 Line 57 | _____ | | |
| (20) Less Other Alien Annuity Considerations | Schedule T Column 3 Line 58 | _____ | | |
| (21) Subtotal Net Annuity Considerations | Line (13) less the Sum of Lines (14) through (20) | _____ | | |
| (22) Plus Foreign Variable and Other Annuity Considerations | See Instructions† | _____ | | |
| (23) Less Total Variable and Other Annuity Considerations | See Instructions† | _____ | | |
| (24) Net Annuity Considerations | Line (21) plus Line (22) less Line (23) | _____ | X 0.0253 = | _____ |
| <u>Accident and Health Premiums</u> | | | | |
| (25) Total Accident and Health Premiums | Schedule T Column 4 Line 59 | _____ | | |
| (26) Less American Samoa Accident and Health Premiums | Schedule T Column 4 Line 52 | _____ | | |
| (27) Less Guam Accident and Health Premiums | Schedule T Column 4 Line 53 | _____ | | |
| (28) Less Puerto Rico Accident and Health Premiums | Schedule T Column 4 Line 54 | _____ | | |
| (29) Less U.S. Virgin Islands Accident and Health Premiums | Schedule T Column 4 Line 55 | _____ | | |
| (30) Less Northern Mariana Islands Accident and Health Premiums | Schedule T Column 4 Line 56 | _____ | | |
| (31) Less Canada Accident and Health Premiums | Schedule T Column 4 Line 57 | _____ | | |
| (32) Less Other Alien Accident and Health Premiums | Schedule T Column 4 Line 58 | _____ | | |
| (33) Subtotal Net Accident and Health Premiums | Line (25) less the Sum of Lines (26) through (32) | _____ | | |
| (34) Plus Foreign Variable and Other A&H Premiums | See Instructions† | _____ | | |
| (35) Less Total Variable and Other A&H Premiums | See Instructions† | _____ | | |
| (36) Net Accident and Health Premiums | Line (33) plus Line (34) less Line (35) | _____ | X 0.0063 = | _____ |

† Enter amounts only if included in Schedule T Column 2 (life), Column 3 (annuity) or Column 4 (accident and health).

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

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BUSINESS RISK (CONTINUED)

| | <u>Annual Statement Source</u> | (1) <u>Statement Value</u> | <u>Factor</u> | (2) <u>RBC Requirement</u> |
|---|--|-------------------------------|---------------|-------------------------------|
| <u>Separate Account Liabilities</u> | | | | |
| (37) Total Liabilities from Separate Accounts Statement | Page 3 Column 1 Line 27 | _____ | | |
| (38) Transfers to Separate Accounts Due or Accrued | Page 3 Column 1 Line 13 | _____ | | |
| (39) Total Separate Account Liabilities | Line (37) plus Line (38) | _____ | X 0.0006 = | _____ |
| (40) Business Risk (C-4a) | Lines (12) + (24) + (36) + (39) | ===== | | ===== |
| <u>Administrative Expenses for Certain A&H Coverages</u> | | | | |
| (41) Total Accident and Health Premiums | LR019 Health Premiums Column (1) Line (41) | _____ | | |
| (42) Accident and Health Premiums from Underwriting Risk | LR020 Underwriting Risk Column (9) Line (1.3) | _____ | | |
| (43) Accident and Health Premiums Factor | Line (42) / Line (41) | _____ | | |
| (44) Exhibit 2 Administrative Expenses for Health Insurance | Exhibit 2 Column 2 + Column 3 Line 10 | _____ | | |
| (45) Exhibit 3 Administrative Expenses for Health Insurance | Exhibit 3 Column 2 Line 7 | _____ | | |
| (46) Less Administrative Expenses for Administrative Service Contracts (ASC) | Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2 | _____ | | |
| (47) Less Administrative Expenses for Administrative Services Only (ASO) Business | Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2 | _____ | | |
| (48) Less Administrative Expenses for Commissions and Premium Taxes | Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2 | _____ | | |
| (49) Net Administrative Expenses | Lines (44) + (45) - (46) - (47) - (48) | _____ | | |
| (50) Composite Health Administrative Expense Risk Factor | (7% of Line (42) up to \$25 million + 4% of any in excess of \$25 million)/Line (42) | _____ | | |
| (51) Administrative Expense Component for Health | Line (49) x factor Line (43) x factor Line (50) | _____ | | _____ |
| <u>Health ASO/ASC</u> | | | | |
| (52) Administrative Expenses for ASC Business | Company Records§ | _____ | X 0.0200 = | _____ |
| (53) Administrative Expenses for ASO Business | Company Records§ | _____ | X 0.0200 = | _____ |
| (54) ASC Claims Reported as Incurred Claims | Company Records | _____ | X 0.0100 = | _____ |
| (55) Other Medical Costs Paid through ASC Arrangements | Company Records | _____ | X 0.0100 = | _____ |
| (56) Fee-for-Service Received from Health Entities | Company Records | _____ | X 0.0100 = | _____ |
| (57) Business Risk (C-4b) | Column (2) Lines (51) + (52) + (53) + (54) + (55) + (56) | ===== | | ===== |

§ Line (52) should be greater than or equal to Line (46). Line (53) should be greater than or equal to Line (47).

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

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

| | Source | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|--|--|-------------------|------------|-----------------------|
| <u>ASSET RISKS</u> | | | | |
| <u>Bonds</u> | | | | |
| (001) Long-term Bonds – NAIC 1 | LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8) | _____ | X 0.1680 | = _____ |
| (002) Long-term Bonds – NAIC 2 | LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4) | _____ | X 0.1680 | = _____ |
| (003) Long-term Bonds – NAIC 3 | LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4) | _____ | X 0.1680 | = _____ |
| (004) Long-term Bonds – NAIC 4 | LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4) | _____ | X 0.1680 | = _____ |
| (005) Long-term Bonds – NAIC 5 | LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4) | _____ | X 0.1680 | = _____ |
| (006) Long-term Bonds – NAIC 6 | LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7) | _____ | X 0.2100 | = _____ |
| (007) Short-term Bonds – NAIC 1 | LR002 Bonds Column (2) Line (10.8) | _____ | X 0.1680 | = _____ |
| (008) Short-term Bonds – NAIC 2 | LR002 Bonds Column (2) Line (11.4) | _____ | X 0.1680 | = _____ |
| (009) Short-term Bonds – NAIC 3 | LR002 Bonds Column (2) Line (12.4) | _____ | X 0.1680 | = _____ |
| (010) Short-term Bonds – NAIC 4 | LR002 Bonds Column (2) Line (13.4) | _____ | X 0.1680 | = _____ |
| (011) Short-term Bonds – NAIC 5 | LR002 Bonds Column (2) Line (14.4) | _____ | X 0.1680 | = _____ |
| (012) Short-term Bonds – NAIC 6 | LR002 Bonds Column (2) Line (15) | _____ | X 0.2100 | = _____ |
| (013) Credit for Hedging - NAIC 1 Through 5 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (01999999) | _____ | X 0.1680 | = _____ † |
| (014) Credit for Hedging - NAIC 6 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (02999999) | _____ | X 0.2100 | = _____ † |
| (015) Bond Reduction - Reinsurance | LR002 Bonds Column (2) Line (19) | _____ | X 0.2100 | = _____ † |
| (016) Bond Increase - Reinsurance | LR002 Bonds Column (2) Line (20) | _____ | X 0.2100 | = _____ |
| (017) Non-Exempt NAIC 1 U.S. Government Agency | LR002 Bonds Column (2) Line (22) | _____ | X 0.1680 | = _____ |
| (018) Bonds Size Factor | LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21) | _____ | X 0.1680 | = _____ |
| <u>Mortgages</u> | | | | |
| <u>In Good Standing</u> | | | | |
| (019) Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (1) | _____ | X 0.1575 | = _____ |
| (020) Residential Mortgages - Other | LR004 Mortgages Column (6) Line (2) | _____ | X 0.1575 | = _____ |
| (021) Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (3) | _____ | X 0.1575 | = _____ |
| (022) Total Commercial Mortgages - All Other | LR004 Mortgages Column (6) Line (9) | _____ | X 0.1575 | = _____ |
| (023) Total Farm Mortgages <u>90 Days Overdue</u> | LR004 Mortgages Column (6) Line (15) | _____ | X 0.1575 | = _____ |
| (024) Farm Mortgages | LR004 Mortgages Column (6) Line (16) | _____ | X 0.1575 | = _____ |
| (025) Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (17) | _____ | X 0.1575 | = _____ |
| (026) Residential Mortgages - Other | LR004 Mortgages Column (6) Line (18) | _____ | X 0.1575 | = _____ |
| (027) Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (19) | _____ | X 0.1575 | = _____ |
| (028) Commercial Mortgages - Other | LR004 Mortgages Column (6) Line (20) | _____ | X 0.1575 | = _____ |
| (029) Farm Mortgages <u>In Process of Foreclosure</u> | LR004 Mortgages Column (6) Line (21) | _____ | X 0.1575 | = _____ |

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

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

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

| | Source | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|---|--|-------------------|------------|-----------------------|
| (030) Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (22) | | X 0.1575 | = |
| (031) Residential Mortgages - Other | LR004 Mortgages Column (6) Line (23) | | X 0.1575 | = |
| (032) Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (24) | | X 0.1575 | = |
| (033) Commercial Mortgages - Other | LR004 Mortgages Column (6) Line (25) | | X 0.1575 | = |
| (034) Due & Unpaid Taxes Mortgages | LR004 Mortgages Column (6) Line (26) | | X 0.1575 | = |
| (035) Due & Unpaid Taxes - Foreclosures | LR004 Mortgages Column (6) Line (27) | | X 0.1575 | = |
| (036) Mortgage Reduction - Reinsurance | LR004 Mortgages Column (6) Line (29) | | X 0.2100 | = |
| (037) Mortgage Increase - Reinsurance | LR004 Mortgages Column (6) Line (30) | | X 0.2100 | = † |
| <u>Preferred Stock</u> | | | | |
| (038) Unaffiliated Preferred Stock NAIC 1 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9) | | X 0.1575 | = |
| (039) Unaffiliated Preferred Stock NAIC 2 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10) | | X 0.1575 | = |
| (040) Unaffiliated Preferred Stock-NAIC 3 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11) | | X 0.1575 | = |
| (041) Unaffiliated Preferred Stock NAIC 4 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12) | | X 0.1575 | = |
| (042) Unaffiliated Preferred Stock NAIC 5 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13) | | X 0.1575 | = |
| (043) Unaffiliated Preferred Stock NAIC 6 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14) | | X 0.2100 | = |
| (044) Preferred Stock Reduction-Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8) | | X 0.2100 | = † |
| (045) Preferred Stock Increase-Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9) | | X 0.2100 | = † |
| <u>Separate Accounts</u> | | | | |
| (046) Guaranteed Index | LR006 Separate Accounts Column (3) Line (1) | | X 0.1575 | = |
| (047) Nonindex-Book Reserve | LR006 Separate Accounts Column (3) Line (2) | | X 0.1575 | = |
| (048) Separate Accounts Nonindex-Market Reserve | LR006 Separate Accounts Column (3) Line (3) | | X 0.1575 | = |
| (049) Separate Accounts Reduction-Reinsurance | LR006 Separate Accounts Column (3) Line (5) | | X 0.2100 | = † |
| (050) Separate Accounts Increase-Reinsurance | LR006 Separate Accounts Column (3) Line (6) | | X 0.2100 | = |
| (051) Synthetic GICs | LR006 Separate Accounts Column (3) Line (8) | | X 0.1575 | = |
| (052) Separate Account Surplus | LR006 Separate Accounts Column (3) Line (13) | | X 0.1575 | = |
| <u>Real Estate</u> | | | | |
| (053) Company Occupied Real Estate | LR007 Real Estate Column (3) Line (3) | | X 0.2100 | = |
| (054) Foreclosed Real Estate | LR007 Real Estate Column (3) Line (6) | | X 0.2100 | = |
| (055) Investment Real Estate | LR007 Real Estate Column (3) Line (9) | | X 0.2100 | = |
| (056) Real Estate Reduction - Reinsurance | LR007 Real Estate Column (3) Line (11) | | X 0.2100 | = † |
| (057) Real Estate Increase - Reinsurance | LR007 Real Estate Column (3) Line (12) | | X 0.2100 | = |
| (058) Sch BA Real Estate Excluding Tax Credit Investments | LR007 Real Estate Column (3) Line (16) | | X 0.2100 | = |
| (059) Yield Guaranteed State Tax Credit Investments | LR007 Real Estate Column (3) Line (17) | | X 0.0000 | = |
| (060) Qualifying and Other Tax Credit Investments | LR007 Real Estate Column (3) Line (18) + Line (19) + Line (20) | | X 0.0000 | = |
| (061) Sch BA Real Estate Reduction - Reinsurance | LR007 Real Estate Column (3) Line (23) | | X 0.2100 | = † |
| (062) Sch BA Real Estate Increase - Reinsurance | LR007 Real Estate Column (3) Line (24) | | X 0.2100 | = |

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

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

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

| | Source | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|--|---|-------------------|------------|-----------------------|
| (063) Sch BA Bond NAIC 1 | LR008 Other Long-Term Assets Column (5) Line (2) | X | 0.1575 | = |
| (064) Sch BA Bond NAIC 2 | LR008 Other Long-Term Assets Column (5) Line (3) | X | 0.1575 | = |
| (065) Sch BA Bond NAIC 3 | LR008 Other Long-Term Assets Column (5) Line (4) | X | 0.1575 | = |
| (066) Sch BA Bond NAIC 4 | LR008 Other Long-Term Assets Column (5) Line (5) | X | 0.1575 | = |
| (067) Sch BA Bond NAIC 5 | LR008 Other Long-Term Assets Column (5) Line (6) | X | 0.1575 | = |
| (068) Sch BA Bond NAIC 6 | LR008 Other Long-Term Assets Column (5) Line (7) | X | 0.2100 | = |
| (069) BA Bond Reduction - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (9) | X | 0.2100 | = |
| (070) BA Bond Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (10) | X | 0.2100 | = † |
| (071) BA Preferred Stock NAIC 1 | LR008 Other Long-Term Assets Column (5) Line (12) | X | 0.1575 | = |
| (072) BA Preferred Stock NAIC 2 | LR008 Other Long-Term Assets Column (5) Line (13) | X | 0.1575 | = |
| (073) BA Preferred Stock NAIC 3 | LR008 Other Long-Term Assets Column (5) Line (14) | X | 0.1575 | = |
| (074) BA Preferred Stock NAIC 4 | LR008 Other Long-Term Assets Column (5) Line (15) | X | 0.1575 | = |
| (075) BA Preferred Stock NAIC 5 | LR008 Other Long-Term Assets Column (5) Line (16) | X | 0.1575 | = |
| (076) BA Preferred Stock NAIC 6 | LR008 Other Long-Term Assets Column (5) Line (17) | X | 0.2100 | = |
| (077) BA Preferred Stock Reduction-Reinsurance | LR008 Other Long-Term Assets Column (5) Line (19) | X | 0.2100 | = |
| (078) BA Preferred Stock Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (20) | X | 0.2100 | = † |
| (079) Rated Surplus Notes | LR008 Other Long-Term Assets Column (5) Line (31) | X | 0.1575 | = |
| (080) Rated Capital Notes | LR008 Other Long-Term Assets Column (5) Line (41) | X | 0.1575 | = |
| (081) BA Common Stock Affiliated | LR008 Other Long-Term Assets Column (5) Line (50,3) | X | 0.2100 | = |
| (082) BA Collateral Loans | LR008 Other Long-Term Assets Column (5) Line (51) | X | 0.1575 | = |
| (083) Other BA Assets | LR008 Other Long-Term Assets Column (5) Line (53.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18) | X | 0.2100 | = |
| (084) Other BA Assets Reduction-Reinsurance | LR008 Other Long-Term Assets Column (5) Line (55) | X | 0.2100 | = † |
| (085) Other BA Assets Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (56) | X | 0.2100 | = |
| (086) BA Mortgages - In Good Standing | LR009 Schedule BA Mortgages Column (6) Line (12) | X | 0.1575 | = |
| (087) BA Mortgages - 90 Days Overdue | LR009 Schedule BA Mortgages Column (6) Line (16) | X | 0.1575 | = |
| (088) BA Mortgages - In Process of Foreclosure | LR009 Schedule BA Mortgages Column (6) Line (20) | X | 0.1575 | = |
| (089) Reduction - Reinsurance | LR009 Schedule BA Mortgages Column (6) Line (22) | X | 0.2100 | = † |
| (090) Increase - Reinsurance | LR009 Schedule BA Mortgages Column (6) Line (23) | X | 0.2100 | = |
| <u>Miscellaneous</u> | | | | |
| (091) Asset Concentration Factor | LR010 Asset Concentration Factor Column (6) Line (61) Grand Total Page | X | 0.1575 | = |
| (092) Miscellaneous Assets | LR012 Miscellaneous Assets Column (2) Line (7) | X | 0.1575 | = |
| (093) Derivatives - Collateral and Exchange Traded | LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10) | X | 0.1575 | = |
| (094) Derivatives NAIC 1 | LR012 Miscellaneous Assets Column (2) Line (11) | X | 0.1575 | = |
| (095) Derivatives NAIC 2 | LR012 Miscellaneous Assets Column (2) Line (12) | X | 0.1575 | = |
| (096) Derivatives NAIC 3 | LR012 Miscellaneous Assets Column (2) Line (13) | X | 0.1575 | = |
| (097) Derivatives NAIC 4 | LR012 Miscellaneous Assets Column (2) Line (14) | X | 0.1575 | = |
| (098) Derivatives NAIC 5 | LR012 Miscellaneous Assets Column (2) Line (15) | X | 0.1575 | = |
| (099) Derivatives NAIC 6 | LR012 Miscellaneous Assets Column (2) Line (16) | X | 0.2100 | = |
| (100) Miscellaneous Assets Reduction-Reinsurance | LR012 Miscellaneous Assets Column (2) Line (19) | X | 0.2100 | = † |
| (101) Miscellaneous Assets Increase-Reinsurance | LR012 Miscellaneous Assets Column (2) Line (20) | X | 0.2100 | = |

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

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

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

| | | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|---|--|-------------------|------------|-----------------------|
| (102) Replications | LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999) | X | 0.1575 | = |
| (103) Reinsurance | LR016 Reinsurance Column (4) Line (17) | X | 0.2100 | = |
| (104) Investment Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8) | X | 0.2100 | = |
| (105) Investment in Upstream Affiliate (Parent) | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15) | X | 0.2100 | = |
| (106) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16) | X | 0.2100 | = |
| (107) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17) | X | 0.2100 | = |
| (108) Directly Owned Life Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18) | X | 0.2100 | = |
| (109) Publicly Traded Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22) | X | 0.2100 | = |
| (110) Subtotal for C-1o Assets | Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100) | = | | = |
| <u>C-0 Affiliated Common Stock</u> | | | | |
| (111) Off-Balance Sheet and Other Items | LR017 Off-Balance Sheet and Other Items Column (5) Line (27) | X | 0.1575 | = |
| (112) Off-Balance Sheet Items Reduction - Reinsurance | LR017 Off-Balance Sheet and Other Items Column (5) Line (28) | X | 0.2100 | = |
| (113) Off-Balance Sheet Items Increase - Reinsurance | LR017 Off-Balance Sheet and Other Items Column (5) Line (29) | X | 0.2100 | = |
| (114) Directly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1) | X | 0.2100 | = |
| (115) Directly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2) | X | 0.2100 | = |
| (116) Directly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3) | X | 0.2100 | = |
| (117) Indirectly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4) | X | 0.2100 | = |
| (118) Indirectly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5) | X | 0.2100 | = |
| (119) Indirectly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6) | X | 0.2100 | = |
| (120) Affiliated Alien Insurers - Directly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11) | X | 0.0000 | = |
| (121) Affiliated Alien Insurers - Indirectly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14) | X | 0.0000 | = |
| (122) Subtotal for C-0 Affiliated Common Stock | Lines (111)-(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121) | = | | = |
| <u>Common Stock</u> | | | | |
| (123) Unaffiliated Common Stock | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16) | X | 0.2100 | = |
| (124) Credit for Hedging - Common Stock | LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999) | X | 0.2100 | = |
| (125) Stock Reduction - Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19) | X | 0.2100 | = |
| (126) Stock Increase - Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20) | X | 0.2100 | = |
| (127) Tranches or Interests | Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual | | | |
| (128) Total Residual Tranches or Interests | LR008 Other Long-Term Assets Column (5) Line (49) - Line (45) | X | 0.2100 | = |
| (129) Common Stock Concentration Factor | LR008 Other Long-Term Assets Column (5) Line (45) | X | 0.2100 | = |
| (130) NAIC 01 Working Capital Finance Notes | LR011 Common Stock Concentration Factor Column (6) Line (6) | X | 0.2100 | = |
| (131) NAIC 02 Working Capital Finance Notes | LR008 Other Long-Term Assets Column (5) Line (52.1) | X | 0.1575 | = |
| (132) Holding Company in Excess of Indirect Subs | LR008 Other Long-Term Assets Column (5) Line (52.2) | X | 0.1575 | = |
| (133) Affiliated Non-Insurers | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7) | X | 0.2100 | = |
| (134) Total for C-1cs Assets | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21) Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133) | X | 0.2100 | = |
| (135) Disability Income Premium | LR019 Health Premiums Column (2) Lines (34) | X | 0.2100 | = |

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

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

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

| | <u>Source</u> | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|---|--|-------------------|------------|-----------------------|
| (136) Long-Term Care | LR019 Health Premiums Column (2) Line (35) + LR023 Long-Term Care Column (4) Line (7) | X | 0.2100 | = |
| (137) Individual & Industrial Life Insurance C-2 Risk | LR025 Life Insurance Column (2) Line (5) | X | 0.2100 | = |
| (138) Group & Credit Life Insurance C-2 Risk | LR025 Life Insurance Column (2) Line (12) | X | 0.2100 | = |
| (138b) Longevity C-2 Risk | LR025-A Longevity Risk Column (2) Line (5) | X | 0.2100 | = |
| (139) Disability and Long-Term Care Health Claim Reserves | LR024 Health Claim Reserves Column (4) Line (9) + Line (15) | X | 0.2100 | = |
| (140) Premium Stabilization Credit | LR026 Premium Stabilization Reserves Column (2) Line (10) | X | 0.0000 | = |
| (141) Total C-2 Risk | $L(135) + L(136) + L(139) + L(140) + \text{Greatest of}[\text{Guardrail Factor} * (L(137)+L(138)), \text{Guardrail Factor} * L(138b), \text{Square Root of}[(L(137) + L(138))^2 + L(138b)^2 + 2 * (\text{Correlation Factor}) * (L(137) + L(138)) * L(138b)]]$ | = | | = |
| (142) Interest Rate Risk | LR027 Interest Rate Risk Column (3) Line (36) | X | 0.2100 | = |
| (143) Health Credit Risk | LR028 Health Credit Risk Column (2) Line (7) | X | 0.0000 | = |
| (144) Market Risk | LR027 Interest Rate Risk Column (3) Line (37) | X | 0.2100 | = |
| (145) Business Risk | LR029 Business Risk Column (2) Line (40) | X | 0.2100 | = |
| (146) Health Administrative Expenses | LR029 Business Risk Column (2) Line (57) | X | 0.0000 | = |
| (147) Total Tax Effect | Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146) | = | | = |

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

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

HEALTH PREMIUMS PR019

| | Annual Statement Source | (1) Statement Value | Factor | (2) RBC Requirement |
|---|--|------------------------|---------|------------------------|
| Medical Insurance Premium - Individual | | | | |
| (1) Comprehensive (Medical and Hospital) | Earned Premium (U&I Part 1, Column 4 Line 13.1) | 0 | † | XXX |
| (2) Title XVIII Medicare | Earned Premium (U&I Part 1, Column 4 Line 15.6 in part) | 0 | † | XXX |
| (3) Title XIX Medicaid | Earned Premium (U&I Part 1, Column 4 Line 15.5 in part) | 0 | † | XXX |
| (4) Medicare Supplement | Earned Premium (U&I Part 1, Column 4 Line 15.4 in part) | 0 | † | XXX |
| (5) Vision Only | Earned Premium (U&I Part 1, Column 4 Line 15.1 in part) | 0 | † | XXX |
| (6) Dental Only | Earned Premium (U&I Part 1, Column 4 Line 15.2 in part) | 0 | † | XXX |
| (7.1) Stand-Alone Medicare Part D Coverage | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | † | XXX |
| (7.2) Supplemental Benefits within Stand-Alone Part D Coverage (Claims Incurred) | Company Records | 0 | 0.500 | 0 |
| (7.3) Medicaid Pass-Through Payments Reported as Premium | Company Records | 0 | 0.020 | 0 |
| (8) Hospital Indemnity and Specified Disease | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | 0.035 * | 0 |
| (9) AD&D (Maximum Retained Risk Per Life 0) | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | ‡ | 0 |
| (10) Other Accident | Earned Premium (U&I Part 1, Column 4 Line 15 in part) | 0 | 0.050 | 0 |
| Medical Insurance Premium - Group and Credit | | | | |
| (11) Comprehensive (Medical and Hospital) | Earned Premium (U&I Part 1, Column 4 Line 13.2) | 0 | † | XXX |
| (12) Title XVIII Medicare | Earned Premium (U&I Part 1, Column 4 Line 15.6 in part) | 0 | † | XXX |
| (13) Title XIX Medicaid | Earned Premium (U&I Part 1, Column 4 Line 15.5 in part) | 0 | † | XXX |
| (14) Vision Only | Earned Premium (U&I Part 1, Column 4 Line 15.1 in part) | 0 | † | XXX |
| (15) Dental Only | Earned Premium (U&I Part 1, Column 4 Line 15.2 in part) | 0 | † | XXX |
| (16) Stop Loss and Minimum Premium | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | ¥ | 0 |
| (17) Medicare Supplement | Earned Premium (U&I Part 1, Column 4 Line 15.4 in part) | 0 | † | XXX |
| (18.1) Stand-Alone Medicare Part D Coverage (see instructions for limits) | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | † | XXX |
| (18.2) Supplemental benefits within Stand-Alone Part D Coverage (Claims Incurred) | Company Records | 0 | 0.500 | 0 |
| (18.3) Medicaid Pass-Through Payments Reported as Premium | Company Records | 0 | 0.020 | 0 |
| (19) Hospital Indemnity and Specified Disease | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | 0.035 * | 0 |
| (20) AD&D (Maximum Retained Risk Per Life 0) | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | ‡ | 0 |
| (21) Other Accident | Earned Premium (U&I Part 1, Column 4 Line 15 in Part) | 0 | 0.050 | 0 |
| (22) Federal Employee Health Benefit Plan | Earned Premium (U&I Part 1, Column 4 Line 15.8) | 0 | 0.000 | 0 |
| Disability Income Premium | | | | |
| (23) Noncancellable Disability Income - Individual Morbidity | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (24) Other Disability Income - Individual Morbidity | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (25) Disability Income - Credit Monthly Balance Plans | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (26) Disability Income - Group Long-Term | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (27) Disability Income - Credit Single Premium with Additional Reserve | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (28) Disability Income - Credit Single Premium without Additional Reserve | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (29) Disability Income - Group Short-Term | Earned Premium (U&I Part 1, Column 4 Line 15.3 in part) | 0 | ‡ | 0 |
| (30) Total Disability Income | Earned Premium (U&I Part 1, Column 4 Line 15.3) | 0 | ‡ | 0 |
| Long-Term Care | | | | |
| (31) Noncancellable Long-Term Care Premium - Rate Risk** | Earned Premium (U&I Part 1, Column 4 Line 15.7 in part) | 0 | 0.100 | 0 |
| (32) Other Long-Term Care Premium ‡ ‡ | Earned Premium (U&I Part 1, Column 4 Line 15.7 in part) | 0 | 0.000 | 0 ‡ ‡ |
| (33) Total Long-Term Care | Earned Premium (U&I Part 1, Column 4 Line 15.7) | 0 | | |
| Health Premium with Limited Underwriting Risk | | | | |
| (34) ASC Business with Premium Revenue | Earned Premium (U&I Part 1, Column 4 Line 15.9 in part) | 0 | 0.000 | 0 |
| Other Health | | | | |
| (35) Other Health | Earned Premium (U&I Part 1, Column 4 Line 14 and 15.9 in part) | 0 | 0.120 | 0 |
| (36) Total Earned Premiums | Sum of Lines (1) through (22), Line (30), and Lines (33) through (35) minus Lines (7.3) and (18.3) | 0 | | 0 |
| C(1), L(36) should equal U&I Part 1 Column 4 Lines 13.1 through 15.9 | | | | |
| (37) Additional Reserves for Credit Disability Plans | Company records | 0 | § | |
| (38) Additional Reserves for Credit Disability Plans, prior year | Company records | 0 | § | |

† The premium amounts in these lines are transferred to PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement, Dental & Vision and Stand-Alone Medicare Part D Coverage Lines (1.1) and (1.2) for the calculation of risk-based capital. The premium amounts are included here to assist in the balancing of total health premium. If managed care arrangements have been entered into, the company may also complete PR021 Underwriting Risk – Managed Care Credit. In which case, the company will also need to complete PR013 Health Credit Risk in the formula.

‡ If there are amounts in any of lines (1) through (6), (11) through (15), and (17) on page PR019 Health Premiums, the company will also be directed to complete the Health Administrative Expense portion of PR023.

§ The two tiered calculation is illustrated in the risk-based capital instructions for PR019 Health Premiums.

‡ ‡ The balance of the RBC requirement for Long Term Care - Morbidity Risk is calculated on Page PR023. The premium is shown to allow totals to check to U&I Part 1.

* If there is premium included on either or both of these lines, the RBC value in Column (2) will include 3.5% of such premium and \$50,000 (included in the line with the larger premium).

** The factor applies to all Noncancellable premium.

§ These amounts are used to adjust the premium base for single premium credit disability plans that carry additional tabular reserves.

¥ A factor of .350 will be applied to the first \$25,000,000 in Column (1), Line (16) and a factor of .250 will be applied to the remaining premium in excess of \$25,000,000.

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

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND DENTAL & VISION PR020

(Experience Fluctuation Risk in Life RBC Formula)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|-------------------------------------|--------------------------------|----------------------|--------------------|---------------------|-------------|-------------|--|-------|
| | Comprehensive Medical Individual | Comprehensive Medical Group | Title XVIII-Medicare | Title XIX-Medicaid | Medicare Supplement | Vision Only | Dental Only | Stand-Alone Medicare Part D Coverage | TOTAL |
| (1.1) Individual Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1.2) Group Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1.3) Total Premium | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Other Health Risk Revenue† | 0 | 0 | 0 | 0 | XXX | 0 | 0 | 0 | 0 |
| (3) Medicaid Pass-Through Payments Reported as Premium | XXX | XXX | XXX | 0 | XXX | XXX | XXX | XXX | 0 |
| (4) Underwriting Risk Revenue = Lines (1.3) + (2) - (3) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (5) Net Incurred Claims | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (6) Medicaid Pass-Through Payments Reported as Claims | XXX | XXX | XXX | 0 | XXX | XXX | XXX | XXX | 0 |
| (7) Fee-for-Service Offset† | 0 | 0 | 0 | 0 | XXX | 0 | 0 | 0 | 0 |
| (8) Underwriting Risk Incurred Claims = Lines (5) - (6) - (7) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (9) Underwriting Risk Claim Ratio (8)/(4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (10) Underwriting Risk Factor for Initial Amounts Of Premium‡ | 0.1440 | 0.1440 | 0.1440 | 0.1440 | 0.0987 | 0.1153 | 0.1153 | 0.251 | XXX |
| (11) Underwriting Risk Factor for Excess of Initial Amount‡ | 0.0844 | 0.0844 | 0.0844 | 0.0844 | 0.0609 | 0.0716 | 0.0716 | 0.151 | XXX |
| (12.1) Investment Income Adjustment Factor Initial Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX |
| (12.2) Investment Income Adjustment Factor Excess Premium | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | XXX | XXX |
| (13) Composite Underwriting Risk Factor | A1 | A1 | A1 | A1 | A2 | A2 | A2 | A3 | XXX |
| (14) Base Underwriting Risk RBC = Line (4) x Line (9) x Line (13) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (15) Managed Care Discount Factor = PR021 Line (12) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| (16) Base RBC After Managed Care Discount = Line (14) x Line (15) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (17) Alternate Risk Charge | 500,000 | 500,000 | 500,000 | 500,000 | 50,000 | 50,000 | 50,000 | 150,000 | XXX |
| (18) Net Alternate Risk Charge | B0 | B0 | B0 | B0 | B1 | B2 | B2 | B3 | 0 |
| (19) Net Underwriting Risk RBC (Maximum of Line (16) or Line (18)) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

† Source is company records unless already included in premiums.

| | Initial Premium Amount‡ | | | | | | | |
|--|--|--|---------------------------|-------------------------|------------------------|-------------|-------------|--|
| | Comprehensive (Hospital & Medical) - Individual | Comprehensive (Hospital & Medical) - Group | Title XVIII - Medicare | Title XIX - Medicaid | Medicare Supplement | Vision | Dental | Stand-Alone Medicare Part D Coverage |
| | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$25,000,000 | \$3,000,000 | \$3,000,000 | \$3,000,000 | \$25,000,000 |

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

± The Line (17) Alternate Risk Charge is calculated as follows:

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

PR020 Formulas

Cell Label Formula

A1 ={{Min[Line (4) x Line (10), 25,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 25,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A2 ={{Min[Line (4) x Line (10), 3,000,000 x Line (10)] x Line (12.1)} + {Max[0, (Line (4) - 3,000,000) x Line (11)] x Line (12.2)}} / Line (4)

A3 ={Min[Line (4) x Line (10), 25,000,000 x Line (10)] + Max[0, (Line (4) - 25,000,000) x Line (11)]} / Line (4)

B0 =If[OR[Line (4) > 0, Line (8) > 0], 500,000, 0]

B1 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18)], 0]

B2 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 50,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18)], 0]

B3 =If[OR[Line (4) > 0, Line (8) > 0], Max[0, 150,000 - C(1) L(18) - C(2) L(18) - C(3) L(18) - C(4) L(18) - C(5) L(18) - C(6) L(18) - C(7) L(18)], 0]

UNDERWRITING RISK - OTHER AND TOTAL NET HEALTH PREMIUM RBC PR022

| | | (1) Amount | Factor | (2) RBC Requirement |
|---|---|---------------|--------|------------------------|
| Rate Guarantees & Federal Employees Health Benefits | | | | |
| (1) Business with Rate Guarantees Between 15-36 Months | Company Records | 0 | 0.024 | 0 |
| (2) Business with Rate Guarantees Over 36 Months | Company Records | 0 | 0.064 | 0 |
| (3) Federal Employees Health Benefit Program (FEHBP) Claims Incurred | Company Records | 0 | 0.020 | 0 |
| (4) Total, Rate Guarantees & Federal Employees Health Benefits | L(1) + L(2) + L(3) | 0 | | 0 |
| Administrative Expenses for Certain A&H Coverages | | | | |
| (5) Total Accident and Health Premiums | PR019 Health Premiums Column (1) Line (36) | 0 | | |
| (6) Accident and Health Premiums from Underwriting Risk | PR020 Underwriting Risk Column (9) Line (1.3) | 0 | | |
| (7) Accident and Health Premiums Factor | L(6)/L(5) | 0.000 | | |
| (8) Administrative Expenses for Health Insurance | Company Records | 0 | | |
| (9) Less Administrative Expenses for Administrative Service Contracts (ASC) included in Line (8) | Company Records | 0 | | |
| (10) Less Administrative Expenses for Administrative Services Only (ASO) Business included in Line (8) | Company Records | 0 | | |
| (11) Less Administrative Expenses for Commissions and Premium Taxes | Company Records | 0 | | |
| (12) Net Administrative Expenses | L(8) - L(9) - L(10) - L(11) | 0 | | |
| (13) Composite Health Administrative Expense Risk Factor | (7% of L(6) up to \$25 million + 4% of excess)/L(6) | 0.000 | | |
| (14) Administrative Expense Component for Health | L(12) x L(7) x L(13) | | | 0 |
| Health ASO/ASC | | | | |
| (15) Administrative Expenses for ASC Business | Company Records* | 0 | 0.020 | 0 |
| (16) Administrative Expenses for ASO Business | Company Records* | 0 | 0.020 | 0 |
| (17) Total Health ASO/ASC | L(15) + L(16) | 0 | | 0 |
| (18) Total Underwriting Risk - Other | L(4) + L(14) + L(17) | | | 0 |
| Total Net Health Premium RBC | | | | |
| (19) Total Health Premium RBC | L(18) + PR019 C(2) L(36) + PR020 C(9) L(19) | | | |
| (20) Premium Concentration Factor | PR018 C(20) L(14) | | | 1.000 |
| (21) Total Net Health Premium RBC | L(19) x L(20) | | | 0 |

* Line (15) should be greater than or equal to Line (9). Line (16) should be greater than or equal to Line (10).

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

PREMIUM STABILIZATION RESERVES PR025

| | | (1) Statement Value | Factor | (2) RBC Requirement |
|--|---|--|--------|---------------------------|
| Group & Credit Health Premium Stabilization Reserves Reported | | | | |
| (1) | Stabilization Reserves and Experience Rating Refunds | 0 | 0.500 | 0 |
| (2) | Provision for Experience Rating Refunds | 0 | 0.500 | 0 |
| (3) | Reserve for Group Rate Credits | 0 | 0.500 | 0 |
| (4) | Reserve for Credit Rate Credits | 0 | 0.500 | 0 |
| (5) | Premium Stabilization Reserves | 0 | 0.500 | 0 |
| (6) | Total of Preliminary Premium Stabilization Reserve Credit | 0 | | 0 |
| Group & Credit Health Risk-Based Capital | | | | |
| (7) | Maximum Risk-Based Capital | PR024 Health Claim Reserves Column (2) Line (2) + PR019 Health Premiums Column (2) Lines (16), (19), (20), (21), (25), (26), (27), (28) and (29) + [PR020 Underwriting Risk- Premiums Risk Column (9) Line (19) - Column (8) Line (19) x Column (9) Line (1.2) / Column (9) Line (1.3)] | | |
| | | 0 | | |
| (8) | Final Premium Stabilization Reserve Credit | 0 | -1.000 | 0 |

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

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|---|--|
| DATE: <u>2/23/26</u> | FOR NAIC USE ONLY |
| CONTACT PERSON: <u>Eva Yeung</u> TELEPHONE: <u>816-783-8407</u> EMAIL ADDRESS: <u>eyeung@naic.org</u> ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u> NAME: <u>Wanchin Chou</u> TITLE: <u>Chair</u> AFFILIATION: <u>Connecticut Department of Insurance</u> ADDRESS: <u>153 Market St., Hartford CT 06103</u> | Agenda Item # <u>2026-08-CR</u> Year <u>2026</u> DISPOSITION ADOPTED: <input type="checkbox"/> TASK FORCE (TF) _____ <input type="checkbox"/> WORKING GROUP (WG) _____ <input type="checkbox"/> SUBGROUP (SG) _____ EXPOSED: <input type="checkbox"/> TASK FORCE (TF) _____ <input checked="" type="checkbox"/> WORKING GROUP (WG) <u>2026/03/23</u> <input checked="" type="checkbox"/> SUBGROUP (SG) <u>2026/03/23</u> REJECTED: <input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____ OTHER: <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input type="checkbox"/> (SPECIFY) _____ |

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The purpose of this proposal is to eliminate questions D13 and D14 from PR027INT. This action is recommended because there are currently no clearly defined areas that are considered prone to convective storms. As a result, retaining these questions may lead to ambiguity and inconsistency in data collection and reporting.

Additional Staff Comments:

4/8/26 Additional modifications were made to the instructions in response to industry feedback indicating that the final sentence remains valid and helpful to include.

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

Revised 2-2023

CALCULATION OF CATASTROPHE RISK CHARGE RCAT

PR027A, PR027B, PR027BI, PR027BII, PR027BIII, PR027BIV PR027C, PR027CI, PR027CII, PR027CIII, PR027CIV, PR027D, PR027, PR027INT, AND PR027INTA



The Interrogatory on page (PR027INT) supports an exemption from filing the catastrophe risk charge.

Any company qualifying for exemption from the earthquake risk charge must identify the particular criteria from among (1a), (1b), (2) and (3) that provides its qualification for exemption, and may leave the other three items from this group of four possible qualifications for exemption blank; except identification of criteria (3) as the basis for the exemption requires a further answer to (3a) and (3b). If an insurer does not write or assume earthquake risks leaving no gross exposure, enter an "X" in PR027INT interrogatory 3, with no need to fill in (3a) and (3b). If the company qualifies for exemption from the earthquake risk charge, page PR027A and line (1) on PR027 may be left blank.

Any company qualifying for exemption from the hurricane risk charge must identify the particular criteria from among (4a), (4b), (5) and (6) that provides its qualification for exemption, and may leave the other three items from this second group of four possible qualifications for exemption blank. If an insurer does not write or assume hurricane risks leaving no gross exposure, enter an "X" in PR027INT interrogatory 6. If the company qualifies for exemption from the hurricane risk charge, page PR027B and line (2) on PR027 may be left blank.

Any company qualifying for exemption from the wildfire risk charge must identify the particular criteria from among (7a), (7b), (8), (9), and (10) that provides its qualification for exemption and may leave the other four items from this third group of five possible qualifications for exemption blank. If an insurer does not write or assume wildfire risks leaving no gross exposure, enter an "X" in PR027INT interrogatory 9. If the company qualifies for exemption from the wildfire risk charge, page PR027C and line (3) on PR027 may be left blank.

Any company qualifying for exemption from the convective storms risk charge must identify the particular criteria from among (11a), (11b), and (12), ~~(13) and (14)~~ that provides its qualification for exemption and may leave the other ~~four~~ two items from this fourth group of ~~five~~ three possible qualifications for exemption blank. ~~If an insurer does not write or assume convective storms risks leaving no gross exposure, enter an "X" in PR027INT interrogatory 13.~~ If the company qualifies for exemption from the convective storms risk charge, page PR027D and line (4) on PR027 may be left blank.



INTERROGATORY TO SUPPORT EXEMPTION FROM COMPLETING PR027 (To be completed by companies reporting no RBC charge in either Lines 1 through 4) PR027INT

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

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

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

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

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

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

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

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

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

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

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

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

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

D Convective Storms Exemption (To be completed by companies reporting no RBC charge in PR027 Line 4) -

- (11) The company has not entered into a reinsurance agreement covering Convective Storms exposure with a non-affiliate or a non-US affiliate and, either
 - (11a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for Convective Storms risks; Or
 - (11b) the company cedes 100% of its convective storms exposures to its US affiliate(s), leaving no net exposure for Convective Storms risks
- (12) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50% for the following lines: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril; and the company does not currently utilize NAIC approved third party commercial vendor convective storm catastrophe models.
- (13) The company has written Insured Value - Property that includes Convective Storms coverage in the Convective Storms-Prone areas representing less than 10% of its surplus as regards policyholders
- (14) The sum of the direct and assumed premium written in Convective Storms-prone areas across the following Annual Statement lines is less than \$50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril; and the company does not currently utilize NAIC approved third party commercial vendor convective storm catastrophe models.

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

* Items C and D are for informational purposes only.

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|---|--|
| <p style="text-align: right;">DATE: <u>11/11/2025</u></p> <p>CONTACT PERSON: <u>Maggie Chang</u></p> <p>TELEPHONE: <u>816-783-8976</u></p> <p>EMAIL ADDRESS: <u>mchang@naic.org</u></p> <p>ON BEHALF OF: <u>Risk-Based Capital Investment Risk and Evaluation (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-22-IRE MOD V.2</u></p> <p>Year <u>2026 or later</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>5/6/2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>12/15/25</u> <u>3/23/26</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|---|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates a more granular reporting of Long-Term Bonds into two buckets: i) collateralized loan obligations (CLOs) and ii) all other Long-Term Bonds on the LR002 Bonds page. The expanded presentation of bonds is a result of the work of Risk-Based Capital Investment Risk and Evaluation (E) Working Group under Working Agenda item: Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets).

Please note that this proposal does not contemplate any changes to factors. Any changes of factors, if deemed necessary, will be dealt with by a separate proposal. Likewise, residual tranche structural changes, if any, are to be contemplated in separate proposal form.

The accompanying changes proposed to the instructions and blanks of the AVR – Default Component & Equity and Other Invested Asset Component tables are under purview of NAIC Blanks (E) Working Group. As such, the proposed changes to “Annual Statement Source” in LR002 are contingent on the adoption of such Blanks proposal.

Additional Staff Comments:

12/15/25 – exposed by Working Group (mkc)

3/23/26 [MOD V.1] – modified to incorporate tranche thickness as comparable attributes (mkc).

5/1/26 [MOD V.2]–modified to streamline LR002 page such that line (3.3), (4.1)-(4.3), (5.1)-(5.3) and (6.1)-(6.3) no longer use “in part”/ “company record” methodology. **Noted this structure was initially exposed on 12/15/2025.** This modified version continues to include line (7.2) to capture all CLOs designated NAIC 2.C. or below AND have tranche thickness below 4%. **Note that this structure was initially exposed on 3/23/26.** The only modification in this version is to reflect a flat thin tranche surcharge, if advocated by the Working Group. Since this is a structural proposal, the amount of flat surcharge is not within the scope of the proposal. **Ultimately, after making the aforementioned modification, there will be no change in substance as compared to MOD V.1.** All modifications from V.1 are highlighted in Aqua within the RBC Blanks. (mkc)

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

Revised 2-2023

BONDS

LR002

Basis of Factors

The bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by designation category and that year’s economic environment. When a default takes place, the actual loss considers the expected principal loss by category, the time until the sale actually occurs and the assumed tax consequences.

Actual surplus needs are reduced by incorporating anticipated annual contributions to the asset valuation reserve (AVR) as offsetting cash flow. Required surplus for a given trial is calculated as the amount of initial surplus funds needed so that the accumulation with interest of this initial amount and subsequent cash flows will not become negative at any point throughout the modeling period. The factors chosen for the proposed formula produce a level of surplus at least as much as needed in 92% of the trials by category and a 96% level for the entire bond portfolio.

The factor for NAIC 6 bonds recognizes that the book/adjusted carrying value of these bonds reflects a loss of value upon default by being marked to market.

Specific Instructions for Application of the Formula

Lines (1) through (7)

The book/adjusted carrying value of all bonds, excluding collateralized loan obligations (CLOs), Collateralized Bond Obligations (CBOs), and Collateralized Debt Obligations (CDOs) and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For long-term bonds, these classifications are found on Lines A1 through A7 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

The book/adjusted carrying value of all collateralized loan obligations CLOs/CBOs/CDOs should be reported in Column (2). The collateralized loan obligations CLOs/CBOs/CDOs are split into six different risk classifications. These classifications are found on Lines A9.1 through A14 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (7.2)

Amounts reported in Column (2) line (7.2) (3.3), (4.1), (4.2), (4.3), (5.1), (5.2), (5.3), (6.1), (6.2), (6.3) should exclude include book/adjusted carrying value of Broadly Syndicated Bank Loans (BSL) CLO tranches (as defined below) with [current] tranche thickness less than or equal to [4%] (as defined below). Such balances should be reported in Column (2) Line (7.2).

BSL are typically syndicated corporate loans distributed to a broad base of institutional investors and rated by credit rating agencies. BSL CLOs are primarily backed by syndicated corporate loans.

[Current] Tranche thickness is defined as the difference between the attachment point (AP) and the detachment point (DP) of a CLO tranche. AP refers to tranche’s subordination percentage, and DP is the percentage of total par amount of the underlying portfolio including principal proceeds, that will completely write off the tranche. The current tranche thickness is to be measured using the most recent periodic report available, without being stale, as of the investment reporting date.

Report the Subtotal RBC Requirement in Column (4), Line (7.2) based on the following calculations:

| <u>NAIC Designation Categories of the thin tranche CLOs</u> | <u>Book/Adjusted Carrying Value</u> | | <u>Factors</u> | | <u>RBC Requirement</u> |
|---|-------------------------------------|----------|----------------|----------|------------------------|
| <u>NAIC Designation Category 2.C</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>=</u> | |
| <u>NAIC Designation Category 3.A</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>=</u> | |

| | | | | | |
|--------------------------------------|-----------------------|----------|-----------------|-----------|--|
| <u>NAIC Designation Category 3.B</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 3.C</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 4.A</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 4.B</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 4.C</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 5.A</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 5.B</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| <u>NAIC Designation Category 5.C</u> | <u>Company Record</u> | <u>X</u> | <u>TBD</u> | <u>==</u> | |
| | | | <u>Subtotal</u> | <u>==</u> | |

The total of Column (2) Lines (3.3), (4.1), (4.2), (4.3), (5.1), (5.2), (5.3) (6.1), (6.2) and (6.3) should agree to the total of AVR Default Component Column 1 Line A10.3, Line A11.1, Line A11.2, Line A11.3, Line A12.1, Line A12.2, Line A12.3, Line A13.1, Line A13.2, Line A13.3.

Line (8)

The total should equal long-term bonds ~~and other fixed income instruments~~ reported on Page 2, Column 3, Line 1 plus Schedule DL Part 1, Column 6, Line 2009999999 of the annual statement.

Lines (9) through (15)

The book/adjusted carrying value of all short-term and cash equivalent bonds ~~and related fixed income investments~~ should be reported in Column (1). The bonds are split into seven different risk classifications. For short-term bonds, these classifications are found on Lines ~~18-C1~~ through ~~24-C7~~ of the Asset Valuation Reserve Default Component, Page 30 of the annual statement. For cash equivalent bonds, these classifications are found in Footnotes to Schedule E, Part 2.

Line (16)

The total should equal short-term bonds reported on Schedule DA, Part 1, Column 6 Line 0509999999 plus Schedule DL Part 1, Column 6, Line 9509999999 plus Schedule E, Part 2, Column 7, Line 0509999999.

Line (22)

Class 1 bonds (highest quality) issued by a U.S. government agency that are not backed by the full faith and credit of the U.S. government should be reported on this line. The loan-backed securities of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) would be examples of the securities reported on this line. Line (22) should not be larger than the sum of Lines (2) and (10). Exempt obligations should not be included on this line.

Line (24)

Bonds should be aggregated by issuer (the first six digits of the CUSIP number can be used). Exempt U.S. government bonds and bonds reported on Line (22) are not counted in determining the size factor. The RBC for those bonds will not be included in the base to which the size factor is applied. If this field is left blank, the maximum size factor adjustment of 2.40 will be used.

Line (25)

The size factor reflects the higher risk of a bond portfolio that contains relatively fewer bonds. The overall factor decreases as the portfolio size increases. The size factor is based on the weighted number of issuers. (The calculation shown below will not appear on the RBC filing software but will be calculated automatically.)

| <u>Line (25)</u> | <u>Source</u> | (a) <u>Number of</u> <u>Issuers</u> <u>(for bonds,</u> | (b) <u>Weighted Issuers</u> <u>(for bonds, excluding</u> <u>CLOs/CBOs/CDOs)</u> |
|------------------|---------------|---|--|
|------------------|---------------|---|--|

| | | <u>excluding CLOs/CBOs/ CDOs</u> | | | | |
|--|--------------------|--|---|------|---|--|
| First 50 | Company Records | | X | 2.40 | = | |
| Next 50 | Company Records | | X | 1.53 | = | |
| Next 100 | Company Records | | X | 0.85 | = | |
| Next 300 | Company Records | | X | 0.85 | = | |
| Over 500 | Company Records | | X | 0.82 | = | |
| <u>(i) Total Number of Issuers from Line (23) Column (1)</u> | | | | | | |
| <u>(ii) Total Weighted Issuers (for bonds, excluding CLOs/CBOs/CDOs)</u> | | | | | | |
| | <u>Source</u> | <u>(a) Number of Issuers (for CLOs/CBOs/ CDOs)</u> | | | | <u>(b) Weighted Issuers (for CLOs/CBOs/CDOs)</u> |
| First XX* | Company Records | | X | TBD | = | |
| Next XX* | Company Records | | X | TBD | = | |
| Next XXX* | Company Records | | X | TBD | = | |
| Next XXX* | Company Records | | X | TBD | = | |
| Over XXX* | Company Records | | X | TBD | = | |
| <u>(iii) Total Number of Issuers from Line (23) Column (2)</u> | | | | | | |
| <u>(iv) Total Weighted Issuers (for CLOs/CBOs/CDOs)</u> | | | | | | |
| Size Factor = Total Weighted Issuers (ii)+(iv) Divided by Total Number of Issuers (i)+(iii) | | | | | | |

* Total number of breakpoints, as well as weights assigned to each, is subject to American Academy of Actuaries' recommendation and Working Group's review.

| Company Name | | BONDS | | Cocode: 00000 | | | |
|--|---|--|---|---------------|-----------------|-----|---|
| BONDS | | (1) | (2) | (3) | (4) | | |
| SVO Bond Designation Category | Annual Statement Source | Non-CLOs /CBOs/CDOs Book / Adjusted Carrying Value | CLOs/CBOs/CDOs Book / Adjusted Carrying Value | Factor | RBC Requirement | | |
| Long Term Bonds | | | | | | | |
| (1) Exempt Obligations | C(1) AVR Default Component Column 1 Line A1 C(1) AVR Default Component Column 1 Line A2.1 | \$0 X 0.00000 | XXX | XXX | = | \$0 | |
| (2.1) NAIC Designation Category 1.A | C(2) AVR Default Component Column 1 Line A9.1 | \$0 X 0.00158 | \$0 X | TBD | = | \$0 | =ROUND(MAX(0,D10)*F10 + MAX(0,G10)*I10,0) |
| (2.2) NAIC Designation Category 1.B | C(1) AVR Default Component Column 1 Line A2.2 C(2) AVR Default Component Column 1 Line A9.2 | \$0 X 0.00271 | \$0 X | TBD | = | \$0 | |
| (2.3) NAIC Designation Category 1.C | C(1) AVR Default Component Column 1 Line A2.3 C(2) AVR Default Component Column 1 Line A9.3 | \$0 X 0.00419 | \$0 X | TBD | = | \$0 | |
| (2.4) NAIC Designation Category 1.D | C(1) AVR Default Component Column 1 Line A2.4 C(2) AVR Default Component Column 1 Line A9.4 | \$0 X 0.00523 | \$0 X | TBD | = | \$0 | |
| (2.5) NAIC Designation Category 1.E | C(1) AVR Default Component Column 1 Line A2.5 C(2) AVR Default Component Column 1 Line A9.5 | \$0 X 0.00657 | \$0 X | TBD | = | \$0 | |
| (2.6) NAIC Designation Category 1.F | C(1) AVR Default Component Column 1 Line A2.6 C(2) AVR Default Component Column 1 Line A9.6 | \$0 X 0.00816 | \$0 X | TBD | = | \$0 | |
| (2.7) NAIC Designation Category 1.G | C(1) AVR Default Component Column 1 Line A2.7 C(2) AVR Default Component Column 1 Line A9.7 | \$0 X 0.01016 | \$0 X | TBD | = | \$0 | |
| (2.8) Subtotal NAIC 1 | Sum of Lines (2.1) through (2.7) | \$0 | \$0 | | | \$0 | |
| (3.1) NAIC Designation Category 2.A | C(1) AVR Default Component Column 1 Line A3.1 C(2) AVR Default Component Column 1 Line A10.1 | \$0 X 0.01261 | \$0 X | TBD | = | \$0 | |
| (3.2) NAIC Designation Category 2.B | C(1) AVR Default Component Column 1 Line A3.2 C(2) AVR Default Component Column 1 Line A10.2 | \$0 X 0.01523 | \$0 X | TBD | = | \$0 | |
| (3.3) NAIC Designation Category 2.C | C(1) AVR Default Component Column 1 Line A3.3 C(2) AVR Default Component Column 1 Line A10.3 | \$0 X 0.02168 | \$0 X | TBD | = | \$0 | |
| (3.4) Subtotal NAIC 2 | Sum of Lines (3.1) through (3.3) | \$0 | \$0 | | | \$0 | |
| (4.1) NAIC Designation Category 3.A | C(1) AVR Default Component Column 1 Line A4.1 C(2) AVR Default Component Column 1 Line A11.1 | \$0 X 0.03151 | \$0 X | TBD | = | \$0 | |
| (4.2) NAIC Designation Category 3.B | C(1) AVR Default Component Column 1 Line A4.2 C(2) AVR Default Component Column 1 Line A11.2 | \$0 X 0.04537 | \$0 X | TBD | = | \$0 | |
| (4.3) NAIC Designation Category 3.C | C(1) AVR Default Component Column 1 Line A4.3 C(2) AVR Default Component Column 1 Line A11.3 | \$0 X 0.06017 | \$0 X | TBD | = | \$0 | |
| (4.4) Subtotal NAIC 3 | Sum of Lines (4.1) through (4.3) | \$0 | \$0 | | | \$0 | |
| (5.1) NAIC Designation Category 4.A | C(1) AVR Default Component Column 1 Line A5.1 C(2) AVR Default Component Column 1 Line A12.1 | \$0 X 0.07386 | \$0 X | TBD | = | \$0 | |
| (5.2) NAIC Designation Category 4.B | C(1) AVR Default Component Column 1 Line A5.2 C(2) AVR Default Component Column 1 Line A12.2 | \$0 X 0.09535 | \$0 X | TBD | = | \$0 | |
| (5.3) NAIC Designation Category 4.C | C(1) AVR Default Component Column 1 Line A5.3 C(2) AVR Default Component Column 1 Line A12.3 | \$0 X 0.12428 | \$0 X | TBD | = | \$0 | |
| (5.4) Subtotal NAIC 4 | Sum of Lines (5.1) through (5.3) | \$0 | \$0 | | | \$0 | |
| (6.1) NAIC Designation Category 5.A | C(1) AVR Default Component Column 1 Line A6.1 C(2) AVR Default Component Column 1 Line A13.1 | \$0 X 0.16942 | \$0 X | TBD | = | \$0 | |
| (6.2) NAIC Designation Category 5.B | C(1) AVR Default Component Column 1 Line A6.2 C(2) AVR Default Component Column 1 Line A13.2 | \$0 X 0.23798 | \$0 X | TBD | = | \$0 | |
| (6.3) NAIC Designation Category 5.C | C(1) AVR Default Component Column 1 Line A6.3 C(2) AVR Default Component Column 1 Line A13.3 | \$0 X 0.30000 | \$0 X | TBD | = | \$0 | |
| (6.4) Subtotal NAIC 5 | Sum of Lines (6.1) through (6.3) | \$0 | \$0 | | | \$0 | |
| (7.1) NAIC 6 | C(1) AVR Default Component Column 1 Line A7 C(2) AVR Default Component Column 1 Line A14 | \$0 X 0.30000 | \$0 X | TBD | = | \$0 | |
| (7.2) CLO in NAIC Designation Category 2.C or below, with thin tranches (See Instruction) | C(2) AVR Default Component Column 1 Line A10.3, in part + Line A11.1, in part + Line A11.2, in part + Line A11.3, in part + Line A12.1, in part + Line A12.2, in part + Line A12.3, in part + Line A13.1, in part + Line A13.2, in part + Line A13.3, in part | XXX | XXX | X | TBD | | |
| (8) Total Long-Term Bonds | Sum of Lines (1) + (2.8) + (3.4) + (4.4) + (5.4) + (6.4) + (7.1) + (7.2) | \$0 | \$0 | | | \$0 | |
| (Column (1) + Column (2) should equal Page 2 Column 3 Line 1 + Schedule DL Part 1 Column 6 Line 200999999) | | | | | | | |
| Short Term and Cash Equivalent Bonds | | | | | | | |
| (9) Exempt Obligations | AVR Default Component Column 1 Line C1 + Schedule E, Part 2, Column 7, Line 001999999 | \$0 X 0.000 | XXX | XXX | = | \$0 | |
| (10.1) NAIC Designation Category 1.A | AVR Default Component Column 1 Line C2.1 + Schedule E, Part 2, Footnote L000001A, Amount 1 - Schedule E, Part 2, Column 7, Line 001999999 | \$0 X 0.00158 | XXX | XXX | = | \$0 | |
| (10.2) NAIC Designation Category 1.B | AVR Default Component Column 1 Line C2.2 + Schedule E, Part 2, Footnote L000001A, Amount 2 | \$0 X 0.00271 | XXX | XXX | = | \$0 | |
| (10.3) NAIC Designation Category 1.C | AVR Default Component Column 1 Line C2.3 + Schedule E, Part 2, Footnote L000001A, Amount 3 | \$0 X 0.00419 | XXX | XXX | = | \$0 | |
| (10.4) NAIC Designation Category 1.D | AVR Default Component Column 1 Line C2.4 + Schedule E, Part 2, Footnote L000001A, Amount 4 | \$0 X 0.00523 | XXX | XXX | = | \$0 | |
| (10.5) NAIC Designation Category 1.E | AVR Default Component Column 1 Line C2.5 + Schedule E, Part 2, Footnote L000001A, Amount 5 | \$0 X 0.00657 | XXX | XXX | = | \$0 | |
| (10.6) NAIC Designation Category 1.F | AVR Default Component Column 1 Line C2.6 + Schedule E, Part 2, Footnote L000001A, Amount 6 | \$0 X 0.00816 | XXX | XXX | = | \$0 | |
| (10.7) NAIC Designation Category 1.G | AVR Default Component Column 1 Line C2.7 + Schedule E, Part 2, Footnote L000001A, Amount 7 | \$0 X 0.01016 | XXX | XXX | = | \$0 | |

| | | | | | | |
|--------|--|--|-----|---|---------|-----------|
| (10.8) | Subtotal NAIC 1 | Sum of Lines (10.1) through (10.7) | \$0 | | | \$0 |
| (11.1) | NAIC Designation Category 2.A | AVR Default Component Column 1 Line C3.1 + Schedule E, Part 2, Footnote L000001B, Amount 1 | \$0 | X | 0.01261 | XXX = \$0 |
| (11.2) | NAIC Designation Category 2.B | AVR Default Component Column 1 Line C3.2 + Schedule E, Part 2, Footnote L000001B, Amount 2 | \$0 | X | 0.01523 | XXX = \$0 |
| (11.3) | NAIC Designation Category 2.C | AVR Default Component Column 1 Line C3.3 + Schedule E, Part 2, Footnote L000001B, Amount 3 | \$0 | X | 0.02168 | XXX = \$0 |
| (11.4) | Subtotal NAIC 2 | Sum of Lines (11.1) through (11.3) | \$0 | | | \$0 |
| (12.1) | NAIC Designation Category 3.A | AVR Default Component Column 1 Line C4.1 + Schedule E, Part 2, Footnote L000001C, Amount 1 | \$0 | X | 0.03151 | XXX = \$0 |
| (12.2) | NAIC Designation Category 3.B | AVR Default Component Column 1 Line C4.2 + Schedule E, Part 2, Footnote L000001C, Amount 2 | \$0 | X | 0.04537 | XXX = \$0 |
| (12.3) | NAIC Designation Category 3.C | AVR Default Component Column 1 Line C4.3 + Schedule E, Part 2, Footnote L000001C, Amount 3 | \$0 | X | 0.06017 | XXX = \$0 |
| (12.4) | Subtotal NAIC 3 | Sum of Lines (12.1) through (12.3) | \$0 | | | \$0 |
| (13.1) | NAIC Designation Category 4.A | AVR Default Component Column 1 Line C5.1 + Schedule E, Part 2, Footnote L000001D, Amount 1 | \$0 | X | 0.07386 | XXX = \$0 |
| (13.2) | NAIC Designation Category 4.B | AVR Default Component Column 1 Line C5.2 + Schedule E, Part 2, Footnote L000001D, Amount 2 | \$0 | X | 0.09535 | XXX = \$0 |
| (13.3) | NAIC Designation Category 4.C | AVR Default Component Column 1 Line C5.3 + Schedule E, Part 2, Footnote L000001D, Amount 3 | \$0 | X | 0.12428 | XXX = \$0 |
| (13.4) | Subtotal NAIC 4 | Sum of Lines (13.1) through (13.3) | \$0 | | | \$0 |
| (14.1) | NAIC Designation Category 5.A | AVR Default Component Column 1 Line C6.1 + Schedule E, Part 2, Footnote L000001E, Amount 1 | \$0 | X | 0.16942 | XXX = \$0 |
| (14.2) | NAIC Designation Category 5.B | AVR Default Component Column 1 Line C6.2 + Schedule E, Part 2, Footnote L000001E, Amount 2 | \$0 | X | 0.23798 | XXX = \$0 |
| (14.3) | NAIC Designation Category 5.C | AVR Default Component Column 1 Line C6.3 + Schedule E, Part 2, Footnote L000001E, Amount 3 | \$0 | X | 0.30000 | XXX = \$0 |
| (14.4) | Subtotal NAIC 5 | Sum of Lines (14.1) through (14.3) | \$0 | | | \$0 |
| (15) | NAIC 6 | AVR Default Component Column 1 Line C7 Schedule E, Part 2, Footnote L000001F, Amount 1 | \$0 | X | 0.300 | XXX = \$0 |
| (16) | Total Short-Term and Cash Equivalent Bonds | Sum of Lines (9) + (10.8) + (11.4) + (12.4) + (13.4) + (14.4) + (15) (Column (1) should equal Schedule DA Part 1 Column 6 Line 0509999999 + Schedule DL Part 1 Column 6 Line 9509999999 + Schedule E Part 2 Column 7 Line 0509999999) | \$0 | | | \$0 |
| (17) | Total Long-Term and Short-Term Bonds (pre-MODCO/Funds Withheld) | Line (8) + (16) | \$0 | | \$0 | \$0 |
| (18) | Credit for Hedging | LR014 Hedged Asset Bond Schedule Column (13) Line (0399999) | | | | \$0 |
| (19) | Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements | LR045 Modco or Funds Withheld Reinsurance Ceded - Bonds C-1o Column (4) Line (9999999) | | | | \$0 |
| (20) | Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements | LR046 Modco or Funds Withheld Reinsurance Assumed - Bonds C-1o Column (4) Line (9999999) | | | | \$0 |
| (21) | Total Long-Term and Short-Term Bonds (including MODCO/Funds Withheld and Credit for Hedging adjustments.) | Lines (17) - (18) - (19) + (20) | \$0 | | \$0 | \$0 |
| (22) | Non-exempt U.S. Government Agency Bonds | Schedule D Part 1 Section 1 and Section 2, Schedule DA Part 1 and Schedule E Part 2, in part† | \$0 | X | 0.00158 | = \$0 |
| (23) | Bonds Subject to Size Factor | Line (21) - Line (1) - Line (9) - Line (22) | \$0 | | \$0 | \$0 |
| (24) | Number of Issuers | Company Records | \$0 | | \$0 | \$0 |
| (25) | Size Factor for Bonds | | | | | 2.4 |
| (26) | Bonds Subject to Size Factor after the Size Factor is Applied | Line (23) x Line (25) | | | | \$0 |
| (27) | Total Bonds | Line (22) + Line (26) | | | | \$0 |

Formula subjects to change once breakpoints & weights are finalized

† Only investments in-U.S. Government agency bonds previously reported in Lines (2.8) and (10.8), net of those included on Line (19), plus the portion of Line (20) attributable to ceding companies' Lines (2.8) and (10.8) should be included on Line (22). No other bonds should be included on this line. Exempt U.S. Government bonds shown on Lines (1) and (9) should not be included on Line (22). Refer to the bond section of the risk-based capital instructions for more clarification.

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

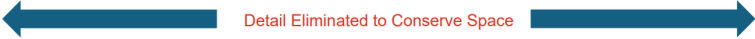
Company Name

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

Cocode: 00000

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

| | <u>Source</u> | (1) <u>RBC Amount</u> | <u>Tax Factor</u> | (2) <u>RBC Tax Effect</u> |
|---|--|--------------------------|-------------------|------------------------------|
| ASSET RISKS | | | | |
| <u>Bonds</u> | | | | |
| (001) Long-term Bonds – NAIC 1 | LR002 Bonds Column (4) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8) | \$0 X | 0.1680 | = \$0 |
| (002) Long-term Bonds – NAIC 2 | LR002 Bonds Column (4) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4) | \$0 X | 0.1680 | = \$0 |
| (003) Long-term Bonds – NAIC 3 | LR002 Bonds Column (4) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4) | \$0 X | 0.1680 | = \$0 |
| (004) Long-term Bonds – NAIC 4 | LR002 Bonds Column (4) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4) | \$0 X | 0.1680 | = \$0 |
| (005) Long-term Bonds – NAIC 5 & Others | LR002 Bonds Column (4) Line (6.4) & (7.2) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4) | \$0 X | 0.1680 | = \$0 |
| (006) Long-term Bonds – NAIC 6 | LR002 Bonds Column (4) Line (7.1) + LR018 Off-Balance Sheet Collateral Column (3) Line (7) | \$0 X | 0.2100 | = \$0 |
| (007) Short-term Bonds – NAIC 1 | LR002 Bonds Column (4) Line (10.8) | \$0 X | 0.1680 | = \$0 |
| (008) Short-term Bonds – NAIC 2 | LR002 Bonds Column (4) Line (11.4) | \$0 X | 0.1680 | = \$0 |
| (009) Short-term Bonds – NAIC 3 | LR002 Bonds Column (4) Line (12.4) | \$0 X | 0.1680 | = \$0 |
| (010) Short-term Bonds – NAIC 4 | LR002 Bonds Column (4) Line (13.4) | \$0 X | 0.1680 | = \$0 |
| (011) Short-term Bonds – NAIC 5 | LR002 Bonds Column (4) Line (14.4) | \$0 X | 0.1680 | = \$0 |
| (012) Short-term Bonds – NAIC 6 | LR002 Bonds Column (4) Line (15) | \$0 X | 0.2100 | = \$0 |
| (013) Credit for Hedging - NAIC 1 Through 5 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (0199999) | \$0 X | 0.1680 | = \$0 † |
| (014) Credit for Hedging - NAIC 6 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (0299999) | \$0 X | 0.2100 | = \$0 † |
| (015) Bond Reduction - Reinsurance | LR002 Bonds Column (4) Line (19) | \$0 X | 0.2100 | = \$0 † |
| (016) Bond Increase - Reinsurance | LR002 Bonds Column (4) Line (20) | \$0 X | 0.2100 | = \$0 |
| (017) Non-Exempt NAIC 1 U.S. Government Agency | LR002 Bonds Column (4) Line (22) | \$0 X | 0.1680 | = \$0 |
| (018) Bonds Size Factor | LR002 Bonds Column (4) Line (26) - LR002 Bonds Column (4) Line (21) | \$0 X | 0.1680 | = \$0 |
| <u>Mortgages</u> | | | | |
| <u>In Good Standing</u> | | | | |
| (019) Residential Mortgages - Insured | | \$0 X | 0.1575 | = \$0 |
| (020) Residential Mortgages - Other | | \$0 X | 0.1575 | = \$0 |
| (021) Commercial Mortgages - Insured | | \$0 X | 0.1575 | = \$0 |



Detail Eliminated to Conserve Space

LR004 Mortgages Column (6) Line (1,2)
LR004 Mortgages Column (6) Line (3)

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

| | <u>Source</u> | | (1) RBC Requirement |
|---|--|-----|---------------------------|
| <u>Insurance Affiliates and Misc. Other Amounts (C-0)</u> | | | |
| (1) Directly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1) | \$0 | \$0 |
| (2) Directly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2) | \$0 | \$0 |
| (3) Directly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3) | \$0 | \$0 |
| (4) Indirectly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4) | \$0 | \$0 |
| (5) Indirectly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5) | \$0 | \$0 |
| (6) Indirectly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6) | \$0 | \$0 |
| (7) Affiliated Alien Insurers - Directly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11) | \$0 | \$0 |
| (8) Affiliated Alien Insurers - Indirectly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14) | \$0 | \$0 |
| (9) Off-Balance Sheet and Other Items | LR017 Off-Balance Sheet and Other Items Column (5) Line (34) | \$0 | \$0 |
| (10) Total (C-0) - Pre-Tax | Sum of Lines (1) through (9) | \$0 | \$0 |
| (11) (C-0) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122) | \$0 | \$0 |
| (12) Net (C-0) - Post-Tax | Line (10) - Line (11) | \$0 | \$0 |
| <u>Asset Risk - Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u> | | | |
| (13) Schedule D Unaffiliated Common Stock | LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16) | \$0 | \$0 |
| Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding | | | |
| (14) Residual Tranches or Interests | LR008 Other Long-Term Assets Column (5) line (49) - (45) | \$0 | \$0 |
| (15) Total Residual Tranches or Interests | LR008 Other Long-Term Assets Column (5) line (45) | \$0 | \$0 |
| (16) Common Stock Concentration Factor | LR011 Common Stock Concentration Factor Column (6) Line (6) | \$0 | \$0 |
| (17) Holding Company in Excess of Indirect Subs | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7) | \$0 | \$0 |
| (18) Affiliated Non-Insurers | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21) | \$0 | \$0 |
| (19) Total (C-1cs) - Pre-Tax | Sum of Lines (13) through (18) | \$0 | \$0 |
| (20) (C-1cs) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134) | \$0 | \$0 |
| (21) Net (C-1cs) - Post-Tax | Line (19) - Line (20) | \$0 | \$0 |
| <u>Asset Risk - All Other (C-1o)</u> | | | |
| (22) Bonds after Size Factor | LR002 Bonds Column (4) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8) | \$0 | \$0 |
| (23) Mortgages (including past due and unpaid taxes) | LR004 Mortgages Column (6) Line (31) | \$0 | \$0 |
| (24) Unaffiliated Preferred Stock | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15) | \$0 | \$0 |
| (25) Investment Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8) | \$0 | \$0 |
| (26) Investment in Upstream Affiliate (Parent) | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15) | \$0 | \$0 |
| (27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16) | \$0 | \$0 |
| (28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17) | \$0 | \$0 |
| (29) Directly Owned Life Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18) | \$0 | \$0 |
| (30) Publicly Traded Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22) | \$0 | \$0 |
| (31) Separate Accounts with Guarantees | LR006 Separate Accounts Column (3) Line (7) | \$0 | \$0 |
| (32) Synthetic GIC's (C-1o) | LR006 Separate Accounts Column (3) Line (8) | \$0 | \$0 |
| (33) Surplus in Non-Guaranteed Separate Accounts | | \$0 | \$0 |
| (34) Real Estate (gross of encumbrances) | | \$0 | \$0 |
| (35) Schedule BA Real Estate (gross of encumbrances) | | \$0 | \$0 |
| (36) Other Long-Term Assets | | \$0 | \$0 |

Detail Eliminated to Conserve Space

Company Name

Cocode: 00000

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

| | Source | (1) RBC Requirement |
|--|--|---------------------------|
| (37) Schedule BA Mortgages | LR009 Schedule BA Mortgages Column (6) Line (24) | \$0 |
| (38) Concentration Factor | LR010 Asset Concentration Factor Column (6) Line (61) Grand Total Page | \$0 |
| (39) Miscellaneous | LR012 Miscellaneous Assets Column (2) Line (21) | \$0 |
| (40) Replication Transactions and Mandatory Convertible Securities | LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999) | \$0 |
| (41) Reinsurance | LR016 Reinsurance Column (4) Line (17) | \$0 |
| (42) Total (C-1o) - Pre-Tax | Sum of Lines (22) through (41) | \$0 |
| (43) (C-1o) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110) | \$0 |
| (44) Net (C-1o) - Post-Tax | Line (42) - Line (43) | \$0 |
| <u>Insurance Risk (C-2)</u> | | |
| (45) Individual and Industrial Life Insurance | LR025 Life Insurance Column (2) Line (5) | \$0 |
| (46) Group and Credit Life Insurance and FEGLI/SGLI | LR025 Life Insurance Column (2) Line (12) | \$0 |
| (46b) Longevity Risk | LR025-A Longevity Risk Column (2) Line (5) | \$0 |
| (47) Total Health Insurance | LR024 Health Claim Reserves Column (4) Line (18) | \$0 |
| (48) Premium Stabilization Reserve Credit | LR026 Premium Stabilization Reserves Column (2) Line (10) | \$0 |
| (49) Total (C-2) - Pre-Tax | $L(47) + L(48) + \text{Greatest of [Guardrail Factor * (L(45)+L(46)), \text{Guardrail Factor} * L(46b), \text{Square Root of } [(L(45) + L(46))^2 + L(46b)^2 + 2 * (\text{Correlation Factor}) * (L(45) + L(46)) * L(46b)]]}$ | \$0 |
| (50) (C-2) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141) | \$0 |
| (51) Net (C-2) - Post-Tax | Line (49) - Line (50) | \$0 |
| <u>Interest Rate Risk (C-3a)</u> | | |
| (52) Total Interest Rate Risk - Pre-Tax | LR027 Interest Rate Risk Column (3) Line (36) | \$0 |
| (53) (C-3a) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142) | \$0 |
| (54) Net (C-3a) - Post-Tax | Line (52) - Line (53) | \$0 |
| <u>Health Credit Risk (C-3b)</u> | | |
| (55) Total Health Credit Risk - Pre-Tax | LR028 Health Credit Risk Column (2) Line (7) | \$0 |
| (56) (C-3b) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143) | \$0 |
| (57) Net (C-3b) - Post-Tax | Line (55) - Line (56) | \$0 |
| <u>Market Risk (C-3c)</u> | | |
| (58) Total Market Risk - Pre-Tax | LR027 Interest Rate Risk Column (3) Line (37) | \$0 |
| (59) (C-3c) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144) | \$0 |
| (60) Net (C-3c) - Post-Tax | Line (58) - Line (59) | \$0 |
| <u>Business Risk (C-4a)</u> | | |
| (61) Premium Component | LR029 Business Risk Column (2) Lines (12) + (24) + (36) | \$0 |
| (62) Liability Component | LR029 Business Risk Column (2) Line (39) | \$0 |
| (63) Subtotal Business Risk (C-4a) - Pre-Tax | Lines (61) + (62) | \$0 |
| (64) (C-4a) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (145) | \$0 |
| (65) Net (C-4a) - Post-Tax | Line (63) - Line (64) | \$0 |
| <u>Business Risk (C-4b)</u> | | |
| (66) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax | LR029 Business Risk Column (2) Line (57) | \$0 |
| (67) (C-4b) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (146) | \$0 |
| (68) Net (C-4b) - Post-Tax | Line (66) - Line (67) | \$0 |

| Company Name | | Cocode: 00000 |
|---|---|----------------------------------|
| CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL | | |
| | <u>Source</u> | (1) RBC <u>Requirement</u> |
| <u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u> | | |
| (69) C-0 + C-4a + Square Root of [(C-1o + C-3a) ² + (C-1cs + C-3c) ² + (C-2) ² + (C-3b) ² + (C-4b) ²] | REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE L(12)+L(65) + Square Root of [(L(44) + L(54)) ² + (L(21) + L(60)) ² + L(51) ² + L(57) ² + L(68) ²] | <u>\$0</u> |
| (70) Gross Basic Operational Risk | 0.03 x L(69) | <u>\$0</u> |
| (71) C-4a of U.S. Life Insurance Subsidiaries | Company Records | <u>\$0</u> |
| (72) Net Basic Operational Risk | Line (70) - (Line (65) + Line (71)) (Not less than zero) | <u>\$0</u> |
| (73) Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2 | LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2 | <u>\$0</u> |
| (74) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multipli Line (69) + Line (72) + Line (73) | | <u>\$0</u> |
| <u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u> | | |
| (75) Total Risk-Based Capital After Covariance Times Fifty Percent | Line (74) x 0.50 | <u>\$0</u> |
| <u>Tax Sensitivity Test</u> | | |
| (76) Tax Sensitivity Test: Total Risk-Based Capital After Covariance | L(10)+L(63) + Square Root of [(L(42) + L(52)) ² + (L(19) + L(58)) ² + L(49) ² + L(55) ² + L(66) ²] | <u>\$0</u> |
| (77) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital | Line (76) x 0.50 | <u>\$0</u> |

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|--|---|
| <p style="text-align: right;">DATE: <u>7/9/2025</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2025-14-L MOD</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>04-23-2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>10-31-2025</u> <u>02-11-2026</u> <u>03-22-2026</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|--|---|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

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

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

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

Additional Staff Comments:

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

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

Revised 2-2023

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

General Approach

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

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

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

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

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

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

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

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

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

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

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

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

Single Scenario C-3 Measurement Considerations

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

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

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

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

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

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

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

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

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

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

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

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

Line (35)

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

Line (36)

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

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

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

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

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

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

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

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

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

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

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

The C-3 RBC is calculated as follows:

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

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

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

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

B. Determination of RBC amount using stochastic modeling:

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

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

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

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

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

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

- 1. Begin with the C-3 RBC amount from step 7 for Dec. 31, ~~2019-2025~~ LR027 Line (37) instructions for all business within the scope of the Variable Annuities modeling requirements as of 12/31/~~1925~~. ~~Add to this any voluntary reserves which were subtracted from TAR when the C-3 RBC amount reported for 2019 was determined. Also add to this the amount of C-3 RBC computed in the same manner as the 202519 value for any reinsurance ceded that is expected to be recaptured in 20260 and in the scope of the Variable Annuities modeling requirements. This amount is 201925 RBC.~~
- 2. Determine the C-3 RBC amount as of 12/31/~~1925~~ using paragraphs A, B, C, and D for the same inforce business as in 1. ~~Exclude any voluntary reserves in these calculations. Labeled as This amount is 201925 RBC New.~~
- Determine the phase-in amount (PIA) as the excess of ~~201925 RBC New over 201925 RBC.~~
- For 12/31/20206, compute the C-3 RBC following paragraphs A ~~–108~~D above, then subtract PIA times (2/3).
- For 12/31/20217, compute the C-3 RBC following paragraphs A – D above, then subtract PIA times (1/3).

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

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

F. Smoothing of C-3 RBC amount

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX 2 – ALTERNATIVE METHOD FOR GMDB RISKS

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

General

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

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

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

Note the following regarding income taxes:

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

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

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

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

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

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

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

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

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

Other required policy values include:

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

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

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

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

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

Component CA

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

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

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

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

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

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

Component *FE*

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

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

Component *GC*

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

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

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

Fund Categorization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TABLE 2-3: FUND CATEGORIZATION EXAMPLE

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

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

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

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

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

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

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

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

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

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

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

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

Product Attributes and Factor Tables

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

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

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

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

Table 2-4: Nodes of the Factor Grid

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

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

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

Each row consists of 5 entries, described further below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 2-5: Equivalent Single European Put Option

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

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

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

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

Table 2-6: Sample Nodes on the Factor Grid

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

Interpolation in the Factor Tables

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

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

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

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

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

and

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

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

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

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

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

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

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

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

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

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

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

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

Adjustments to GC for Product Variations & Risk Mitigation/Transfer

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

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

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

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

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

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

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

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

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

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

$$F_J^* = \frac{f(\tilde{\theta})}{F_J} \text{ and } G_J^* = \frac{\hat{g}(\tilde{\theta})}{G_J}$$

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

Assumptions for the Alternative Method Published GMDB Factors

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

Table 2-9: Model Assumptions & Product Characteristics

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

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

Notes on GMDB Factor Development

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

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

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

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

Calculation Example

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

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

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

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

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

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

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

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

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

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

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

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|--|--|
| <p style="text-align: right;">DATE: <u>02-19-2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Longevity Risk (A/E) Subgroup</u></p> <p>NAME: <u>Seong-min Eom, Chair</u></p> <p>TITLE: <u>Managing Actuary</u></p> <p>AFFILIATION: <u>New Jersey Department of Banking and Insurance</u></p> <p>ADDRESS: <u>P.O. Box 325,</u> <u>Trenton, NJ 08625-0325</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2026-07-L</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>4/23/2026</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) _____ <u>4/9/2026</u></p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input checked="" type="checkbox"/> SUBGROUP(SG) _____ <u>2/9/2026</u></p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|--|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

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

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

Additional Staff Comments:

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

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

Revised 2-2023

LONGEVITY RISK

LR025-A

Basis of Factors

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

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

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

Specific Instructions for Application of the Formula

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

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

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

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

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

Line (6)

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

Line (7)

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

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

Company Name

Confidential when Completed

LONGEVITY RISK

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

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

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

Company Name

Confidential when Completed

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

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

To: Mike Yanacheak, Chair of the Capital Adequacy (E) Task Force
Tom Botsko, Vice Chair of the Capital Adequacy (E) Task Force

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

Re: Elimination of Investment Subsidiaries (SAPWG Ref #2024-21)

Date: December 11, 2025

This referral intends to inform the Capital Adequacy (E) Task Force of the supported elimination of the investment subsidiary concept by the Statutory Accounting Principles (E) Working Group and request RBC instruction and/or structure changes to accommodate the elimination for all lines of business.

In summary, the concept and accounting guidance for investment subsidiaries was eliminated from statutory accounting guidance in 2005. However, even with the statutory accounting elimination, reporting lines remained on D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Asset Valuation Reserve (AVR) that allowed reporting entities to classify investments in a subsidiary, controlled or affiliated (SCA) as an investment subsidiary with company-calculated look-through RBC treatment. With the recent discussion and adopted recommendations, the Statutory Accounting Principles (E) Working Group has sponsored a blanks proposal to eliminate the investment subsidiary reporting lines and instructions in D-6-1 and in the AVR. This blanks proposal (2025-20BWG) is exposed until Feb. 6, 2026, with a planned effective date of Dec. 31, 2026. With the elimination of the blanks reporting lines for investment subsidiaries, revisions are also recommended to the RBC reporting structure and instructions to eliminate the concept of investment subsidiaries and look-through RBC for these SCAs.

As additional information, the historical reporting of investment subsidiaries lacks transparency for regulators and allows companies to self-calculate the RBC treatment simply by placing the investment in an SCA rather than reporting the investment directly on an investment schedule. To further elaborate, placing investments within an investment subsidiary could allow life insurance companies to obtain favorable look-through treatment by circumventing specific asset and SSAP treatment of an investment, as there is no explicit asset detail to ensure compliance with SSAP requirements, state investment limitations, or NAIC designation determination requirements. For example, if an investment had a private letter rating (PLR) and was placed in an investment subsidiary, there would be no way to verify whether that security had complied with the SVO PLR reporting requirements. The same could be true of debt securities and whether they reflect bonds under the principles-based bond definition or if they should be captured as non-bond debt securities. Furthermore, Schedule D-6-1's instruction requires reporting entities to measure investment subsidiaries using an "imputed statutory value" which is an undefined term in the instructions and conflicts with *SSAP No. 97—Subsidiary, Controlled and Affiliated Investments*, which requires measurement based on audited U.S. GAAP. The elimination of the investment subsidiary reporting lines does not prohibit insurers from owning investment subsidiaries. Rather, the revisions should simply align reporting and RBC with the accounting concepts of SSAP No. 97.

The adopted SAPWG reference agenda item 2024-21 accompanies this referral. It includes additional discussion and the suggested blanks and RBC revisions.

The Statutory Accounting Principles (E) Working Group appreciates action on this issue. Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr, Maggie Chang

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Investment Subsidiary Classification

Check (applicable entity):

| | P/C | Life | Health |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Modification of Existing SSAP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| New Issue or SSAP | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Interpretation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Description of Issue: This agenda item has been prepared as questions have been received on the classification of investments as “investment subsidiaries” in schedule D-6-1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies and in the Life RBC formula on pages LR042, LR043 and LR044.

For background, the concept of an investment subsidiary was reflected in *SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities* as “investments in noninsurance subsidiary, controlled or affiliated (SCA) entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates.” For these SCAs, the guidance in SSAP No. 46 required an equity measurement method adjusted to the statutory basis of accounting. With this adjustment to the statutory basis of accounting, the measurement of the SCA under SSAP No. 46 was intended to be consistent to the accumulated measurement of the underlying assets if they had been held directly. SSAP No. 46 was superseded by SSAP No. 88 as of Jan. 1, 2005, and the concept of an “investment subsidiary” (or a subsidiary designed to hold assets for the entity) was eliminated from statutory accounting guidance. The investment subsidiary guidance in the annual statement instructions was not deleted when the concept was eliminated from statutory accounting guidance. This is presumably because of the different charge that RBC applies to such entities if they meet specific criteria. SSAP No. 88 was later superseded by SSAP No. 97 as of Dec. 31, 2007, and is the current authoritative guidance for SCAs. Similar to SSAP No. 88, the concept of an “investment subsidiary” (or an SCA designed just to hold assets for the benefit of the reporting entity and its affiliates) is not in SSAP No. 97.

Under current guidance in SSAP No. 97, the concept of an SCA that simply holds assets is not reflected. Unless the SCA is an insurance subsidiary or engages in specific transactions on behalf of the entity or meets the revenue test, the SCA will be captured under paragraph 8.b.iii in SSAP No. 97 and reported based on the audited US GAAP equity value. Admittance is permitted if the parameters of the SSAP are met, which includes an audited financial statement supporting the US GAAP equity value. It is noted that the concept of an investment sub is still reflected in *SSAP No. 25—Affiliates and Other Related Parties*. The example of an entity only holding assets for the benefit of the insurer is an example of a non-economic transaction, where the assets are transferred/recognized at fair value, but any gain from the transfer is deferred until permanence can be verified.

From questions received and a review of financial statement reporting, the following list identifies issues:

- Situations have been identified in which companies have reported Schedule BA items (in scope of SSAP No. 48) as “investment subs” for RBC look through although those investments should not be captured within the classification. The concept for an “investment subsidiary” is for items reported as SCAs in scope of SSAP No. 97 with common and/or preferred stock ownership.
- Questions have been raised on whether companies can utilize the concept of an “investment sub” to avoid statutory accounting provisions for underlying assets but receive favorable RBC impact as if the SSAP criteria had been met. (For example, whether a company utilizes the bond RBC factors for a debt security

held within an investment subsidiary without verifying that the debt security would qualify as a bond under SSAP No. 26 or uses CRP ratings to determine RBC when the asset may have required an SVO-assigned designation if held directly.)

- Questions have been received on how companies comply with Life RBC LR044 instruction for Affiliate Type 4 *“The risk-based capital charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.”* Specifically, the measurement method for the SCA pursuant to SSAP No. 97—*Investments in Subsidiary, Controlled and Affiliated Entities* (audited U.S. GAAP equity) would not be consistent with the measurement of the assets if the assets were held directly (statutory basis). Questions arise whether the underlying assets within the investment subsidiary are converted to statutory basis of accounting prior to computation of RBC charge. In addition, there were questions as to how the RBC after covariance for the underlying assets owned is calculated for investment subsidiaries.
- According to Annual Statement instructions, investment subsidiaries also need to apply a “look-through” approach in Asset Valuation Reserve (AVR) calculation. However, diversity in practice has been observed and for companies that utilize Lines 5 – 14 of the AVR Equity and Other Invested Asset Component table to calculate AVR, the computation is not transparent.
- Questions have been raised on the current annual statement instructions for D-6-1 regarding the “imputed value on a statutory basis” and the direction for nonadmittance of the excess or reclassification in the “all other affiliates” category. Schedule D-6-1 does not determine the amount reported on balance sheet, as that amount is pulled from *Schedule D-2-2, Common Stocks*. Further, the A/S instructions for D-6-1 would not override the SSAP guidance that prescribes the measurement and admittance requirement as that is governed by SSAP No. 97, which is higher in the statutory hierarchy. These A/S instructions regarding the “imputed statutory value” appear to come from historical RBC guidance, and it is assumed that the calculation of the “imputed statutory value” was intended to be a pre-requisite for classifying as an investment sub. However, as the A/S guidance does not override SSAP, and what is captured would seemingly create a disconnect from what is reported on balance sheet, it seems to be causing confusion on application, as companies are not consistently reporting “investment subsidiaries” throughout the schedule, AVR and the RBC formula.
- From a review of the financial statements, the amounts reported for “investment subsidiaries” vary between D-6-1, AVR and RBC. From the 2023 filing, the amount reported in the RBC formula (which allows company RBC calculation based on the underlying assets) is significantly greater than the amount reported on D-6-1 and what is reported through the equity component of AVR.

The RBC background was noted from the 1995 “Raising the Safety Net” publication for RBC for P/C Insurance Companies is included as follows:

The general principle in determining the RBC of ... investment affiliates is to do so as if the affiliate were fully consolidated with the insurer. The committee recognizes that there is not necessarily any legal obligation for a parent to assist a subsidiary nor maintain adequate capital in the subsidiary; vice versa, a parent which wishes to remove excess capital from a subsidiary might sometimes face barriers in doing so. Nonetheless, the committee believes that the consolidation approach is the best way to measure the RBC of the parent, particularly when both the parent and the affiliate are going concerns. One particular advantage of this approach is that where there is a choice of whether to have ownership of an asset or placement of particular insurance business in either the parent or the subsidiary, the RBC calculation for

the parent remains the same whichever choice is made. The committee believes that this makes the RBC calculation less manipulable with respect to affiliate transactions.

D. Investment Affiliates - Investment affiliates are investment conduits whose function it is to hold and invest assets of the insurance company.* Note that money management subsidiaries are not investment affiliates for this purpose. The RBC for an investment conduit is determined on a consolidated or "see through" basis by applying the appropriate asset factors to the assets owned by the affiliate.

* An affiliate qualifies as an investment conduit if the following criteria are met:

- i. 95 percent or more of the affiliate's assets would qualify as admitted assets if directly owned by the insurer.
- ii. 95 percent or more of the affiliate's liabilities are paid-in capital, retained earnings or debt.
- iii. Combining the prorata ownership share of the asset so fall the investment conduit affiliates with the owning insurer's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity.
- iv. The investment conduit's statement value does not exceed the imputed value of the investment conduit using statutory accounting methodology admit the excess or move the affiliate to the "All Other Affiliated Common Stock" category.

Although the RBC calculation is within the purview of the Capital Adequacy (E) Task Force and its related RBC Working Groups, with the questions received for "investment subsidiaries," as well as the current lack of detail on the underlying assets used to determine RBC, this agenda item proposes the following potential actions:

- 1) Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries). By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97. (For example, if the equity measurement reported on balance sheet per SSAP No. 97 is \$100, but the imputed statutory value would be lower at \$80 (or higher at \$120), what should be reported on D-6-1 and how should that flow to RBC?)
- 2) Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary. As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.
- 3) Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries. If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Existing Authoritative Literature:

**SSAP No. 46—Investments in Subsidiary, Controlled and Affiliated Entities –
Superseded by SSAP No. 88 as of Jan. 1, 2005.**

7.b.ii Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity’s financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary’s adjusted surplus, adjusted for unamortized goodwill as provided for in SSAP No. 68. Examples include but are not limited to: (i) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer; (ii) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space; and (iii) an insurer and an SCA entity that holds investments that an insurer could acquire directly (i.e., “look through” investment subsidiary);

SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities –

The current guidance requirement prescribes measurement based on the market value approach (8a) or an equity method (8b). The following guidance is divided as follows: 8bi: insurance subsidiaries, 8.b.ii: non-insurance subsidiaries that meet the activity and revenue test, 8bii: non-insurance subsidiaries not captured in 8a or 8bii, and 8biv: foreign insurance subsidiaries. There is no current guidance for an “investment subsidiary” and those SCAs would be captured under 8.b.iii and measured at the audited US GAAP equity.

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

- a. In order to use the market valuation approach for SCA entities, the following requirements apply:
 - i. The subsidiary must be traded on one of the following major exchanges: (1) the New York Stock Exchange, (2) the NASDAQ, or (3) the Japan Exchange Group;
 - ii. The reporting entity must submit subsidiary information to the NAIC SCA analysts for calculation of the subsidiary’s market value. Such calculation could result in further discounts in market value above the established base discounts based on ownership percentages detailed below;
 - iii. Ownership percentages for determining the discount rate shall be measured at the holding company level;
 - iv. If an investment in a SCA results in an ownership percentage between 10% and 50%, a base discount percentage between 0% and 20% on a sliding scale basis is required;
 - v. If an investment in a SCA results in an ownership percentage greater than 50% up to and including 80%, a base discount percentage between 20% and 30% on a sliding scale basis is required;
 - vi. If an investment in a SCA results in an ownership percentage greater than 80% up to and including 85%, a minimum base discount percentage of 30% is required.
 - vii. Further, the SCA must have at least two million shares outstanding, with a total market value of at least \$50 million in the public’s control; and
 - viii. Any ownership percentages exceeding 85% will result in the SCA being recorded on an equity method.

- b. If an SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:
- i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) 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 or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC Accounting Practices and Procedures Manual. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;
 - ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:
 - (a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
 - (b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*
 - (c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - (d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*
 - (e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*
 - (f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services
 - (g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc).
 - (h) Purchase or securitization of acquisition costs

¹ If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

and if 20% or more of the SCA’s revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity’s audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

- iii. Investments in both U.S. and foreign noninsurance SCA entities that do not qualify under paragraph 8.b.ii., shall be recorded based on the audited U.S. GAAP equity of the investee. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Additional guidance on investments in downstream holding companies is included in paragraphs 22-27. Additional guidance on the use of audited foreign GAAP basis financial statements for the U.S. GAAP equity valuation amount is included in paragraph 23.b.
- iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying U.S. GAAP equity from the audited U.S. GAAP basis financial statements, adjusted to a limited statutory basis of accounting in accordance with paragraph 9, if available. If the audited U.S. GAAP basis financial statements are not available, the investment can be recorded on the audited foreign statutory basis financial statements of the respective entity adjusted to a limited statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the *Accounting Practices and Procedures Manual*. The audited foreign statutory basis financial statements must include an audited footnote that reconciles net income and equity on the foreign statutory basis of accounting to the U.S. GAAP basis. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

2024 Annual Statement Instructions – Schedule D-6-1

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

| Category | Line Number |
|--|----------------|
| Preferred Stocks: | |
| Parent..... | 0199999 |
| U.S. Property & Casualty Insurer..... | 0299999 |
| U.S. Life Insurer | 0399999 |
| U.S. Health Entity #..... | 0499999 |
| Alien Insurer | 0599999 |
| Non-Insurer Which Controls Insurer | 0699999 |
| *Investment Subsidiary | 0799999 |
| Other Affiliates | 0899999 |
| Subtotals – Preferred Stocks | 0999999 |
| Common Stocks: | |
| Parent | 1099999 |
| U.S. Property & Casualty Insurer..... | 1199999 |
| U.S. Life Insurer | 1299999 |
| U.S. Health Entity #..... | 1399999 |
| Alien Insurer | 1499999 |
| Non-Insurer Which Controls Insurer | 1599999 |
| *Investment Subsidiary | 1699999 |
| Other Affiliates | 1799999 |
| Subtotals – Common Stocks | 1899999 |
| Totals – Preferred and Common Stocks | 1999999 |

*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:

1. 95% or more of the investment subsidiary's assets would qualify as admitted assets;
2. The investment subsidiary's total liabilities are 5% or less of total assets;
3. Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity's assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and
4. **The investment subsidiary's book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the "All Other Affiliates" category.**

2023 RBC Forecasting and Instructions:

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – bolded for emphasis.)

Affiliated/Subsidiary investments fall 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. **Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.** Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

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 NAIC's 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 charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.** Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of "4" for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

Investments of Insurers Model Act (Model 280)

<https://content.naic.org/sites/default/files/model-law-280.pdf>

Section 2. Definitions For purposes of this Act:

TT. "Investment subsidiary" means a subsidiary of an insurer engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the insurer if each subsidiary agrees to limit its investment in any asset so that its investments will not cause the amount of the total investment of the insurer to exceed any of the investment limitations or avoid any other provisions of this Act applicable to the insurer. As used in this subsection, the total investment of the insurer shall include: (1) Direct investment by the insurer in an asset; and (2) The insurer's proportionate share of an investment in an asset by an investment subsidiary of the insurer, which shall be calculated by multiplying the amount of the subsidiary's investment by the percentage of the insurer's ownership interest in the subsidiary

Note that the act contains multiple references to investment subsidiaries on limitations and diversification etc.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation – 2024 Fall National Meeting:

NAIC staff recommend that the Working Group move this item to the active listing and expose this agenda item with a request for comments on the options offered to clarify statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries. As noted, with the exception of possible revisions to SSAP No. 97, the other possible actions are to sponsor blanks proposals or send referrals to the Capital Adequacy (E) Task Force and related RBC groups with a request for revisions. (Determination on whether this is a SAP classification or a new SAP concept will be based on the action directed.)

Potential Actions:

- 1) **Revisions to SSAP No. 97 to incorporate statutory accounting guidance for SCAs that hold assets on behalf of the reporting entity and affiliate (investment subsidiaries).** By incorporating in SSAP, consideration can be given as to prescribing the measurement method and potential nonadmittance thresholds if the assets within the investment subsidiary would be nonadmitted if held directly. (As detailed within, the existing reference to measurement and nonadmittance in the instructions for D-6-1 would not overrule the guidance in SSAP No. 97. If the revisions to SSAP No. 97 are not supported, then the Working Group could consider sponsoring a blanks proposal to clarify the instructions in D-6-1 to prescribe allocation of the underlying investments in a manner that coincides with the SCA measurement and admittance under SSAP No. 97.)
- 2) **Sponsor blanks proposals to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held within an investment subsidiary.** As the RBC and AVR calculations require reporting entities to calculate RBC and AVR based on the underlying assets, this information should be readily available. If revisions are not incorporated into SSAP No. 97, these proposals can also clarify requirements for reporting as an investment subsidiary.
- 3) **Referrals to the Capital Adequacy (E) Task Force and related RBC Working Groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets in investment subsidiaries.** If blanks reporting revisions are incorporated that provide this detail, then the RBC formula can likely pull from those sources. If reporting revisions are not incorporated, then additional schedules or reporting lines would be necessary within the RBC formula.

Staff Review Completed by: Julie Gann, NAIC Staff—November 2024

Status:

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed this concept agenda item requesting comments on options to clarify accounting guidelines and resulting reporting impacts for investment subsidiaries.

On March 24, 2025, the Statutory Accounting Principles (E) Working Group deferred agenda item for investment subsidiaries and directed NAIC staff to develop an agenda item for consideration of Delaware Statutory Trusts (DSTs) holding residential mortgage loans.

Staff Recommendation – 2025 Summer National Meeting:

Based on discussions with regulators, NAIC staff recommend revisions to eliminate the investment subsidiary concept from the instructions, effective December 31, 2026. As such, NAIC staff recommend exposure of proposed edits to D-6-1 and AVR along with Working Group direction to sponsor a corresponding Blanks proposal. These edits do not result in SSAP revisions as the concept of an investment subsidiary does not exist in SSAP No. 97. Upon adoption of the proposed blanks changes, NAIC staff recommends a referral to the Life Risk-Based Capital (E) Working Group to eliminate the corresponding RBC instructions. The edits that would be proposed in this referral are also illustrated below. NAIC staff also requests additional industry comments on any other investment classes currently reported as investment subsidiaries that may warrant separate consideration. At present, residential mortgage loans held within statutory trusts, as outlined in agenda item 2025-13, are under discussion for potential inclusion in *SSAP No. 37—Mortgage Loans*.

It is important to note that this change does not prohibit insurers from owning investment subsidiaries. As discussed, the Investments of Insurers Model Act (Model 280; see Authoritative Literature section) permits insurers to hold investments through such subsidiaries. However, Model 280 only authorizes the structure and does not provide accounting or reporting guidance. Accounting and reporting guidance is primarily established by the SSAPs and, secondarily per the statutory hierarchy, the Annual Statement Instructions.

The SSAPs previously contained specified guidance for investment subsidiaries but it was ultimately removed due to persistent challenges in distinguishing investment subsidiaries from operating subsidiaries. Although a dual test based on revenue and activity was originally used for making this determination, regulators observed that the dual test was being creatively interpreted to gain favorable RBC treatment. The current issue stems from the fact that while SSAP No. 97 guidance for investment subsidiaries was eliminated, the corresponding Annual Statement Instructions for Schedule D-6-1 and AVR regarding investment subsidiaries were not updated accordingly. As a result, insurers have continued to be able to report investment subsidiaries under that framework, which effectively allows look-through RBC treatment to be circumvented for investments held in investment subsidiaries. Because investment subsidiaries are no longer recognized under SSAPs, there is no applicable statutory accounting or measurement guidance for investments held through them. This also means there are no mechanisms to ensure compliance with SSAP requirements, state investment limitations, or the RBC calculation. Reporting of the imputed SAP valuation for RBC relies solely on company-provided records. Furthermore, Schedule D-6-1's instruction requires reporting entities to measure investment subsidiaries using "imputed statutory value" which is an undefined term and conflicts with SSAP No. 97 which requires measurement based on audited U.S. GAAP. It is anticipated that SCAs previously reported as investment subsidiaries would be subject to the guidance stipulated for *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraphs 8.b.ii or 8.b.iii depending on whether the investment meets the activity test.

The removal of investment subsidiaries from the Annual Statement Instructions aligns with their prior elimination from the SSAPs. While reintroducing the investment subsidiary concept under SSAP No. 97 was considered, ongoing concerns remain regarding the difficulty in distinguishing operating subsidiaries from investment subsidiaries, as well as concerns over the complexity of changes which would be required to clarify look-through accounting treatment, RBC validation, and transparency of reporting.

August 2025 Exposed changes to Annual Statement Instructions – For a SAPWG Sponsored Blanks Proposal:

2024 Annual Statement Instructions – Schedule D-6-1

If a reporting entity has any common stock or preferred stock reported for any of the following required categories or subcategories, it shall report the subtotal amount of the corresponding category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

| Category | Line Number |
|--|------------------------|
| Preferred Stocks: | |
| Parent..... | 0199999 |
| U.S. Property & Casualty Insurer..... | 0299999 |
| U.S. Life Insurer | 0399999 |
| U.S. Health Entity #..... | 0499999 |
| Alien Insurer | 0599999 |
| Non-Insurer Which Controls Insurer | 0699999 |
| *Investment Subsidiary | 0799999 |
| Other Affiliates | 0899999 <u>0799999</u> |
| Subtotals – Preferred Stocks | 0999999 <u>0899999</u> |
| Common Stocks: | |
| Parent | 1099999 |
| U.S. Property & Casualty Insurer..... | 1199999 |
| U.S. Life Insurer | 1299999 |
| U.S. Health Entity #..... | 1399999 |
| Alien Insurer | 1499999 |
| Non-Insurer Which Controls Insurer | 1599999 |
| *Investment Subsidiary | 1699999 |
| Other Affiliates | 1799999 <u>1699999</u> |
| Subtotals – Common Stocks | 1899999 <u>1799999</u> |
| Totals – Preferred and Common Stocks | 1999999 <u>1899999</u> |

~~*NOTE: Investment Subsidiary shall mean any subsidiary, other than a holding company, engaged or organized primarily in the ownership and management of investments for the reporting entity. An investment subsidiary shall not include any broker dealer or a money management fund managing funds other than those of the parent company. The following criteria are applicable:~~

- ~~1.—95% or more of the investment subsidiary’s assets would qualify as admitted assets;~~
- ~~2.—The investment subsidiary’s total liabilities are 5% or less of total assets;~~
- ~~3.—Combining the pro-rata ownership shares of the assets of all the investment subsidiaries with the owning reporting entity’s assets does not violate any state requirements concerning diversification of investments or limitations on investments in a single entity; and~~
- ~~4.—The investment subsidiary’s book/adjusted carrying value does not exceed the imputed value on a statutory accounting basis. If the book/adjusted carrying value does exceed the imputed statutory value, the reporting entity may either nonadmit the excess or categorize such subsidiary in the “All Other Affiliates” category.~~

Proposed changes to RBC/AVR Instructions – To be Referred to LRBCWG:

2024 RBC Instructions:

AFFILIATED/SUBSIDIARY STOCKS – LR042, LR043, and LR044

(Only key excerpts included – bolded for emphasis.)

Affiliated/Subsidiary investments fall 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. ~~Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital~~

~~charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.~~ Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

~~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 NAIC’s 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 charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.~~ Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of “4” for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.

2024 AVR Instructions:

~~Lines 5~~

~~through 14~~ ~~Subsidiary, Controlled or Affiliated Common Stock~~ ~~Investment Subsidiaries~~

~~Report the book/adjusted carrying value of all common stocks owned in an investment subsidiary or that portion of the book/adjusted carrying value of holding company subsidiaries that represents investments in investment subsidiaries in Column 1, any related party encumbrances on these common stocks in Column 2, and any third party encumbrances on these common stocks in Column 3. If a portion of the book/adjusted carrying value of a holding company subsidiary is reflected in Column 1, the debt of that holding company subsidiary should be reflected in Columns 2 and 3. However, the total holding company debt to be reflected in Columns 2 and 3 should not exceed the aggregate book/adjusted carrying value of any investment subsidiaries on the holding company subsidiary books. (An investment subsidiary is any subsidiary, other than a holding company subsidiary, engaged or organized to engage primarily in the ownership and management of investments authorized as investments for the reporting entity. A broker-dealer or money management firm that manages outside funds is not an investment subsidiary. This definition is intended to be identical to the investment subsidiary definition for Risk-Based Capital (RBC) purposes and will be amended if the RBC definition is changed.) Allocate the common stock value in Column 1 and the encumbrances in Columns 2 and 3 among Lines 5 through 14 based on the nature of the underlying investment held by the investment subsidiary. Follow the Securities Valuation Office guidelines and categorize these assets as if the SVO had assigned a NAIC designation of 1 through 6, P1 through P6, or RP1 through RP6. Report the sum of Columns 1, 2, and 3 in Column 4.~~

~~For Lines 5 through 11, multiply the amount in Column 4 by the appropriate bond, preferred stock, or other fixed income instrument (excluding mortgage loans) reserve factors (as listed in Columns 5, 7 and 9 of the various sections of the Equity Component schedule) and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 12, multiply the amount in Column 4 by the reserve factors calculated for Columns 5, 7 and 9 (see instructions for Line 1 of this schedule) and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 13, multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~

~~For Line 14, multiply the amounts included in Column 4 by the reserve factors and breakdowns used for directly owned real estate and report the products in Columns 6, 8 and 10, respectively.~~

On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions described in the August 2025 exposed changes to eliminate the investment subsidiary concept from the annual statement instructions, effective December 31, 2026, and directed NAIC staff to sponsor a corresponding Blanks proposal. The intent to send a referral to the Life Risk-Based Capital (E) Working Group upon adoption of the agenda item, along with suggested RBC instruction changes, was also exposed.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted this agenda item supporting revisions to eliminate the investment subsidiary concept from the annual statement instructions, effective December 31, 2026, and directed a referral to the Capital Adequacy (E) Task Force with the recommended RBC instruction changes. This agenda item did not result in SSAP revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/12-9-25FallNationalMeeting/Adoptions/24-21-InvestmentSubsidiaries.docx>

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|--|--|
| <p style="text-align: right;">DATE: <u>3/24/26</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u></p> <p>NAME: <u>Ben Slutsker</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280, St. Paul, MN 55101</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2026-05-CA</u> Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|--|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal removed the investment subsidiary category in the blanks, instructions and formulas for all line of business as a result of the recently adopted Blanks proposal #2025-20BWG on March 5, 2026.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

On March 24, 2026, the Capital Adequacy (E) Task Force received a referral from the Statutory Accounting Principles (E) Working Group (SAPWG), informing us about the supported elimination of the investment subsidiary concept by SAPWG. The Task Force is therefore being requested to review RBC instruction and/ or Blanks to accommodate the elimination.

In response to SAPWG's referral, NAIC committee support drafted RBC proposal 2026-05-CA *Remove Investment Affiliate Code 4* for all type of businesses. However, it is noted that **Life** RBC framework historically instructed insurers to include investments held in investment subsidiaries when considering asset concentrations (see LR010 and LR011 instructions for details).

Note that the elimination of investment subsidiaries concept is limited to statutory accounting principles and annual statement instructions. This change does not prohibit insurers from owning investment subsidiaries. The Investments of Insurers Model Act (Model 280) permits insurers to hold investments through such subsidiaries. Since adoption of Model 280 varies by state and the consolidation view in Asset Concentration application is more transparent, NAIC staff would like to seek feedback from regulators and interested parties as to whether the elimination of consolidation approach, as it is currently drafted in proposal 2026-05-CA, is appropriate.

AFFILIATED/SUBSIDIARY STOCKS

XR002–XR004

There are nine-eight categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those nine-eight 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~~
- 5.4. Directly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- 6.5. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- 7.6. Investments in Upstream Affiliate (Parent)
- 8.7. 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
- 9.8. 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 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.

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 should also equal Schedule D, Part 6, Section 1, Line ~~0999999-0899999~~ plus Line ~~18999991699999~~.

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 affiliates/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 ~~(4140)~~).
- b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line ~~(6059)~~).
- c. For a Life affiliate/subsidiary RBC filing, the sum of
 - i. Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (68)); and
 - ii. Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

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 (6) of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. 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 H₀ 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 8.a.): 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 H₀ component of the reporting company. Normally, 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, an additional charge is applied to H₁. The additional charge to the H₁ component is the larger of a) 22.5% 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% 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 H₁ 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 H₁ 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 (6) 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 | | | | | |
|---------------|----------------------|------------|--|----------------------------|------------|
| Holder, Inc. | | | | | |
| 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:

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

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% 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% of the carrying value of the common and preferred stock.~~

5.4. 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 ~~1499999-1399999~~ and 0599999. 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% ownership.

6.5. 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 (6) 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% shares of Holder (a holding company), and Holder owns an Alien Life Insurance Company, which represents 50% 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 Life Insurance Company and the RBC charge for the indirect ownership of the alien insurance affiliate/subsidiary would be \$10,000,000 (1.000 times \$10,000,000). The risk-based capital charge for the parent insurer preparing the calculation is a 30% charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries.

| XR002 Columns | | | |
|------------------------------|---------------------------|--|--------------|
| (1) | (2) | (5) | (12) |
| Affiliate/Subsidiary | Affiliate/Subsidiary Type | Book Adjusted Carrying Value (Statement Value) of Affiliate’s Common Stock | RBC Required |
| Alien Life Insurance Company | 6c | 10,000,000 | 10,000,000 |
| Holder Holding Company | 3 | 10,000,000 | 3,000,000 |

If NEWBIE Insurance Company only acquired 50% shares of Holder, NEWBIE Insurance Company would enter \$5,000,000 (50% of 1/2 of \$20,000,000) as the carrying value of the Alien Life 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 Columns | | | |
|------------------------------|---------------------------|--|--------------|
| (1) | (2) | (5) | (12) |
| Affiliate/Subsidiary | Affiliate/Subsidiary Type | Book Adjusted Carrying Value (Statement Value) of Affiliate’s Common Stock | RBC Required |
| Alien Life Insurance Company | 6c | 5,000,000 | 5,000,000 |
| Holder Holding Company | 3 | 5,000,000 | 1,500,000 |

For each affiliate/subsidiary enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying 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~~1399999 and 0599999. If no value is reported in the Total Value of Affiliate’s Common and preferred stock column (7) and (10), the program will assume 100% ownership.

7.6. Investment in Upstream Affiliate (Parent)

The risk-based capital (RBC) for an investment in an upstream parent is 30.0% 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~~0999999 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.

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

- Health Insurance Companies and Health Entities Not Subject to RBC
- Property and Casualty Insurance Companies Not Subject to RBC, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guarantee insurers
- 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% of the book/adjusted carrying value of the common and preferred stock.

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

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

The risk-based capital for entity types a, b, and c is 30% 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 “98”. Reported amounts use Schedule D, Part 6, Section 1, Line ~~0899999~~0799999, and Line ~~1799999~~1599999 as the basis of reporting.



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COVARIANCE CALCULATION XR024–XR025

The purpose of the Health RBC formula is to estimate the minimum risk-based capital required to absorb losses that can be caused by a series of catastrophic financial events. However, it is extremely unlikely that all such losses will occur simultaneously. The covariance formula adjusts the combined effect of the H0, H1, H2, H3, and H4 risks so that the combination of risks is less than the sum of the parts. Statistically, this assumes that the H1, H2, H3 and H4 risks are uncorrelated. The H0 risk of subsidiaries is added to the total under the assumption that the risk of the subsidiaries is highly correlated with the risk of the parent, so that if the parent were to experience severe financial distress, the subsidiaries would also be adversely affected.

The components of the RBC after Covariance Formula are:

- H0 – Insurance Affiliates and Misc. Other
- H1 – Asset Risk – Other
- H2 – Underwriting Risk
- H3 – Credit Risk
- H4 – Business Risk

The covariance formula is applied before adding operational risk on Line (4140) on XR025:

RBC after Covariance Before Operational Risk = Square Root of $(H1^2 + H2^2 + H3^2 + H4^2) + H0$

Operational Risk:

Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories.

An operational risk charge will be reported on Line (4241) using a percentage of RBC or “add-on” approach that will apply a risk factor of 3.00% to the amount reported in Line (4140) - RBC after Covariance Before Operational Risk reported on page XR025. A reduction to the operational risk charge equal to the sum of the C-4a offset amounts reported by the direct Life RBC filing insurance subsidiaries (Page LR031, Lines (65 + 71)), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported on Page XR025 in Line (4342), and the Net Basic Operational Risk charge will be reported in Line (4443), but not to produce a charge that is less than zero.

Total RBC After Covariance including Operational Risk will be reported in Line (4544) as the sum of lines (4140) and (4443).

Authorized Control Level RBC is computed from the RBC after Covariance and is set at 50% of RBC after Covariance including Operational Risk.

Company Action Level RBC is 200% of Authorized Control Level RBC. Regulatory Action Level RBC is 150% of Authorized Control Level RBC. Mandatory Control Level RBC is 70% of Authorized Control Level RBC.

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company’s insurance ~~and investment subsidiaries~~. The concentration factor component on any asset already reflected in the subsidiary’s RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a “stand-alone” basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash, certain cash equivalents and short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such assets. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA joint ventures, partnerships, limited liability and other fund structures should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds or NAIC 1 unaffiliated preferred stock, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 “issuer” exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).



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COMMON STOCK CONCENTRATION FACTOR LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance **and investment subsidiaries**. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand-alone" basis.

The five largest holdings should exclude common stock in the FHLB, investment companies (mutual funds) and common trust funds, that are diversified with the meaning of the Investment Company Act, and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code 3 on LR044 (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code 9 (other subsidiaries), the total stock investment including both preferred and common stock should be used.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL
LR031

Basis of Factors

The purpose of the formula is to estimate the risk-based capital levels required to manage losses that can be caused by a series of catastrophic financial events. However, it is remote that all such losses will occur simultaneously. The covariance adjustment states that the combined effect of the C-1o, C-1cs, C-2 and C-3 and a portion of the C-4 risks are not equal to their sum but are equal to the square root calculation described below. It is statistically assumed that the C-1o risk and a portion of the C-3 risk are correlated, while the C-1cs risk, the C-2 risk, the balance of the C-3 risk and a portion of the C-4 risk are independent of both. The split of the C-3 and C-4 risks allows for general consistency with the health RBC formula. This assumption provides a reasonable approximation of the capital requirements needed at any particular level of losses.

The covariance formula is applied on Line (69) on LR031 before adding operational risk and Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII:

$$\text{RBC after Covariance Before Operational Risk} = C0 + C4a + \text{Square Root of } [(C1o + C3a)^2 + (C-1cs + C-3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$$

Operational Risk:

Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories.

A Gross Operational Risk charge will be reported on Line (70) using a percentage of RBC or “add-on” approach that will apply a risk factor of 3.00% to the amount reported in Line (69) – Total RBC after Covariance Before Operational Risk reported on page LR031. The result will represent an initial value of operational risk. Because the current C-4a risk charge is assumed to include some operational risk, a company’s C-4a – Post Tax reported on Line (65) is offset against operational risk. A further reduction to the operational risk charge equal to the sum of the C-4a offset amounts reported by direct life RBC filing insurance subsidiaries (Page LR031, Lines (65 + 71)), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported on Page LR031 in Line (71).

Net Operational risk after C-4a offset is reported on Line (72), but not less than zero.

Total RBC After Covariance including Operational Risk will be reported in Line (74) as the sum of lines (69), (72) and (73) - Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII as described below.

Authorized Control Level Risk-Based Capital is 50% of the sum of items A plus B plus C where:

“A” equals C-0 plus the C-4a risk-based capital and the square root of the sum of the C-1o and C-3a risk-based capital squared, the C-1cs and C-3c risk-based capital squared, the C-2 risk-based capital squared, the C-3b risk-based capital squared and the C-4b risk-based capital squared as reported on Line (69) and,

“B” equals the amount of operational risk after C-4a offset as reported on Line (72) and

“C” equals the greater of zero and the amount of Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two on Line (73).

The intent of this addend is to produce a dollar for dollar increase in the Authorized Control Level for the total of the AG 48 Primary Security shortfall. This Authorized Control Level increase for the amount of Primary Security shortfall applies to all insurers and all cessions of Covered Policies as defined in AG 48, that do not fall within an exemption set forth in AG 48, regardless of whether a state may have chosen to waive all or part of AG 48. For example, if a cession is of Covered Policies and no exemption is available under the terms of AG 48 for a particular insurer or transaction, but a state nevertheless determines that the insurer or Appointed Actuary will not be required to comply in full with the Guideline, then for RBC a computation of shortfall, if any, will still be required and an increase to Authorized Control Level for any such shortfall will still apply.

The information reported should be consistent with the information that will be included in Part 2B, Column 19, of the annual statement Supplemental Term and Universal Life Insurance Reinsurance Exhibit.

Mandatory Control Level Risk-Based Capital is 70% of Authorized Control Level Risk-Based Capital.

Specific Instructions for Application of the Formula

All amounts reflected for the calculation of Authorized Control Level Risk-Based Capital will be calculated automatically by the software.

In recognition of the exclusion of the carrying value of **Directly and Indirectly Owned** Alien Insurance **Affiliates**/Subsidiaries—**Other** from Total Adjusted Capital, the carrying value of these entities is also to be excluded from the calculation of C-0 risk-based capital.



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CALCULATION OF TOTAL ADJUSTED CAPITAL

(Including Total Adjusted Capital Tax Sensitivity Test)

LR033

Lines (6), (7) and (9)

The source for subsidiary amounts should be reported from the subsidiaries’ annual statements. These amounts should be adjusted by percentage of ownership before entering. All U.S. life, property and casualty **and investment** subsidiaries should be included. An adjustment to reduce the Total Adjusted Capital for the carrying value of **Directly and Indirectly Owned** Alien Insurance **Affiliates**/Subsidiaries—**Other** should be made for the parent company on Line (9).

Lines (11.1) through (11.4)

These lines calculate the credit to Total Adjusted Capital for the insurer’s qualifying capital notes. The calculation on Line (11.2) limits the credit for capital notes so the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-half of Total Adjusted Capital from other sources. This is equivalent to a limit of one-third of Total Adjusted Capital from all sources, including the capital and surplus notes themselves.

Line (12)

Line (12) should include all XXX/AXXX reinsurance RBC shortfalls as reported in LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10).

Lines (13) through (17)

The tax sensitivity test provides a “what if” scenario eliminating deferred tax assets and deferred tax liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

Line (14)

Include only the admitted portion of the deferred tax asset.

Line (16)

Line (16) should include only the admitted portion of deferred tax assets for insurance subsidiaries that are subject to RBC.

XXX/AXX REINSURANCE PRIMARY SECURITY SHORTFALL BY CESSION
LR036



Detail Eliminated To Conserve Space

Column 7 – Primary Security Shortfall

For a given cession the Column 7 Primary Security Shortfall equals the greater of (a) zero and (b) Column 5 Required Level of Primary Security less Column 6 Primary Security and Remediation Adjustments. The total for line (9999999) will be doubled and added to line (6873) of LR031 Calculation of Authorized Control Level Risk-Based Capital. The adjustment will result in a dollar for dollar increase in Authorized Control Level for the total of all primary security shortfalls.



Detail Eliminated To Conserve Space

SENSITIVITY TESTS
LR038, LR039 and LR040

The sensitivity tests provide a “what if” scenario recalculating Authorized Control Level RBC or Total Adjusted Capital using a specified alternative for a particular factor in the formula.

The amounts reported in the sensitivity tests will be an actual recalculation of the Authorized Control Level RBC and Total Adjusted Surplus. If a company does not have any of these specified items, the amounts reported will be the same as the Authorized Control Level RBC and Total Adjusted Surplus as originally calculated.

Other affiliates, noncontrolled assets, guarantees for affiliates, contingent liabilities, long-term leases and interest swaps reported elsewhere will automatically trigger recalculations of the RBC Authorized Control Level. Companies who own lower-tier subsidiaries should enter the referenced amounts from the subsidiaries’ LRBC report or annual statement times the percent of ownership.

Affiliated investments owned by the company, other than preferred and common stock, should be reported on Line (7.1). Companies owning lower-tier subsidiaries should report the referenced amounts from the subsidiaries’ annual statement multiplied by the percent of ownership on Line (7.2).

Surplus notes reported on Page 3 should be reported where indicated. Companies who own lower-tier subsidiaries should report the referenced amounts from the subsidiaries’ annual statement times percent of ownership (as defined in the affiliated stock section).

Current year capital contributions are reported on Page 4, Line 50.1 and Line 51.1. This amount should be reported where indicated. Companies who own lower-tier subsidiaries should report the referenced amounts from the subsidiaries' annual statement multiplied by the percent of ownership.

The amounts reported on this page for subsidiaries should include only those subsidiaries that are subject to a "look through" risk-based capital calculation (i.e., insurance ~~and investment~~ subsidiaries). Other subsidiaries have a fixed RBC factor and therefore, have no impact on the sensitivity tests.

AFFILIATED/SUBSIDIARY STOCKS

LR042, LR043 and LR044

Basis of Factors

There are ~~ten~~^{nine} categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those ~~nine~~^{ten} 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~~
- ~~5.4. Directly Owned Alien Insurance Affiliates/Subsidiaries~~
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- ~~6.5. Indirectly Owned Alien Insurance Affiliates/Subsidiaries~~
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- ~~7.6. Investments in Upstream Affiliate (Parent)~~
- ~~8.7. 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
- ~~9.8. 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. Non-financial entities
- ~~10.9. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value~~

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 cross-checked 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.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 440999999 plus Schedule D, Part 2, Section 2, Line 597999999 and should also equal Schedule D, Part 6, Section 1, Line ~~0999999-0899999~~ plus Line ~~18999991699999~~.

Affiliated/Subsidiary investments fall 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. ~~Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer.~~ Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is 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 affiliates/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 (7), the total outstanding common stock in Column (6) and the total outstanding preferred stock of that affiliate/subsidiary in Column (8) of the appropriate worksheet. The percentage of ownership is calculated by summing the book/adjusted carrying values of the owned preferred stock and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

Insurance Affiliate/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 affiliate/subsidiary, prorated for the percent of ownership of that affiliate/subsidiary.

For purposes of 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 (~~XR024XR025~~, Line ~~(4140)~~);
- b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line ~~(6059)~~); and
- c. For a Life affiliate/subsidiary RBC filing, the sum of
 - (a) Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (69)); and
 - (b) Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

For RBC purposes, the reporting insurer must determine the carrying value and the RBC requirement of directly owned RBC filing affiliate/subsidiary company, even if the RBC filing affiliate/subsidiary is non-admitted. The value reported in annual statement Schedule D, Part 6, Section 1 should be used for RBC purposes. In addition to RBC, the carrying value of the RBC filer must be reported in total adjusted carrying value for RBC purposes, in order to appropriately balance the numerator with the addition of the denominator value. Enter the carrying value of the insurer as an additional amount in line (8) of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. 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 C₀ 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 8.a.): See ~~10-9~~ below.

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 company. This involves drilling down to the first RBC filing insurance affiliate/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 (8) 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 affiliate/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 Life 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 | | | | | |
|---------------|----------------------|------------|--|----------------------------|------------|
| Holder, Inc. | | | | | |
| 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 is as follows:

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

The following table shows the LR044 entries that MEGA Life Insurance Company (which owns 100% owns of Holder, Inc.) would report for the indirectly owned insurance 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 subsidiaries at the 100% level are the correct RBC After Covariance but Before Operational Risk.

| | | LR044 Column | | | | |
|-------------------------|------------------------------|--------------|------------------------------|--|---------|--------------|
| | | 4 | 5 | 6 | 9 | 10 |
| Affiliates/Subsidiaries | Affiliates/Subsidiaries Type | 100% RBC | Book Adjusted Carrying Value | Total Value of Affiliates/Subsidiaries | % Owned | RBC Required |
| ABC Life Company | Indirect U.S. Life Aff/Sub | 5,000,000 | 10,000,000 | 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 | 50% | 6,000,000 |
| ANH Health Company | Indirect U.S. Health Aff/Sub | 6,000,000 | 3,000,000 | 12,000,000 | 25% | 1,500,000 |

The risk-based capital charge for the parent insurer preparing the calculation is a 30.0% 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).

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 NAIC’s *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 charge for the ownership of an investment subsidiary is based on the risk-based capital of the underlying assets, pro-rated for the degree of ownership. The basis for this calculation is the assumption that the charge should be the same as it would be if the life insurer held the assets directly.~~

~~Report information regarding any investment subsidiaries. Subsidiaries reported in this section will be assigned an affiliate code of “4” for investment subsidiaries. The amount of reported common stock should be the same as Schedule D, Part 6, Section 1, Line 1699999. Preferred stock information should be the same as Schedule D, Part 6, Section 1, Line 0799999.~~

Affiliates/Subsidiaries that are Not Subject to RBC

5.4. Directly Owned Alien Insurance Affiliates/Subsidiaries

For purposes of this formula, the risk-based capital of each alien insurance affiliate/subsidiary is zero. Report information for any non-U.S. insurance affiliate/subsidiary, both life and property and casualty.

For each affiliate/subsidiary, report the name and alien insurer identification number. For purposes of this formula, the statement value of common and preferred stock and the total outstanding value of common and preferred stock for alien insurance affiliates/subsidiaries should be entered as zero. Companies reported in this section will be assigned an affiliate/subsidiary code of “45” for alien 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~~1399999. If no value is reported in the Total Value of Affiliate’s/Subsidiary’s common and preferred stock columns (6) and (8), the program will assume 100% ownership.

6.5. Indirectly Owned Alien Insurance Affiliates/Subsidiaries

Consistent with the treatment of Directly Owned Alien Insurance Subsidiaries / Affiliates, for purposes of this formula, the carrying value and risk-based capital charge of each alien insurance affiliate is zero.

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, Lines ~~1499999~~ 1399999 and 0599999. If no value is reported in the Total Value of Affiliate's/Subsidiary's Common and preferred stock columns (6) and (8), the program will assume 100% ownership.

7.6. Investment in Upstream Affiliate (Parent)

The pre-tax Risk-Based Capital (RBC) for an investment in an upstream parent is 30.0% 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~~ 0999999 in Columns (1) through (**610**).

For each affiliate, enter the following information:

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

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

- Health Insurance Companies and Health Entities Not Subject to RBC
- Property and Casualty Insurance Companies Not Subject to RBC, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guarantee insurers
- Life Insurance Companies Not Subject to RBC, such as life insurance affiliate/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 Investment is 0.300 times the book/adjusted carrying value of the common and preferred stock.

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

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

The risk-based capital for entity types a, b, and c. is 0.300 times the book/adjusted carrying value of the common and preferred stock. The affiliate/subsidiary code for Non-Insurance Affiliates/Subsidiaries Not Subject to RBC is "**98**." Reported amounts use Schedule D, part 6, Schedule 1, Line ~~0899999~~ 0799999, and Line ~~1799999~~ 1599999 as the basis of reporting.

10. 9. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

The risk-based capital for a publicly traded insurance affiliate/subsidiary held at market value after any "discount," is calculated in two parts. First, calculate and report the risk-based capital of the affiliate/subsidiary according to the relevant instructions above for Insurance Affiliates/Subsidiaries that are Subject to a RBC-look-through Calculation. Second, calculate the additional risk-based capital charge as 34.6% pre-tax of any excess of the market (statement) value over the book value of the affiliate/subsidiary. The result of the second calculation will be added to the C-1o component.

Report information regarding any publicly traded insurance affiliate/subsidiary held at market value. The reported market value of common stock should be the same as shown Schedule D, Part 2, Section 2, Column 7, Line 591999999 plus Line 592999999. The market value of preferred stock should be the same as shown in Schedule D, Part 2, Section 1, Column 8,

line 431999999 plus 432999999. The reported book value of common stock should be the same as shown in Schedule D, Part 2, Section 2, Column 5, Line 591999999 plus Line 592999999. The reported book value of preferred stock should be the same as Schedule D, Part 2, Section 1, Column 6, Line 431999999 plus 432999999.

AFFILIATED STOCKS
PR003 – PR005

There are ~~nine-eight~~ categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirement for common stock and preferred stock holdings. Those ~~nine-eight~~ 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~~
- ~~5.4.~~ Directly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- ~~6.5.~~ Indirectly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
- ~~7.6.~~ Investments in Upstream Affiliate (Parent)
- ~~8.7.~~ Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
 - a. Health Insurance Companies or Health Entities Not Subject to RBC
 - b. Property and Casualty Insurance Companies Not Subject to RBC
 - c. Life Insurance Companies Not Subject to RBC
- ~~9.8.~~ 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 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 cross-checked 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.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 440999999 plus Schedule D, Part 2, Section 2, Line 597999999 and should also equal Schedule D, Part 6, Section 1, Line ~~0999999-0899999~~ plus Line ~~18999991699999~~.

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 affiliates/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 (4140)).
- b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (6059)).
- c. For a Life affiliate/subsidiary RBC filing, the sum of
 - i. Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (69)); and
 - ii. Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

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 (12) of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. 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 R_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 8.a.): 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 the 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 R_0 component of the reporting company. Normally, 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 an additional charge is applied to R_2 . The additional charge to the R_2 component is the larger of a) 22.5% of the affiliate/subsidiary’s common and preferred stock book/adjusted carrying value in excess of the prorated portion of the affiliate/subsidiary’s statutory surplus or b) the prorated portion of the affiliate/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% 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 R₂ component. If the affiliate/subsidiary's common and preferred stock book/adjusted carrying value is less than the prorated portion of the affiliate/subsidiaries' statutory surplus, there is no addition to the R₂ 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 affiliate/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 (12) 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 P&C 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 | | | | | |
|---------------|----------------------|------------|--|----------------------------|------------|
| Holder, Inc. | | | | | |
| 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:

| <u>Company</u> | <u>Stat. Book value</u> | <u>Source:</u> |
|---|-------------------------|---|
| Holder, Inc. | 50,000,000 | MEGA P&C Sch D - Part 6, Section 1 |
| <i>Holder, Inc. Aff/subs subject to RBC</i> | | |
| 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 | <u>3,000,000</u> | Holder, Inc. Stat. balance sheet |
| subtotal | 28,000,000 | |
| Holder, Inc. excl. RBC aff/subs | 22,000,000 | <i>(amount subject to the 22.5% factor for Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries)</i> |

The following table shows the PR003 entries that MEGA P&C 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.

| | | PR003 Column | | | | | |
|-------------------------|------------------------------|--------------|------------------------------|--|--|---------|--------------|
| | | 4 | 5 | 7 | 8 | 9 | 13 |
| 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 22.5% 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 22.5% of the carrying value of the common and preferred stock.~~

5.4. 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 0.500. 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 ~~1499999-1399999~~ plus Line 0599999. 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% ownership.

6.5. 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 insurers 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 (12) 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 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 0.500 and adjusted to reflect the reporting company’s ownership on the holding company. For example, assume NEWBIE Insurance Company acquired 100% shares of Holder (a holding company), and Holder owns an Alien Life Insurance Company, which represents 50% 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 Life 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 22.5% charge against the holding company value in excess of the indirectly owned insurance affiliates/subsidiaries.

| PR003 Columns | | | |
|------------------------------|---------------------------|--|--------------|
| (1) | (2) | (5) | (12) |
| Affiliate/Subsidiary | Affiliate/Subsidiary Type | Book Adjusted Carrying Value (Statement Value) of Affiliate’s Common Stock | RBC Required |
| Alien Life Insurance Company | 6c | 10,000,000 | 5,000,000 |
| Holder Holding Company | 3 | 10,000,000 | 2,250,000 |

If NEWBIE Insurance Company only acquired 50% shares of Holder, NEWBIE Insurance Company would enter \$5,000,000 (50% of 1/2 of \$20,000,000) as the carrying value of the Alien Life Insurance Company and the RBC charge for the indirect ownership of the Alien insurance affiliate/subsidiary would be \$2,500,000 (0.500 times \$5,000,000). Enter information for any indirectly owned alien insurance subsidiaries.

| PR003 Columns | | | |
|------------------------------|---------------------------|--|--------------|
| (1) | (2) | (5) | (12) |
| Affiliate/Subsidiary | Affiliate/Subsidiary Type | Book Adjusted Carrying Value (Statement Value) of Affiliate’s Common Stock | RBC Required |
| Alien Life Insurance Company | 6c | 5,000,000 | 2,500,000 |
| Holder Holding Company | 3 | 5,000,000 | 1,125,000 |

For each affiliate/subsidiary enter the following information:

- Company Name,
- Alien Insurer Identification Number,
- Book Adjusted carrying 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~~1399999 plus Line 0599999. 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% ownership.

7.6. Investment in Upstream Affiliate (Parent)

The Risk-Based Capital (RBC) for an investment in an upstream parent is 22.5% 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~~0999999 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.

8.7. 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 22.5% of the book/adjusted carrying value of the common and preferred stock.

9.8. 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 22.5% of the book/adjusted carrying value of the common and preferred stock. The affiliate/subsidiary code for Non-Insurance Affiliates/Subsidiaries Not Subject to RBC is "98". Reported amounts use Schedule D, Part 6, Section 1, Line ~~08999990799999~~, and Line ~~1799999-1599999~~ as the basis of reporting.



PR030 - PR032 - Computation of Total Risk-Based Capital After Covariance

The components of R0, R1, R2, R3, R4, R5 and Rcat are shown on the following pages of the booklet. The covariance adjustment is used to discount the Total RBC Before Covariance because the RBC amounts for the individual R components, when simply added together, overstate the true risk. It is assumed that not all of the events for which RBC is required would occur simultaneously.

The components of the Total RBC After Covariance formula are:

- R0 – Affiliated Insurance Companies and Misc. Other Amounts RBC
- R1 – Fixed Income Assets RBC
- R2 – Equity Assets RBC
- R3 – Credit-Related Assets RBC
- R4 – Underwriting Risk – Reserves RBC
- R5 – Underwriting Risk – Net Written Premiums
- Rcat – Catastrophe Risk

If loss reserve RBC is greater than the sum of other credit RBC and one half of reinsurance recoverable RBC, then half of reinsurance recoverable is allocated to the R4 component and half is allocated to R3. If loss reserve RBC is less than or equal to the sum of other credit RBC plus one half of reinsurance recoverable RBC, then the entire amount of reinsurance RBC is allocated to the R3 component.

To compute the Total RBC After Covariance Before Basic Operational Risk on Line (~~6059~~), the following formula is used:

$$R0 + \text{SQRT}(R1^2 + R2^2 + R3^2 + R4^2 + R5^2 + R_{\text{cat}}^2) = \text{Total RBC After Covariance Before Basic Operational Risk}$$

Operational Risk:

Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge shall account for operational risks that are not determined to be already reflected in existing risk categories.

An operational risk charge will be reported on Page PR032 in Lines (6460) using a percentage of RBC or “add-on” approach that will apply a risk factor of 3.000% to Line (6059) - RBC after Covariance Before Basic Operational Risk. A further reduction to the operational risk charge equal to the sum of C-4a offset amounts reported by direct Life RBC filing insurance subsidiaries on their Page LR031, Lines (65) + (71), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported in Line (6361), and the net Basic Operational Risk charge will be reported on Page PR032 in Line (6462), but not to produce a charge that is less than zero.

Total RBC After Covariance including Basic Operational Risk will be reported in Line (6463) as the sum of lines (6059) and (6362).

The Authorized Control Level RBC, which is reported in the Five-Year Historical Exhibit on Line 29 along with Total Adjusted Capital, is one-half of the Total RBC After Covariance including Operational Risk.

Company Name

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

| | | Source | (1) RBC Amount | Tax Factor | (2) RBC Tax Effect |
|-------------------------|--|--|-------------------|------------|-----------------------|
| <u>ASSET RISKS</u> | | | | | |
| <u>Bonds</u> | | | | | |
| (001) | Long-term Bonds – NAIC 1 | LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8) | _____ | X 0.1680 | = _____ |
| (002) | Long-term Bonds – NAIC 2 | LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4) | _____ | X 0.1680 | = _____ |
| (003) | Long-term Bonds – NAIC 3 | LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4) | _____ | X 0.1680 | = _____ |
| (004) | Long-term Bonds – NAIC 4 | LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4) | _____ | X 0.1680 | = _____ |
| (005) | Long-term Bonds – NAIC 5 | LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4) | _____ | X 0.1680 | = _____ |
| (006) | Long-term Bonds – NAIC 6 | LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7) | _____ | X 0.2100 | = _____ |
| (007) | Short-term Bonds – NAIC 1 | LR002 Bonds Column (2) Line (10.8) | _____ | X 0.1680 | = _____ |
| (008) | Short-term Bonds – NAIC 2 | LR002 Bonds Column (2) Line (11.4) | _____ | X 0.1680 | = _____ |
| (009) | Short-term Bonds – NAIC 3 | LR002 Bonds Column (2) Line (12.4) | _____ | X 0.1680 | = _____ |
| (010) | Short-term Bonds – NAIC 4 | LR002 Bonds Column (2) Line (13.4) | _____ | X 0.1680 | = _____ |
| (011) | Short-term Bonds – NAIC 5 | LR002 Bonds Column (2) Line (14.4) | _____ | X 0.1680 | = _____ |
| (012) | Short-term Bonds – NAIC 6 | LR002 Bonds Column (2) Line (15) | _____ | X 0.2100 | = _____ |
| (013) | Credit for Hedging - NAIC 1 Through 5 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (0199999) | _____ | X 0.1680 | = _____ † |
| (014) | Credit for Hedging - NAIC 6 Bonds | LR014 Hedged Asset Bond Schedule Column (13) Line (0299999) | _____ | X 0.2100 | = _____ † |
| (015) | Bond Reduction - Reinsurance | LR002 Bonds Column (2) Line (19) | _____ | X 0.2100 | = _____ † |
| (016) | Bond Increase - Reinsurance | LR002 Bonds Column (2) Line (20) | _____ | X 0.2100 | = _____ |
| (017) | Non-Exempt NAIC 1 U.S. Government Agency | LR002 Bonds Column (2) Line (22) | _____ | X 0.1680 | = _____ |
| (018) | Bonds Size Factor | LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21) | _____ | X 0.1680 | = _____ |
| <u>Mortgages</u> | | | | | |
| <u>In Good Standing</u> | | | | | |
| (019) | Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (1) | _____ | X 0.1575 | = _____ |
| (020) | Residential Mortgages - Other | LR004 Mortgages Column (6) Line (2) | _____ | X 0.1575 | = _____ |
| (021) | Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (3) | _____ | X 0.1575 | = _____ |
| (022) | Total Commercial Mortgages - All Other | LR004 Mortgages Column (6) Line (9) | _____ | X 0.1575 | = _____ |
| (023) | Total Farm Mortgages 90 Days Overdue | LR004 Mortgages Column (6) Line (15) | _____ | X 0.1575 | = _____ |
| (024) | Farm Mortgages | LR004 Mortgages Column (6) Line (16) | _____ | X 0.1575 | = _____ |
| (025) | Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (17) | _____ | X 0.1575 | = _____ |
| (026) | Residential Mortgages - Other | LR004 Mortgages Column (6) Line (18) | _____ | X 0.1575 | = _____ |
| (027) | Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (19) | _____ | X 0.1575 | = _____ |
| (028) | Commercial Mortgages - Other | LR004 Mortgages Column (6) Line (20) | _____ | X 0.1575 | = _____ |
| (029) | <u>In Process of Foreclosure</u> Farm Mortgages | LR004 Mortgages Column (6) Line (21) | _____ | X 0.1575 | = _____ |

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

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

Company Name

Confidential when Completed

NAIC Company Code

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

#REF!

| | | | (1) | | (2) |
|---|--|--------|------------|------------|----------------|
| | | Source | RBC Amount | Tax Factor | RBC Tax Effect |
| (030) Residential Mortgages - Insured | LR004 Mortgages Column (6) Line (22) | | | X 0.1575 | = |
| (031) Residential Mortgages - Other | LR004 Mortgages Column (6) Line (23) | | | X 0.1575 | = |
| (032) Commercial Mortgages - Insured | LR004 Mortgages Column (6) Line (24) | | | X 0.1575 | = |
| (033) Commercial Mortgages - Other | LR004 Mortgages Column (6) Line (25) | | | X 0.1575 | = |
| (034) Due & Unpaid Taxes Mortgages | LR004 Mortgages Column (6) Line (26) | | | X 0.1575 | = |
| (035) Due & Unpaid Taxes - Foreclosures | LR004 Mortgages Column (6) Line (27) | | | X 0.1575 | = |
| (036) Mortgage Reduction - Reinsurance | LR004 Mortgages Column (6) Line (29) | | | X 0.2100 | = † |
| (037) Mortgage Increase - Reinsurance | LR004 Mortgages Column (6) Line (30) | | | X 0.2100 | = |
| <u>Preferred Stock</u> | | | | | |
| (038) Unaffiliated Preferred Stock NAIC 1 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9) | | | X 0.1575 | = |
| (039) Unaffiliated Preferred Stock NAIC 2 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10) | | | X 0.1575 | = |
| (040) Unaffiliated Preferred Stock-NAIC 3 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11) | | | X 0.1575 | = |
| (041) Unaffiliated Preferred Stock NAIC 4 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12) | | | X 0.1575 | = |
| (042) Unaffiliated Preferred Stock NAIC 5 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13) | | | X 0.1575 | = |
| (043) Unaffiliated Preferred Stock NAIC 6 | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14) | | | X 0.2100 | = |
| (044) Preferred Stock Reduction-Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8) | | | X 0.2100 | = † |
| (045) Preferred Stock Increase-Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9) | | | X 0.2100 | = |
| <u>Separate Accounts</u> | | | | | |
| (046) Guaranteed Index | LR006 Separate Accounts Column (3) Line (1) | | | X 0.1575 | = |
| (047) Nonindex-Book Reserve | LR006 Separate Accounts Column (3) Line (2) | | | X 0.1575 | = |
| (048) Separate Accounts Nonindex-Market Reserve | LR006 Separate Accounts Column (3) Line (3) | | | X 0.1575 | = |
| (049) Separate Accounts Reduction-Reinsurance | LR006 Separate Accounts Column (3) Line (5) | | | X 0.2100 | = † |
| (050) Separate Accounts Increase-Reinsurance | LR006 Separate Accounts Column (3) Line (6) | | | X 0.2100 | = |
| (051) Synthetic GICs | LR006 Separate Accounts Column (3) Line (8) | | | X 0.1575 | = |
| (052) Separate Account Surplus | LR006 Separate Accounts Column (3) Line (13) | | | X 0.1575 | = |
| <u>Real Estate</u> | | | | | |
| (053) Company Occupied Real Estate | LR007 Real Estate Column (3) Line (3) | | | X 0.2100 | = |
| (054) Foreclosed Real Estate | LR007 Real Estate Column (3) Line (6) | | | X 0.2100 | = |
| (055) Investment Real Estate | LR007 Real Estate Column (3) Line (9) | | | X 0.2100 | = |
| (056) Real Estate Reduction - Reinsurance | LR007 Real Estate Column (3) Line (11) | | | X 0.2100 | = † |
| (057) Real Estate Increase - Reinsurance | LR007 Real Estate Column (3) Line (12) | | | X 0.2100 | = |
| (058) Sch BA Real Estate Excluding Tax Credit Investments | LR007 Real Estate Column (3) Line (16) | | | X 0.2100 | = |
| (059) Yield Guaranteed State Tax Credit Investments | LR007 Real Estate Column (3) Line (17) | | | X 0.0000 | = |
| (060) Qualifying and Other Tax Credit Investments | LR007 Real Estate Column (3) Line (18) + Line (19) + Line (20) | | | X 0.0000 | = |
| (061) Sch BA Real Estate Reduction - Reinsurance | LR007 Real Estate Column (3) Line (23) | | | X 0.2100 | = † |
| (062) Sch BA Real Estate Increase - Reinsurance | LR007 Real Estate Column (3) Line (24) | | | X 0.2100 | = |

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Company Name

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NAIC Company Code

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

#REF!

| | Source | (1) | | (2) | |
|--|---|------------|------------|----------------|---|
| | | RBC Amount | Tax Factor | RBC Tax Effect | |
| (063) Sch BA Bond NAIC 1 | LR008 Other Long-Term Assets Column (5) Line (2) | X | 0.1575 | = | |
| (064) Sch BA Bond NAIC 2 | LR008 Other Long-Term Assets Column (5) Line (3) | X | 0.1575 | = | |
| (065) Sch BA Bond NAIC 3 | LR008 Other Long-Term Assets Column (5) Line (4) | X | 0.1575 | = | |
| (066) Sch BA Bond NAIC 4 | LR008 Other Long-Term Assets Column (5) Line (5) | X | 0.1575 | = | |
| (067) Sch BA Bond NAIC 5 | LR008 Other Long-Term Assets Column (5) Line (6) | X | 0.1575 | = | |
| (068) Sch BA Bond NAIC 6 | LR008 Other Long-Term Assets Column (5) Line (7) | X | 0.2100 | = | |
| (069) BA Bond Reduction - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (9) | X | 0.2100 | = | † |
| (070) BA Bond Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (10) | X | 0.2100 | = | |
| (071) BA Preferred Stock NAIC 1 | LR008 Other Long-Term Assets Column (5) Line (12) | X | 0.1575 | = | |
| (072) BA Preferred Stock NAIC 2 | LR008 Other Long-Term Assets Column (5) Line (13) | X | 0.1575 | = | |
| (073) BA Preferred Stock NAIC 3 | LR008 Other Long-Term Assets Column (5) Line (14) | X | 0.1575 | = | |
| (074) BA Preferred Stock NAIC 4 | LR008 Other Long-Term Assets Column (5) Line (15) | X | 0.1575 | = | |
| (075) BA Preferred Stock NAIC 5 | LR008 Other Long-Term Assets Column (5) Line (16) | X | 0.1575 | = | |
| (076) BA Preferred Stock NAIC 6 | LR008 Other Long-Term Assets Column (5) Line (17) | X | 0.2100 | = | |
| (077) BA Preferred Stock Reduction-Reinsurance | LR008 Other Long-Term Assets Column (5) Line (19) | X | 0.2100 | = | † |
| (078) BA Preferred Stock Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (20) | X | 0.2100 | = | |
| (079) Rated Surplus Notes | LR008 Other Long-Term Assets Column (5) Line (31) | X | 0.1575 | = | |
| (080) Rated Capital Notes | LR008 Other Long-Term Assets Column (5) Line (41) | X | 0.1575 | = | |
| (081) BA Common Stock Affiliated | LR008 Other Long-Term Assets Column (5) Line (50.3) | X | 0.2100 | = | |
| (082) BA Collateral Loans | LR008 Other Long-Term Assets Column (5) Line (51) | X | 0.1575 | = | |
| (083) Other BA Assets | LR008 Other Long-Term Assets Column (5) Line (53.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18) | X | 0.2100 | = | |
| (084) Other BA Assets Reduction-Reinsurance | LR008 Other Long-Term Assets Column (5) Line (55) | X | 0.2100 | = | † |
| (085) Other BA Assets Increase - Reinsurance | LR008 Other Long-Term Assets Column (5) Line (56) | X | 0.2100 | = | |
| (086) BA Mortgages - In Good Standing | LR009 Schedule BA Mortgages Column (6) Line (12) | X | 0.1575 | = | |
| (087) BA Mortgages - 90 Days Overdue | LR009 Schedule BA Mortgages Column (6) Line (16) | X | 0.1575 | = | |
| (088) BA Mortgages - In Process of Foreclosure | LR009 Schedule BA Mortgages Column (6) Line (20) | X | 0.1575 | = | |
| (089) Reduction - Reinsurance | LR009 Schedule BA Mortgages Column (6) Line (22) | X | 0.2100 | = | † |
| (090) Increase - Reinsurance | LR009 Schedule BA Mortgages Column (6) Line (23) | X | 0.2100 | = | |
| <u>Miscellaneous</u> | | | | | |
| (091) Asset Concentration Factor | LR010 Asset Concentration Factor Column (6) Line (61) Grand Total Page | X | 0.1575 | = | |
| (092) Miscellaneous Assets | LR012 Miscellaneous Assets Column (2) Line (7) | X | 0.1575 | = | |
| (093) Derivatives - Collateral and Exchange Traded | LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10) | X | 0.1575 | = | |
| (094) Derivatives NAIC 1 | LR012 Miscellaneous Assets Column (2) Line (11) | X | 0.1575 | = | |
| (095) Derivatives NAIC 2 | LR012 Miscellaneous Assets Column (2) Line (12) | X | 0.1575 | = | |
| (096) Derivatives NAIC 3 | LR012 Miscellaneous Assets Column (2) Line (13) | X | 0.1575 | = | |
| (097) Derivatives NAIC 4 | LR012 Miscellaneous Assets Column (2) Line (14) | X | 0.1575 | = | |
| (098) Derivatives NAIC 5 | LR012 Miscellaneous Assets Column (2) Line (15) | X | 0.1575 | = | |
| (099) Derivatives NAIC 6 | LR012 Miscellaneous Assets Column (2) Line (16) | X | 0.2100 | = | |
| (100) Miscellaneous Assets Reduction-Reinsurance | LR012 Miscellaneous Assets Column (2) Line (19) | X | 0.2100 | = | † |
| (101) Miscellaneous Assets Increase-Reinsurance | LR012 Miscellaneous Assets Column (2) Line (20) | X | 0.2100 | = | |

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

#REF!

| | | | (1) | | (2) |
|------------------------------------|---|---|----------------|---------------------|------------------|
| | | Source | RBC Amount | Tax Factor | RBC Tax Effect |
| (102) | Replications | LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999) | X | 0.1575 | = |
| (103) | Reinsurance | LR016 Reinsurance Column (4) Line (17) | X | 0.2100 | = |
| (104) | Investment Affiliates-Intentionally Left Blank | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)-XXX | XXX | 0.21-XXX | = XXX |
| (105) | Investment in Upstream Affiliate (Parent) | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15) | X | 0.2100 | = |
| (106) | Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16) | X | 0.2100 | = |
| (107) | Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17) | X | 0.2100 | = |
| (108) | Directly Owned Life Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18) | X | 0.2100 | = |
| (109) | Publicly Traded Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22) | X | 0.2100 | = |
| (110) | Subtotal for C-1o Assets | Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100) | | | |
| <u>C-0 Affiliated Common Stock</u> | | | | | |
| (111) | Off-Balance Sheet and Other Items | LR017 Off-Balance Sheet and Other Items Column (5) Line (27) | X | 0.1575 | = |
| (112) | Off-Balance Sheet Items Reduction - Reinsurance | LR017 Off-Balance Sheet and Other Items Column (5) Line (28) | X | 0.2100 | = † |
| (113) | Off-Balance Sheet Items Increase - Reinsurance | LR017 Off-Balance Sheet and Other Items Column (5) Line (29) | X | 0.2100 | = |
| (114) | Directly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1) | X | 0.2100 | = |
| (115) | Directly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2) | X | 0.2100 | = |
| (116) | Directly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3) | X | 0.2100 | = |
| (117) | Indirectly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4) | X | 0.2100 | = |
| (118) | Indirectly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5) | X | 0.2100 | = |
| (119) | Indirectly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6) | X | 0.2100 | = |
| (120) | Affiliated Alien Insurers - Directly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11) | X | 0.0000 | = |
| (121) | Affiliated Alien Insurers - Indirectly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14) | X | 0.0000 | = |
| (122) | Subtotal for C-0 Affiliated Common Stock | Lines (111)-(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121) | | | |
| <u>Common Stock</u> | | | | | |
| (123) | Unaffiliated Common Stock | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16) | X | 0.2100 | = |
| (124) | Credit for Hedging - Common Stock | LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999) | X | 0.2100 | = † |
| (125) | Stock Reduction - Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19) | X | 0.2100 | = † |
| (126) | Stock Increase - Reinsurance | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20) | X | 0.2100 | = |
| (127) | Tranches or Interests | LR008 Other Long-Term Assets Column (5) Line (49) - Line (45) | X | 0.2100 | = |
| (128) | Total Residual Tranches or Interests | LR008 Other Long-Term Assets Column (5) Line (45) | X | 0.2100 | = |
| (129) | Common Stock Concentration Factor | LR011 Common Stock Concentration Factor Column (6) Line (6) | X | 0.2100 | = |
| (130) | NAIC 01 Working Capital Finance Notes | LR008 Other Long-Term Assets Column (5) Line (52.1) | X | 0.1575 | = |
| (131) | NAIC 02 Working Capital Finance Notes | LR008 Other Long-Term Assets Column (5) Line (52.2) | X | 0.1575 | = |
| (132) | Holding Company in Excess of Indirect Subs | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7) | X | 0.2100 | = |
| (133) | Affiliated Non-Insurers | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21) | X | 0.2100 | = |
| (134) | Total for C-1es Assets | Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133) | | | |
| (135) | <u>Insurance Risk</u> Disability Income Premium | LR019 Health Premiums Column (2) Lines (21) through (27) | X | 0.2100 | = |

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

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

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Company Name

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

| | <u>Source</u> | (1) RBC <u>Requirement</u> |
|---|---|----------------------------------|
| <u>Insurance Affiliates and Misc. Other Amounts (C-0)</u> | | |
| (1) Directly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1) | _____ |
| (2) Directly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2) | _____ |
| (3) Directly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3) | _____ |
| (4) Indirectly Owned Health Insurance Companies or Health Entities | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4) | _____ |
| (5) Indirectly Owned Property and Casualty Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5) | _____ |
| (6) Indirectly Owned Life Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6) | _____ |
| (7) Affiliated Alien Insurers - Directly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11) | _____ |
| (8) Affiliated Alien Insurers - Indirectly Owned | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14) | _____ |
| (9) Off-Balance Sheet and Other Items | LR017 Off-Balance Sheet and Other Items Column (5) Line (34) | _____ |
| (10) Total (C-0) - Pre-Tax | Sum of Lines (1) through (9) | _____ |
| (11) (C-0) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122) | _____ |
| (12) Net (C-0) - Post-Tax | Line (10) - Line (11) | ===== |
| <u>Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u> | | |
| (13) Schedule D Unaffiliated Common Stock | LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16) | _____ |
| (14) Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests | | _____ |
| (15) Total Residual Tranches or Interests | LR008 Other Long-Term Assets Column (5) line (49) - (45) | _____ |
| (16) Common Stock Concentration Factor | LR008 Other Long-Term Assets Column (5) line (45) | _____ |
| (17) Holding Company in Excess of Indirect Subs | LR011 Common Stock Concentration Factor Column (6) Line (6) | _____ |
| (18) Affiliated Non-Insurers | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7) | _____ |
| (19) Total (C-1cs) - Pre-Tax | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21) | _____ |
| (20) (C-1cs) Tax Effect | Sum of Lines (13) through (18) | _____ |
| (21) Net (C-1cs) - Post-Tax | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134) Line (19) - Line (20) | ===== |
| <u>Asset Risk - All Other (C-1o)</u> | | |
| (22) Bonds after Size Factor | LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8) | _____ |
| (23) Mortgages (including past due and unpaid taxes) | LR004 Mortgages Column (6) Line (31) | _____ |
| (24) Unaffiliated Preferred Stock | LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15) | _____ |
| (25) Investment Affiliates Intentionally Left Blank | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8) | XXX |
| (26) Investment in Upstream Affiliate (Parent) | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15) | _____ |
| (27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16) | _____ |
| (28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17) | _____ |
| (29) Directly Owned Life Insurance Companies Not Subject to RBC | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18) | _____ |
| (30) Publicly Traded Insurance Affiliates | LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22) | _____ |
| (31) Separate Accounts with Guarantees | LR006 Separate Accounts Column (3) Line (7) | _____ |

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

| | <u>Source</u> | (1) RBC Requirement |
|--|---|---------------------------|
| (32) Synthetic GIC's (C-1o) | LR006 Separate Accounts Column (3) Line (8) | _____ |
| (33) Surplus in Non-Guaranteed Separate Accounts | LR006 Separate Accounts Column (3) Line (13) | _____ |
| (34) Real Estate (gross of encumbrances) | LR007 Real Estate Column (3) Line (13) | _____ |
| (35) Schedule BA Real Estate (gross of encumbrances) | LR007 Real Estate Column (3) Line (25) | _____ |
| (36) Other Long-Term Assets | LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18) | _____ |
| (37) Schedule BA Mortgages | LR009 Schedule BA Mortgages Column (6) Line (24) | _____ |
| (38) Concentration Factor | LR010 Asset Concentration Factor Column (6) Line (61) Grand Total Page | _____ |
| (39) Miscellaneous | LR012 Miscellaneous Assets Column (2) Line (21) | _____ |
| (40) Replication Transactions and Mandatory Convertible Securities | LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999) | _____ |
| (41) Reinsurance | LR016 Reinsurance Column (4) Line (17) | _____ |
| (42) Total (C-1o) - Pre-Tax | Sum of Lines (22) through (41) | _____ |
| (43) (C-1o) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110) | _____ |
| (44) Net (C-1o) - Post-Tax | Line (42) - Line (43) | ===== |
| <u>Insurance Risk (C-2)</u> | | |
| (45) Individual and Industrial Life Insurance | LR025 Life Insurance Column (2) Line (5) | _____ |
| (46) Group and Credit Life Insurance and FEGLI/SGLI | LR025 Life Insurance Column (2) Line (12) | _____ |
| (46b) Longevity Risk | LR025-A Longevity Risk Column (2) Line (5) | _____ |
| (47) Total Health Insurance | LR024 Health Claim Reserves Column (4) Line (18) | _____ |
| (48) Premium Stabilization Reserve Credit | LR026 Premium Stabilization Reserves Column (2) Line (10) | _____ |
| (49) Total (C-2) - Pre-Tax | $L(47) + L(48) + \text{Greatest of } [\text{Guardrail Factor} * (L(45)+L(46)), \text{Guardrail Factor} * L(46b), \text{Square Root of } [(L(45) + L(46))^2 + L(46b)^2 + 2 * (\text{Correlation Factor}) * (L(45) + L(46)) * L(46b)]]$ | _____ |
| (50) (C-2) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141) | _____ |
| (51) Net (C-2) - Post-Tax | Line (49) - Line (50) | ===== |
| <u>Interest Rate Risk (C-3a)</u> | | |
| (52) Total Interest Rate Risk - Pre-Tax | LR027 Interest Rate Risk Column (3) Line (36) | _____ |
| (53) (C-3a) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142) | _____ |
| (54) Net (C-3a) - Post-Tax | Line (52) - Line (53) | ===== |
| <u>Health Credit Risk (C-3b)</u> | | |
| (55) Total Health Credit Risk - Pre-Tax | LR028 Health Credit Risk Column (2) Line (7) | _____ |
| (56) (C-3b) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143) | _____ |
| (57) Net (C-3b) - Post-Tax | Line (55) - Line (56) | ===== |
| <u>Market Risk (C-3c)</u> | | |
| (58) Total Market Risk - Pre-Tax | LR027 Interest Rate Risk Column (3) Line (37) | _____ |
| (59) (C-3c) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144) | _____ |
| (60) Net (C-3c) - Post-Tax | Line (58) - Line (59) | ===== |

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

| | <u>Source</u> | (1) RBC Requirement |
|--|---|---------------------------|
| <u>Business Risk (C-4a)</u> | | |
| (61) Premium Component | LR029 Business Risk Column (2) Lines (12) + (24) + (36) | _____ |
| (62) Liability Component | LR029 Business Risk Column (2) Line (39) | _____ |
| (63) Subtotal Business Risk (C-4a) - Pre-Tax | Lines (61) + (62) | _____ |
| (64) (C-4a) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (145) | _____ |
| (65) Net (C-4a) - Post-Tax | Line (63) - Line (64) | ===== |
| <u>Business Risk (C-4b)</u> | | |
| (66) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax | LR029 Business Risk Column (2) Line (57) | _____ |
| (67) (C-4b) Tax Effect | LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (146) | _____ |
| (68) Net (C-4b) - Post-Tax | Line (66) - Line (67) | ===== |
| <u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u> | | |
| (69) $C-0 + C-4a + \text{Square Root of } [(C-1o + C-3a)^2 + (C-1cs + C-3c)^2 + (C-2)^2 + (C-3b)^2 + (C-4b)^2]$ | REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE $L(12)+L(65) + \text{Square Root of } [(L(44) + L(54))^2 + (L(21) + L(60))^2 + L(51)^2 + L(57)^2 + L(68)^2]$ | ===== |
| (70) Gross Basic Operational Risk | 0.03 x L(69) | _____ |
| (71) C-4a of U.S. Life Insurance Subsidiaries | Company Records | _____ |
| (72) Net Basic Operational Risk | Line (70) - (Line (65) + Line (71)) (Not less than zero) | _____ |
| (73) Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2 | LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2 | _____ |
| (74) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2) | Line (69) + Line (72) + Line (73) | ===== |
| <u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u> | | |
| (75) Total Risk-Based Capital After Covariance Times Fifty Percent | Line (74) x 0.50 | ===== |
| <u>Tax Sensitivity Test</u> | | |
| (76) Tax Sensitivity Test: Total Risk-Based Capital After Covariance | $L(10)+L(63) + \text{Square Root of } [(L(42) + L(52))^2 + (L(19) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]$ | _____ |
| (77) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital | Line (76) x 0.50 | _____ |

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

Company Name Cocode: 00000

CALCULATION OF TOTAL ADJUSTED CAPITAL
(Including Total Adjusted Capital Tax Sensitivity Test)

| | <u>Annual Statement Source</u> | (1) <u>Statement Value</u> | Factor | (2) <u>Adjusted Capital</u> | |
|--|---|--|--------|--------------------------------|--------|
| <u>Company Amounts</u> | | | | | |
| (1) | Capital and Surplus | Page 3 Column 1 Line 38 | \$0 X | 1.000 = | \$0 |
| (2) | Asset Valuation Reserve | Page 3 Column 1 Line 24.01 § | \$0 X | 1.000 = | \$0 |
| (3) | Dividends Apportioned for Payment | Page 3 Column 1 Line 6.1, in part | \$0 X | 0.500 = | \$0 |
| (4) | Dividends Not Yet Apportioned | Page 3 Column 1 Line 6.2, in part | \$0 X | 0.500 = | \$0 |
| (5) | Hedging Fair Value Adjustment | Company Records | \$0 X | -1.000 = | \$0 |
| <u>Life Subsidiary Company Amounts†</u> | | | | | |
| (6) | Asset Valuation Reserve | Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ § | \$0 X | 1.000 = | \$0 |
| (7) | Dividend Liability | Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡ | \$0 X | 0.500 = | \$0 |
| (8) | Carrying Value of Non-Admitted Insurance Affiliates | Included in LR044 Columns 5 and 7 | \$0 X | 1.000 = | \$0 |
| <u>Property and Casualty and Other Non-U.S. Affiliated Amounts</u> | | | | | |
| (9) | Non-Tabular discount and/or Directly and Indirectly Owned Alien Insurance Affiliates/ Subsidiaries- Other | Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 6 Line 0599999 and Line 1399999 , in part | \$0 X | 1.000 = | \$0 |
| (10) | Total Adjusted Capital Before Capital Notes | Sum of Lines (1) through (8) less Line (9) | \$0 | | \$0 |
| <u>Credit for Capital Notes</u> | | | | | |
| (11.1) | Surplus Notes | Page 3 Column 1 Line 32 | \$0 | | |
| (11.2) | Limitation on Capital Notes | 0.5 x [Line (10) - Line (11.1)] - Line (11.1), but not less than 0 | \$0 | | |
| (11.3) | Capital Notes Before Limitation | LR032 Capital Notes Before Limitation Column (4) Line (18) | \$0 | | |
| (11.4) | Credit for Capital Notes | Lesser of Column (1) Line (11.2) or Line (11.3) | | | \$0 |
| (12) | XXX/AXXX Reinsurance RBC Shortfall | LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10) | | | \$0 |
| (13) | Total Adjusted Capital | Line (10) + Line (11.4) - Line (12) | | | \$0 |
| <u>Tax Sensitivity Test</u> | | | | | |
| <u>Company Amounts</u> | | | | | |
| (14) | Deferred Tax Asset (DTA) Value | Page 2 Column 3 Line 18.2 | \$0 X | -1.000 = | \$0 |
| (15) | Deferred Tax Liability (DTL) Value | Page 3 Column 1 Line 15.2 | \$0 X | 1.000 = | \$0 |
| <u>Subsidiary Amounts</u> | | | | | |
| (16) | Deferred Tax Asset (DTA) Value | Company Records | \$0 X | -1.000 = | \$0 |
| (17) | Deferred Tax Liability (DTL) Value | Company Records | \$0 X | 1.000 = | \$0 |
| (18) | Tax Sensitivity Test: Total Adjusted Capital | Line (13)+(14)+(15)+(16)+(17) | | | \$0 |
| <u>Ex DTA ACL RBC Ratio Sensitivity Test</u> | | | | | |
| (19) | Deferred Tax Asset-Company Amounts | Page 2 Column 3 Line 18.2 | \$0 X | 1.000 = | \$0 |
| (20) | Total Adjusted Capital Less Deferred Tax Asset Amounts | Line (13) less Line (19) | | | \$0 |
| (21) | Authorized Control Level RBC | LR034 Risk-Based Capital Level of Action Line (4) | \$0 X | 1.000 = | \$0 |
| (22) | Ex DTA ACL RBC Ratio | Line (20) / Line (21) | | | 0.000% |

† Including subsidiaries owned by holding companies.
‡ Multiply statement value by percent of ownership.
§ 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.

Company Name

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NAIC Company Code

ADDITIONAL INFORMATION REQUIRED

#REF!

(1)

| | | <u>Source</u> | <u>Statement Value</u> |
|---------|---|---|------------------------|
| (1.2) | Other Affiliates: Subsidiaries | Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (7) and Line (15) | |
| (2.2) | Noncontrolled Assets: Subsidiaries | Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15) | |
| (3.2) | Guarantees for Affiliates: Subsidiaries | Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1 | |
| (4.2) | Contingent Liabilities: Subsidiaries | Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1 | |
| (5.2) | Long Term Leases: Subsidiaries | Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1 | |
| (7.11) | Total Affiliated Investments: Company | Company's Annual Statement Five-Year Historical Data Column 1 Line 49 | |
| (7.12) | Less Affiliated Common Stock: Company | Company's Annual Statement Five-Year Historical Data Column 1 Line 46 | |
| (7.13) | Less Affiliated Preferred Stock: Company | Company's Annual Statement Five-Year Historical Data Column 1 Line 45 | |
| (7.14) | Net Affiliated Investments: Company | Lines (7.11) - (7.12) - (7.13) | |
| (7.2) | Affiliated Investments: Subsidiaries | Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 49 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 47 Less Lines 43 and 44 | |
| (9.1) | Surplus Notes: Company | Company's Annual Statement Page 3 Column 1 Line 32 | |
| (9.2) | Surplus Notes: Subsidiaries | Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33 | |
| (10.11) | Capital Paid In: Company | Company's Annual Statement Page 4 Column 1 Line 50.1 | |
| (10.12) | Surplus Paid In: Company | Company's Annual Statement Page 4 Column 1 Line 51.1 | |
| (10.13) | Total Current Year's Capital Contributions: Company | Line (10.11) + Line (10.12) | |
| (10.2) | Current Year's Capital Contributions: Subsidiaries | Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1 | |
| (11.1) | Total Residual Tranches or Interests | Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line 113 | |

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

Company Name

Confidential when Completed

NAIC Company Code

SUMMARY FOR AFFILIATED/SUBSIDIARY STOCKS

| | | (1) | (2) | (3) | (4) | | | |
|------|---|------------------|--------------------------------|--------------|---------------------------|---|-----------------|---------------------|
| | Affiliate Type | Affiliate Code | Book / Adjusted Carrying Value | Book Value † | Difference Col. (1) - (2) | RBC Basis | RBC Requirement | Number of Companies |
| (1) | Directly Owned Health Insurance Companies or Health Entities | 1a | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (2) | Directly Owned Property and Casualty Insurance Affiliates | 1b | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (3) | Directly Owned Life Insurance Affiliates | 1c | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (4) | Indirectly Owned Health Insurance Companies or Health Entities | 2a | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (5) | Indirectly Owned Property and Casualty Insurance Affiliates | 2b | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (6) | Indirectly Owned Life Insurance Affiliates | 2c | | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79 | | |
| (7) | Holding Company in Excess of Indirect Subs | 3 | | XXX | XXX | X 0.300 = | | |
| (8) | Investment Subsidiary Intentionally Left Blank | 4-XXX | XXX | XXX | XXX | Subsidiaries' Total Risk-Based Capital After Covariance / 0.79-XXX | XXX | XXX |
| (9) | Directly Owned Alien Health Insurance Companies or Health Entities | 4a | | XXX | XXX | X 1.000 = | | |
| (10) | Directly Owned Alien Property and Casualty Insurance Affiliates | 4b | | XXX | XXX | X 1.000 = | | |
| (11) | Directly Owned Alien Life Insurance Affiliates | 4c | | XXX | XXX | X 1.000 = | | |
| (12) | Indirectly Owned Alien Health Insurance Companies or Health Entities | 5a | | XXX | XXX | X 1.000 = | | |
| (13) | Indirectly Owned Alien Property and Casualty Insurance Affiliates | 5b | | XXX | XXX | X 1.000 = | | |
| (14) | Indirectly Owned Alien Life Insurance Affiliates | 5c | | XXX | XXX | X 1.000 = | | |
| (15) | Investment in Upstream Affiliate (Parent) | 6 | | XXX | XXX | X 0.300 = | | |
| (16) | Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | 7a | | XXX | XXX | X 0.300 = | | |
| (17) | Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | 7b | | XXX | XXX | X 0.300 = | | |
| (18) | Directly Owned Life Insurance Companies Not Subject to RBC | 7c | | XXX | XXX | X 0.300 = | | |
| (19) | Non-Insurance Entities with a Capital Requirement Imposed by a Regulatory Body | 8a | | XXX | XXX | X 0.300 = | | |
| (20) | Non-Insurance Other Financial Entities without Regulatory Capital Requirements | 8b | | XXX | XXX | X 0.300 = | | |
| (21) | Other Non-financial Entities | 8c | | XXX | XXX | X 0.300 = | | |
| (22) | Publicly Traded Insurance Affiliates | 9 | | | | X 0.346 = | | |
| (23) | Total (Sum of Lines (1) through (22)) | XXX | | XXX | | XXX | | |

† If different than book / adjusted carrying value.

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

CROSS-CHECKING FOR AFFILIATED/SUBSIDIARY STOCKS

Affiliated Preferred Stock

| | | (1) | (2) | (3) |
|-----|---|------------------------------|---|--|
| | Schedule D Part 6 Section 1 Type | Annual Statement Line Number | Annual Statement Total Preferred Stock† | Total from Life and Fraternal Risk-Based Capital Report‡ |
| | | | | Difference |
| (1) | Parent | 0199999 | | |
| (2) | U.S. Property and Casualty Insurer | 0299999 | | |
| (3) | U.S. Life Insurer | 0399999 | | |
| (4) | U.S. Health Entity | 0499999 | | |
| (5) | Alien Insurer | 0599999 | | |
| (6) | Non-Insurer Which Controls Insurer | 0699999 | | |
| (7) | Investment Subsidiary Intentionally Left Blank | 0799999-XXX | XXX | XXX |
| (8) | Other Affiliates | 0799999 | | |
| (9) | Total (Sum of Lines (1) through (8)) | | | |

Affiliated Common Stock

| | | (1) | (2) | (3) |
|------|---|------------------------------|--------------------------------------|--|
| | Schedule D Part 6 Section 1 Type | Annual Statement Line Number | Annual Statement Total Common Stock† | Total from Life and Fraternal Risk-Based Capital Report§ |
| | | | | Difference |
| (10) | Parent | 0999999 | | |
| (11) | U.S. Property and Casualty Insurer | 1099999 | | |
| (12) | U.S. Life Insurer | 1199999 | | |
| (13) | U.S. Health Entity | 1299999 | | |
| (14) | Alien Insurer | 1399999 | | |
| (15) | Non-Insurer Which Controls Insurer | 1499999 | | |
| (16) | Investment Subsidiary Intentionally Left Blank | 1699999-XXX | XXX | XXX |
| (17) | Other Affiliates | 1599999 | | |
| (18) | Total (Sum of Lines (10) through (17)) | | | |

† Column (1) Lines (1) through (8) and (10) through (17) come from Schedule D Part 6 Section 1 Column 6 of the annual statement.

‡ Column (2) Lines (1) through (8) come from LR044 Details for Affiliated Investments Column (7).

§ Column (2) Lines (10) through (17) come from LR044 Details for Affiliated Investments Column (5).

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

DETAILS FOR AFFILIATED/SUBSIDIARY STOCKS

=MAX(0,ROUND(IF(OR(C10="1a",C10="1b",C10="1c",C10="2a",C10="2b",C10="2c",C10="9"),(J10*E10)/0.79,IF(OR(C10="4a",C10="4b",C10="4c",C10="5a",C10="5b",C10="5c"),(H10+F10),IF(OR(C10="6",C10="7a",C10="7b",C10="7c",C10="8a",C10="8b",C10="8c"),0.3*(H10+F10)),0))

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | |
|-------------------|----------------------------|---------------------------------------|--|--|---|---|--|------------------|---------------------|-----|
| Name of Affiliate | Affiliate Code (1 to 9) | NAIC Company Code or Alien ID Number† | Affiliate's RBC After Covariance‡ LR031, Lines (69)+(73), PR032, Line (59), XR025, Line (40) | Book / Adjusted Carrying Value of Affiliate's Common Stock | Total Value of Affiliate's Outstanding Common Stock | Book / Adjusted Carrying Value of Affiliate's Preferred Stock | Total Value of Affiliate's Outstanding Preferred Stock | Percent Owned | RBC Requirement* | |
| (0000001) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000002) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000003) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000004) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000005) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000006) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000007) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000008) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000009) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000010) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000011) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000012) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000013) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000014) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000015) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000016) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000017) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000018) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000019) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000020) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000021) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000022) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000023) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000024) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000025) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000026) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000027) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000028) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000029) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000030) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000031) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000032) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000033) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000034) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000035) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000036) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000037) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000038) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000039) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000040) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000041) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000042) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000043) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000044) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000045) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000046) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000047) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000048) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000049) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (0000050) | | | \$0 | \$0 | \$0 | \$0 | \$0 | 100.000% | \$0 | |
| (9999999) | Total | XXXX | XXXX | \$0 | \$0 | XXXX | \$0 | XXXX | XXXX | \$0 |

† If applicable.
 ‡ If applicable. For Canadian life subsidiaries, the Minimum Continuing Capital and Surplus Requirement (MCCSR) should be used.
 * The RBC Requirement column is calculated on a pre-tax basis.

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DETAILS FOR AFFILIATED STOCKS

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
|-----------|-------------------|------------|--------------------------------------|---|--|--|---|--|---|--|-----------------|--------------|---|
| | Name of Affiliate | Affil Type | NAIC Company Code or Alien ID Number | Affiliate's RBC after Covariance Before Basic Operational Risk XR025 Line (40) PR032 Line (59) LR031 Line (69) + (73) | Book/Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock | Valuation Basis of Col (5) M - Market Value after any "discount" A - All Other | Total Value of Affiliate's Outstanding Common Stock | Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned) | Book/Adjusted Carrying Value (Statement Value) of Affiliate's Preferred Stock | Total Value of Affiliate's Outstanding Preferred Stock | Percent Owned * | RBC Required | Market Value Excess Component Affiliated Stocks RBC Required (H1 Component) |
| (01) | | | | | | | | | | | | | |
| (02) | | | | | | | | | | | | | |
| (03) | | | | | | | | | | | | | |
| (04) | | | | | | | | | | | | | |
| (05) | | | | | | | | | | | | | |
| (06) | | | | | | | | | | | | | |
| (07) | | | | | | | | | | | | | |
| (08) | | | | | | | | | | | | | |
| (09) | | | | | | | | | | | | | |
| (10) | | | | | | | | | | | | | |
| (11) | | | | | | | | | | | | | |
| (12) | | | | | | | | | | | | | |
| (13) | | | | | | | | | | | | | |
| (14) | | | | | | | | | | | | | |
| (15) | | | | | | | | | | | | | |
| (16) | | | | | | | | | | | | | |
| (9999999) | Total | XXX | XXX | | | XXX | | | | | XXX | | |

Denotes items that must be manually entered on filing software.

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~~

* Only applies to Affiliate Type 1 and 2

Column 12 Formula =ROUND(MAX(0,IF(OR(D6="",D6=3,D6=6,D6=7a",D6=7b",D6=7c",D6=8a",D6=8b",D6=8c"),0.3*(G6+K6),IF(OR(D6="4a",D6="4b",D6="4c",D6="5a",D6="5b",D6="5c"),1*(G6+K6),IF(OR(D6="1a",D6="1b",D6="1c",D6="2a",D6="2b",D6="2c"),IF(H6="M",MAX(0,MIN(J6,F6*M6)),MIN(F6*M6,G6+K6))))))

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SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS

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

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

| Affiliated Preferred Stock | | | (1) | (2) | (3) |
|--------------------------------|------------------------------------|-----------------------|-------------------------|-----------------------|-------------------|
| | | Annual Statement Line | <u>Annual Statement</u> | <u>Total From RBC</u> | |
| Schedule D Part 6 Section 1 C6 | | Number | <u>Total</u> | <u>Report</u> | <u>Difference</u> |
| | | | <u>Preferred Stock</u> | | |
| (1) | Parent | 0199999 | | | |
| (2) | U.S. P&C Insurer | 0299999 | | | |
| (3) | U.S. Life Insurer | 0399999 | | | |
| (4) | U.S. Health Insurer | 0499999 | | | |
| (5) | Alien Insurer | 0599999 | | | |
| (6) | Non-Insurer Which Controls Insurer | 0699999 | | | |
| (7) | Investment Subsidiary | 0799999 | | | |
| (7) | Other Affiliates | 0799999 | | | |
| (8) | Subtotal | 0899999 | | | |

| Affiliated Common Stock | | | (1) | (2) | (3) |
|--------------------------------|------------------------------------|-----------------------|-------------------------|-----------------------|-------------------|
| | | Annual Statement Line | <u>Annual Statement</u> | <u>Total From RBC</u> | |
| Schedule D Part 6 Section 1 C6 | | Number | <u>Total</u> | <u>Report</u> | <u>Difference</u> |
| | | | <u>Common Stock</u> | | |
| (9) | Parent | 0999999 | | | |
| (10) | U.S. P&C Insurer | 1099999 | | | |
| (11) | U.S. Life Insurer | 1199999 | | | |
| (12) | U.S. Health Insurer | 1299999 | | | |
| (13) | Alien Insurer | 1399999 | | | |
| (14) | Non-Insurer Which Controls Insurer | 1499999 | | | |
| (16) | Investment Subsidiary | 1699999 | | | |
| (15) | Other Affiliates | 1599999 | | | |
| (16) | Subtotal | 1699999 | | | |

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

| | | (1) <u>RBC Amount</u> |
|--|---|--------------------------|
| H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS | | |
| (1) Off-Balance Sheet Items | XR005, Off-Balance Sheet Page, Line (21) | _____ |
| (2) Directly Owned Health Insurance Companies or Health Entities | XR003, Affiliates Page, Column (2), Line (1) | _____ |
| (3) Directly Owned Property and Casualty Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (2) | _____ |
| (4) Directly Owned Life Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (3) | _____ |
| (5) Indirectly Owned Health Insurance Companies or Health Entities | XR003, Affiliates Page, Column (2), Line (4) | _____ |
| (6) Indirectly Owned Property and Casualty Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (5) | _____ |
| (7) Indirectly Owned Life Insurance Affiliates | XR003, Affiliates Page, Column (2), Line (6) | _____ |
| (8) Affiliated Alien Insurers - Directly Owned | XR003, Affiliates Page, Column (2), Line (8) + (9) + (10) | _____ |
| (9) Affiliated Alien Insurers - Indirectly Owned | XR003, Affiliates Page, Column (2), Line (11) + (12) + (13) | _____ |
| (10) Total H0 | Sum Lines (1) through (9) | ===== |
| H1 - ASSET RISK - OTHER | | |
| (11) Holding Company in Excess of Indirect Subs | XR003, Affiliates Page, Column (2), Line (7) | _____ |
| (12) Investment Subsidiary | XR003, Affiliates Page, Column (2), Line (8) | _____ |
| (12) Investment in Upstream Affiliate (Parent) | XR003, Affiliates Page, Column (2), Line (14) | _____ |
| (13) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (15) | _____ |
| (14) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (16) | _____ |
| (15) Directly Owned Life Insurance Companies Not Subject to RBC | XR003, Affiliates Page, Column (2), Line (17) | _____ |
| (16) Affiliated Non-Insurer Fixed Income Assets | XR003, Affiliates Page, Column (2), Line (18) + (19) + (20) XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR007, Fixed Income Assets - Bonds, Line (27) + XR008, Fixed Income Assets - Miscellaneous, Line (26) | _____ |
| (17) | XR009, Replication/MCS Page, Line (9999999) | _____ |
| (18) Replication & Mandatory Convertible Securities Unaffiliated Preferred Stock | XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7) | _____ |
| (19) Unaffiliated Common Stock & Market Value Excess Affiliated Stocks | XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (13) | _____ |
| (20) Property & Equipment | XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9) | _____ |
| (21) Asset Concentration | XR012, Grand Total Asset Concentration Page, Line (26) | _____ |
| (22) Total H1 | Sum Lines (11) through (22) | ===== |
| H2 - UNDERWRITING RISK | | |
| (24) Net Underwriting Risk | XR013, Underwriting Risk Page, Line (21) | _____ |
| (25) Other Underwriting Risk | XR015, Underwriting Risk Page, Line (25.3) | _____ |
| (26) Disability Income | XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3) | _____ |
| (27) Long-Term Care | XR016, Underwriting Risk Page, Line (41) | _____ |
| (28) Limited Benefit Plans | XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44) | _____ |
| (29) Premium Stabilization Reserve | XR017, Underwriting Risk Page, Line (45) | _____ |
| (30) Total H2 | Sum Lines (24) through (29) | ===== |

Denotes items that must be manually entered on filing software.

#REF!

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

| | | | (1) |
|---------------------------|---|---|-------------------|
| | | | <u>RBC Amount</u> |
| H3 - CREDIT RISK | | | |
| (31) | Total Reinsurance RBC | XR020, Credit Risk Page, Line (17) | _____ |
| (32) | Intermediaries Credit Risk RBC | XR020, Credit Risk Page, Line (24) | _____ |
| (33) | Total Other Receivables RBC | XR021, Credit Risk Page, Line (30) | _____ |
| (34) | Total H3 | Sum Lines (31) through (33) | ===== |
| H4 - BUSINESS RISK | | | |
| (35) | Administrative Expense RBC | XR022, Business Risk Page, Line (7) | _____ |
| (36) | Non-Underwritten and Limited Risk Business RBC | XR022, Business Risk Page, Line (11) | _____ |
| (37) | Premiums Subject to Guaranty Fund Assessments | XR022, Business Risk Page, Line (12) | _____ |
| (38) | Excessive Growth RBC | XR022, Business Risk Page, Line (19) | _____ |
| (39) | Total H4 | Sum Lines (35) through (38) | ===== |
| (40) | RBC after Covariance Before Basic Operational Risk | $H0 + \text{Square Root of } (H1^2 + H2^2 + H3^2 + H4^2)$ | _____ |
| (41) | Basic Operational Risk | 0.030 x Line (40) | _____ |
| (42) | C-4a of U.S. Life Insurance Subsidiaries | Company Records | _____ |
| (43) | Net Basic Operational Risk | Line (41) - (42) (not less than zero) | _____ |
| (44) | RBC After Covariance Including Basic Operational Risk | Lines (40) + (43) | _____ |
| (45) | Authorized Control Level RBC | .50 x Line (44) | _____ |

Denotes items that must be manually entered on filing software.

=ROUND(MAX(0,IF(OR(D8="" ,D8=3,D8=6,D8="7a",D8="7b",D8="7c",D8="8a",D8="8b",D8="8c"),0.225*(G8+K8),IF(OR(D8="4a",D8="4b",D8="4c",D8="5a",D8="5b",D8="5c"),0.5*(G8+K8),IF(OR(D8="1a",D8="1b",D8="1c",D8="2a",D8="2b",D8="2c"),IF(H8="M",MAX(0,MIN(J8,F8*M8)),MIN(F8*M8,G8+K8))))),0)

DETAILS FOR AFFILIATED STOCKS PR003

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
|-------------------|------------|--------------------------------------|--|--|---|---|--|---|--|----------------|--------------|--|
| Name of Affiliate | Affil Type | NAIC Company Code or Alien ID Number | Affiliate's RBC After Covariance before Basic Operational Risk LR031 L(69) + L(73) PR032 L(59) XR025 L(40) | Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock | Valuation Basis of Column (5) M - Market Value after any "discount" A - All Other | Total Value of Affiliate's Outstanding Common Stock | Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned) | Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock | Total Value of Affiliate's Outstanding Preferred Stock | Percent Owned* | RBC Required | Market Value Excess Component Affiliate Stocks RBC Required (R2 Component) |
| 0000001 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000002 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000003 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000004 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000005 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000006 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000007 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000008 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000009 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000010 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000011 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000012 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000013 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000014 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000015 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000016 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000017 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000018 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000019 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000020 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000021 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000022 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000023 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000024 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000025 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000026 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000027 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000028 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000029 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000030 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000031 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000032 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000033 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000034 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000035 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000036 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000037 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000038 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000039 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000040 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000041 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000042 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000043 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000044 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000045 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000046 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000047 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000048 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000049 | | | | | | | | | | 0.000% | 0 | 0 |
| 0000050 | | | | | | | | | | 0.000% | 0 | 0 |
| (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~~

* Only applies to Affiliate Type 1 and 2.

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

SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS PR004

| Affiliate Types | | Affil Code | RBC Basis | (1) <u>Number of Companies</u> | (2) <u>Total RBC Required</u> |
|-----------------|---|------------|----------------------------|---------------------------------------|--------------------------------------|
| (1) | Directly Owned Health Insurance Companies or Health Entities | 1a | Sub's RBC After Covariance | 0 | 0 |
| (2) | Directly Owned Property and Casualty Insurance Affiliates | 1b | Sub's RBC After Covariance | 0 | 0 |
| (3) | Directly Owned Life Insurance Affiliates | 1c | Sub's RBC After Covariance | 0 | 0 |
| (4) | Indirectly Owned Health Insurance Companies or Health Entities | 2a | 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 | 0.225 | 0 | 0 |
| (8) | Investment Subsidiary | 4 | 0.225 | 0 | 0 |
| (8) | Directly Owned Alien Health Insurance Companies or Health Entities | 4a | 0.5 | 0 | 0 |
| (9) | Directly Owned Alien Property and Casualty Insurance Affiliates | 4b | 0.5 | 0 | 0 |
| (10) | Directly Owned Alien Life Insurance Affiliates | 4c | 0.5 | 0 | 0 |
| (11) | Indirectly Owned Alien Health Insurance Companies or Health Entities | 5a | 0.5 | 0 | 0 |
| (12) | Indirectly Owned Alien Property and Casualty Insurance Affiliates | 5b | 0.5 | 0 | 0 |
| (13) | Indirectly Owned Alien Life Insurance Affiliates | 5c | 0.5 | 0 | 0 |
| (14) | Investment in Upstream Affiliate (Parent) | 6 | 0.225 | 0 | 0 |
| (15) | Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC | 7a | 0.225 | 0 | 0 |
| (16) | Directly Owned Property and Casualty Insurance Companies Not Subject to RBC | 7b | 0.225 | 0 | 0 |
| (17) | Directly Owned Life Insurance Companies Not Subject to RBC | 7c | 0.225 | 0 | 0 |
| (18) | Non-Insurance Entities with a Capital Requirement Imposed by a Regulatory Body | 8a | 0.225 | 0 | 0 |
| (19) | Non-Insurance Other Financial Entities without Regulatory Capital Requirements | 8b | 0.225 | 0 | 0 |
| (20) | Other Non-financial Entities | 8c | 0.225 | 0 | 0 |
| (21) | Total | | | 0 | 0 |

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR005

| Affiliated Preferred Stock | | (1) | (2) | (3) |
|--|------------------------------|---|------------------------------|-------------------|
| Schedule D Part 6 Section 1 C6 | Annual Statement Line Number | <u>Annual Statement Total Preferred Stock</u> | <u>Total From RBC Report</u> | <u>Difference</u> |
| (1) Parent | 0199999 | 0 | 0 | 0 |
| (2) U.S. P&C Insurer | 0299999 | 0 | 0 | 0 |
| (3) U.S. Life Insurer | 0399999 | 0 | 0 | 0 |
| (4) U.S. Health Insurer | 0499999 | 0 | 0 | 0 |
| (5) Alien Insurer | 0599999 | 0 | 0 | 0 |
| (6) Non-Insurer Which Controls Insurer | 0699999 | 0 | 0 | 0 |
| (7) Investment Subsidiary | 0799999 | 0 | 0 | 0 |
| (7) Other Affiliates | 0799999 | 0 | 0 | 0 |
| (8) Subtotal | 0899999 | 0 | 0 | 0 |

| Affiliated Common Stock | | (1) | (2) | (3) |
|---|------------------------------|--|------------------------------|-------------------|
| Schedule D Part 6 Section 1 C6 | Annual Statement Line Number | <u>Annual Statement Total Common Stock</u> | <u>Total From RBC Report</u> | <u>Difference</u> |
| (9) Parent | 0999999 | 0 | 0 | 0 |
| (10) U.S. P&C Insurer | 1099999 | 0 | 0 | 0 |
| (11) U.S. Life Insurer | 1199999 | 0 | 0 | 0 |
| (12) U.S. Health Insurer | 1299999 | 0 | 0 | 0 |
| (13) Alien Insurer | 1399999 | 0 | 0 | 0 |
| (14) Non-Insurer Which Controls Insurer | 1499999 | 0 | 0 | 0 |
| (15) Investment Subsidiary | 1699999 | 0 | 0 | 0 |
| (15) Other Affiliates | 1599999 | 0 | 0 | 0 |
| (16) Subtotal | 1699999 | 0 | 0 | 0 |

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR030 R0-R1

(1)

| R0 - Subsidiary Insurance Companies and Misc. Other Amounts | | PRBC O&I Reference | RBC Amount |
|--|---|--|-------------------|
| (1) | Directly Owned Property and Casualty Insurance Affiliates | PR004 L(2)C(2) | 0 |
| (2) | Indirectly Owned Property and Casualty Insurance Affiliates | PR004 L(5)C(2) | 0 |
| (3) | Directly Owned Life Insurance Affiliates | PR004 L(3)C(2) | 0 |
| (4) | Indirectly Owned Life Insurance Affiliates | PR004 L(6)C(2) | 0 |
| (5) | Directly Owned Health Insurance Companies or Health Entities | PR004 L(1)C(2) | 0 |
| (6) | Indirectly Owned Health Insurance Companies or Health Entities | PR004 L(4)C(2) | 0 |
| (7) | Directly Owned Alien Insurance Companies or Health Entities | PR004 L(8)+L(9)+L(10)C(2) | 0 |
| (8) | Indirectly Owned Alien Insurance Companies or Health Entities | PR004 L(11)+L(12)+L(13)C(2) | 0 |
| (9) | Misc Off-Balance Sheet - Non-controlled Assets | PR014 L(15) C(3) | 0 |
| (10) | Misc Off-Balance Sheet - Guarantees for Affiliates | PR014 L(16) C(3) | 0 |
| (11) | Misc Off-Balance Sheet - Contingent Liabilities | PR014 L(17) C(3) | 0 |
| (12) | Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA | PR014 L(19) C(3) | 0 |
| (13) | Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA | PR014 L(20) C(3) | 0 |
| (14) | Total R0 | L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13) | 0 |
| R1 - Asset Risk - Fixed Income | | | |
| (15) | Bonds Subject to Size Factor | PR006 L(27)C(6) | 0 |
| (16) | Bond Size Factor RBC | PR006 L(30)C(6) | 0 |
| (17) | Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds | PR015 L(27)C(4) | 0 |
| (18) | Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est. | PR015 L(38)+(39)C(4) | 0 |
| (19) | Other Long-Term Assets - Mortgage Loans, Tax Credit Investments, WCFI, & Residual Tranches or Interests | PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(18)+L(20)+L(21)C(2) | 0 |
| (20) | Misc Assets - Collateral Loans | PR009 L(13)C(2) | 0 |
| (21) | Misc Assets - Cash | PR009 L(3)C(2) | 0 |
| (22) | Misc Assets - Cash Equivalents | PR009 L(7)C(2) | 0 |
| (23) | Misc Assets - Other Short-Term Investments | PR009 L(10)C(2) | 0 |
| (24) | Replication - Synthetic Asset: One Half | PR010 L(9999999)C(7) | 0 |
| (25) | Asset Concentration RBC - Fixed Income | PR011 L(20)C(3) Grand Total Page | 0 |
| (26) | Total R1 | L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25) | 0 |

Calculation of Total Risk-Based Capital After Covariance PR031 R2-R3

(1)

| R2 - Asset Risk - Equity | | PRBC O&I Reference | RBC Amount |
|--------------------------|---|---|------------|
| (27) | Common & Preferred-Affiliate Investment Subsidiary | PR004 L(8)C(2) | 0 |
| (27) | Common & Preferred- Affiliate Holding Company in excess of Indirect Subs | PR004 L(7)C(2) | 0 |
| (28) | Common & Preferred- Investment in Upstream Affiliate (Parent) | PR004 L(14)C(2) | 0 |
| (29) | Common & Preferred- Directly Owned P&C Companies Not Subj to RBC | PR004 L(16)C(2) | 0 |
| (30) | Common & Preferred- Directly Owned Life Companies Not Subj to RBC | PR004 L(17)C(2) | 0 |
| (31) | Common & Preferred- Directly Owned Health Entities Not Subj to RBC | PR004 L(15)C(2) | 0 |
| (32) | Common & Preferred- Aff'd Non-insurer | PR004 L(18)+L(19)+L(20)C(2) | 0 |
| (33) | Unaffiliated Preferred Stock | PR007 L(7)C(2)+PR015 L(34)C(4) | 0 |
| (34) | Total Unaffiliated Common Stock and Fair Value Excess Affiliated Stocks | PR007 L(13)C(2)+PR015 L(35)C(4) | 0 |
| (35) | Other Long -Term Assets - Real Estate | PR008 L(7)C(2) | 0 |
| (36) | Other Long -Term Assets - Schedule BA Assets | PR008 L(19)C(2)+PR015 L(36)+L(37)C(4) | 0 |
| (37) | Misc Assets - Receivable for Securities | PR009 L(1)C(2) | 0 |
| (38) | Misc Assets - Aggregate Write-ins for Invested Assets | PR009 L(2)C(2) | 0 |
| (39) | Misc Assets - Derivatives | PR009 L(14)C(2) | 0 |
| (40) | Replication - Synthetic Asset: One Half | PR010 L(9999999)C(7) | 0 |
| (41) | Asset Concentration RBC - Equity | PR011 L(32)C(3) Grand Total Page | 0 |
| (42) | Total R2 | L(27)+L(28)+L(29)+L(30)+L(31)+L(32)+L(33)+L(34) +L(35)+L(36)+L(37)+L(38)+L(39)+L(40)+L(41) | 0 |
| R3 - Asset Risk - Credit | | | |
| (43) | Other Credit RBC | PR012 L(8)-L(1)-L(2)C(2) | 0 |
| (44) | One half of Rein Recoverables | 0.5 x (PR012 L(1)+L(2)C(2)) | 0 |
| (45) | Other half of Rein Recoverables | If R4 L(49)>(R3 L(43) + R3 L(44)), 0, otherwise, R3 L(44) | 0 |
| (46) | Health Credit Risk | PR013 L(12)C(2) | 0 |
| (47) | Total R3 | L(43) + L(44) + L(45) + L(46) | 0 |

Calculation of Total Risk-Based Capital After Covariance PR032 R4-Rcat

| | | (1) | |
|---|--|---|-------------------|
| R4 - Underwriting Risk - Reserves | | PRBC O&I Reference | RBC Amount |
| (48) | One half of Reinsurance RBC | If R4 L(49)>(R3 L(43) + R3 L(44)), R3 L(44), otherwise, 0 | 0 |
| (49) | Total Adjusted Unpaid Loss/Expense Reserve RBC | PR017 L(15)C(20) | 0 |
| (50) | Excessive Premium Growth - Loss/Expense Reserve | PR016 L(13) C(8) | 0 |
| (51) | A&H Claims Reserves Adjusted for LCF | PR024 L(5) C(2) + PR023 L(6) C(4) | 0 |
| (52) | Total R4 | L(48)+(49)+L(50)+L(51) | 0 |
| R5 - Underwriting Risk - Net Written Premium | | | |
| (53) | Total Adjusted NWP RBC | PR018 L(15)C(20) | 0 |
| (54) | Excessive Premium Growth - Written Premiums Charge | PR016 L(14)C(8) | 0 |
| (55) | Total Net Health Premium RBC | PR022 L(21)C(2) | 0 |
| (56) | Health Stabilization Reserves | PR025 L(8)C(2) + PR023 L(3) C(2) | 0 |
| (57) | Total R5 | L(53)+(54)+L(55)+L(56) | 0 |
| Rcat - Catastrophe Risk | | | |
| (58) | Total Rcat | PR027 L(5) C(1) | 0 |
| (59) | Total RBC After Covariance Before Basic Operational Risk = $R0 + \text{SQRT}(R1^2 + R2^2 + R3^2 + R4^2 + R5^2 + Rcat^2)$ | | 0 |
| (60) | Basic Operational Risk = $0.030 \times L(59)$ | | 0 |
| (61) | C-4a of U.S. Life Insurance Subsidiaries (from Company records) | | 0 |
| (62) | Net Basic Operational Risk = Line (60) - Line (61) (Not less than zero) | | 0 |
| (63) | Total RBC After Covariance including Basic Operational Risk = L(59) + L(62) | | 0 |
| (64) | Authorized Control Level RBC including Basic Operational Risk = $.5 \times L(63)$ | | 0 |



April 23, 2026

Mr. Ben Slutsker, Chair
Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: Agenda Item #2026-05-CA – Remove Investment Subsidiary Category

Dear Chair Slutsker,

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the Capital Adequacy (E) Task Force's (Task Force) exposed proposal 2026-05-CA regarding the removal of Investment Subsidiary references from the Risk-Based Capital (RBC) instructions and the elimination of Affiliate Category 4. ACLI supports the policy direction reflected in the proposal, and we understand the Task Force's objective of improving clarity and consistency within the RBC framework.

ACLI's comments are focused primarily on the timing of implementation with feedback on Asset Concentration consolidation approach as requested by NAIC staff. We respectfully request additional time to allow insurers to make necessary and orderly structural adjustments. Insurers have operated in good faith under existing blanks and AVR instructions, and many current investment subsidiary structures were established in reliance on prior annual statement and RBC guidance.

Timing of Implementation

As noted in the Statutory Accounting Principles (E) Working Group (SAPWG) exposure, eliminating the Investment Subsidiary Category does not prevent insurers from owning investment subsidiaries. However, the immediate elimination of look-through treatment could result in material implementation challenges, including:

- A transitional overstatement of RBC requirements as insurers temporarily hold capital charges more closely aligned with unaffiliated private equity or Schedule BA treatments rather than the risk characteristics of the underlying assets; and
- The need for significant structural, operational, and tax-related adjustments that cannot be accomplished on an accelerated timeframe without potential unintended consequences.

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

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

In addition, immediate implementation could distort the short-term presentation of risk during transition periods, even where long-term risk profiles remain unchanged. These effects are implementation and transition issues, not objections to the underlying regulatory approach.

For these reasons, and without requesting substantive changes to the proposal, ACLI suggests an effective date of December 31, 2027 to allow insurers sufficient time to restructure investment subsidiaries in an orderly and well-controlled manner.

As a way to address the implementation timing concerns while preserving the policy intent of the proposal, ACLI offers the following possible approaches for consideration:

One option would be to maintain the planned 2026 effective date for the Blanks Working (E) Group (BWG) item #2025-20BWG - *Update Investment Subsidiaries Classification*, while deferring the related Task Force changes to 2027. Under this approach, the RBC instructions would need to be modified on a temporary basis to accommodate the removal of the Investment Subsidiaries fields from the annual statement blank, allowing for an orderly transition period without misalignment between reporting and capital requirements.

Alternatively, the Task Force could consider adopting the changes effective in 2027 and referring the related annual statement blank changes back to BWG for considering a December 31, 2027 effective date for item #2025-20BWG. This approach would avoid changes to the annual statement blank for 2026 and ensure that reporting and capital frameworks move forward on a coordinated and consistent timetable.

Feedback on Elimination of Consolidation Approach

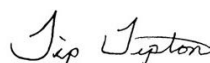
Consistent with NAIC staff's request for feedback, ACLI recommends maintaining the consolidation approach for investment subsidiaries when determining Asset Concentration. Consolidation ensures that capital requirements reflect the true concentration risk borne by the parent insurer. Importantly, this principle is already well-established in existing RBC instructions. LR010 specifically provides that securities held within Schedule BA joint ventures, partnerships, limited liability companies, and other fund structures must be aggregated by issuer as if held directly by the insurer. Investment subsidiaries are economically analogous as they exist solely to hold and manage assets on behalf of the parent insurer, with no independent business purpose.

ACLI appreciates the opportunity to provide these comments and would welcome continued dialogue regarding practical implementation considerations. Thank you for your time and consideration.

Sincerely,



Shannon Jones
Senior Director - Financial Reporting Policy
202-624-2029



Tip Tipton
Vice President - Accounting Policy
202-624-2015

cc: Kevin Clark, Chair, SAPWG
Roy Eft, Chair, BWG
Julie Gann, NAIC

Capital Adequacy (E) Task Force

RBC Proposal Form

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

| | |
|---|--|
| <p style="text-align: right;">DATE: <u>5/14/2026</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u></p> <p>NAME: <u>Ben Slutsker</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Minnesota Department of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280, St. Paul, MN 55101</u></p> | <p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>Proposal 2026-10-CA</u></p> <p>Year <u>2026</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input checked="" type="checkbox"/> TASK FORCE (TF) <u>5/14/26</u></p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p> |
|---|--|

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

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Incorporated changes to the Annual Statement Source for Collateral Loans, Residual Tranches or Interests, and Tax Credit Investments on pages XR008, PR008, and PR009 for the adoption of 2024-19BWG Modified by the Blanks (E) Working Group.


Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

FIXED INCOME ASSETS - MISCELLANEOUS

| | Annual Statement Source | (1) Bk/Adj Carrying Value | Factor | (2) RBC Requirement |
|---|--|------------------------------|--------|------------------------|
| (1) Cash | Page 2, Line 5, inside amount 1 | | 0.0030 | |
| (2) Cash Equivalents | Page 2, Line 5, inside amount 2 | | | |
| (3) Less: Cash Equivalents, Total Bonds | Schedule E, Part 2, Column 7, Line 0509999999 | | | |
| (4) Less: Exempt Money Market Mutual Funds as Identified by SVO | Schedule E, Part 2, Column 7, Line 8209999999 | | | |
| (5) Net Cash Equivalents | Lines (2) - (3) - (4) | | 0.0030 | |
| (6) Short-Term Investments | Page 2, Line 5, inside amount 3 | | | |
| (7) Short-Term Bonds | Schedule DA, Part 1, Column 6, Line 0509999999 | | | |
| (8) Total Other Short-Term Investments | Lines (6) - (7) | | 0.0030 | |
| (9) Mortgage Loans - First Liens | Page 2, Column 3, Line 3.1 | | 0.0500 | |
| (10) Mortgage Loans - Other Than First Liens | Page 2, Column 3, Line 3.2 | | 0.0500 | |
| (11) Receivable for Securities | Page 2, Column 3, Line 9 | | 0.0240 | |
| (12) Aggregate Write-Ins for Invested Assets | Page 2, Column 3, Line 11 | | 0.0500 | |
| | Schedule BA Part 1, Column 12 Lines 3199999 + 3299999 + 3399999 + 3499999 + 3599999 + 3699999 + 3799999 + 3899999 + 3999999 + 4099999 + 4199999 + 4299999 | | | |
| (13) Collateral Loans | | | | |
| (14) Less: Non-Admitted Collateral Loans | Notes to the Financial Statement 5S, Column 3 Line 11 | | | |
| (15) Net Collateral Loans | Lines (13) - (14) | | 0.0500 | |
| (16) NAIC 01 Working Capital Finance Investments | Notes to Financial Statement 5M(01a), Column 3 | | 0.0038 | |
| (17) NAIC 02 Working Capital Finance Investments | Notes to Financial Statement 5M(01b), Column 3 | | 0.0125 | |
| (18) Other Long-Term Invested Assets Excluding Collateral Loans, Tax Credit Investments, Residual Tranches or Interests and Working Capital Finance Investments | Included in Page 2, Column 3, Line 8 | | 0.2000 | |
| (19) Yield Guaranteed State Tax Credit Investments | Schedule BA Part 1, Column 12 Lines 4699999 + 4799999 | | 0.0014 | |
| (20) Qualifying Federal Tax Credit Investments | Schedule BA Part 1, Column 12 Lines 4899999 + 4999999 | | 0.0260 | |
| (21) Qualifying State Tax Credit Investments | Schedule BA Part 1, Column 12 Lines 5099999 + 5199999 | | 0.0260 | |
| (22) Other Tax Credit Investments | Schedule BA Part 1, Column 12 Lines 5299999 + 5399999 | | 0.1500 | |
| (23) Total Residual Tranches or Interests | Schedule BA, Part 1, Column 12 Lines 5599999 + 5699999 + 5799999 + 5899999 + 5999999 + 6099999 + 6199999 + 6299999 + 6399999 + 6499999 + 6599999 + 6699999 | | 0.2000 | |
| (24) Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8) | Lines (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22) + (23) | | | |
| (25) Derivatives | Page 2, Column 3, Line 7 | | 0.0500 | |
| (26) Total Miscellaneous Fixed Income Assets RBC | Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + (24) + (25) | | | |

 Denotes items that must be manually entered on filing software.

OTHER LONG-TERM ASSETS PR008

| | Annual Statement Source | (1) <u>Book/Adjusted</u> <u>Carrying Value</u> | Factor | (2) <u>RBC Requirement</u> |
|--|---|--|--------|-------------------------------|
| (1) Company Occupied Real Estate | P2 L4.1 C3 | 0 | 0.100 | 0 |
| (2) Encumbrances | P2 L4.1, inside item | 0 | 0.100 | 0 |
| (3) Property Held For the Production of Income | P2 L4.2 C3 | 0 | 0.100 | 0 |
| (4) Property Held For Sale | P2 L4.3 C3 | 0 | 0.100 | 0 |
| (5) Encumbrances (Property Held For the Production of Income) | P2 L4.2, inside item | 0 | 0.100 | 0 |
| (6) Encumbrances (Property Held For Sale) | P2 L4.3, inside item | 0 | 0.100 | 0 |
| (7) Total Real Estate | L(1)+L(2)+L(3)+L(4)+L(5)+L(6) | 0 | | 0 |
| (8) Mortgage Loans - First Liens | P2 L3.1 C3 | 0 | 0.050 | 0 |
| (9) Mortgage Loans - Other Than First Liens | P2 L3.2 C3 | 0 | 0.050 | 0 |
| (10) Total Mortgage Loans | L(8) + L(9) | 0 | | 0 |
| (11) Schedule BA Assets - Total | P2 L8 C3 | 0 | | |
| (12) Less: Collateral Loans | PR009 L(13) | 0 | | |
| (13) Yield Guaranteed State Tax Credit Investments | Schedule BA Part 1, C12 L4699999 +L4799999 | 0 | 0.0014 | 0 |
| (14) Qualifying Federal Tax Credit Investments | Schedule BA Part 1, C12 L4899999 +L4999999 | 0 | 0.0260 | 0 |
| (15) Qualifying State Tax Credit Investments | Schedule BA Part 1, C12 L5099999 +L5199999 | 0 | 0.0260 | 0 |
| (16) Other Tax Credit Investments | Schedule BA Part 1, C12 L5299999 +L5399999 | 0 | 0.1500 | 0 |
| (17) Working Capital Finance Investments | L(20)+L(21) | 0 | | |
| (18) Total Residual Tranches or Interests | Schedule BA, Part 1, Column 12 Lines 5599999 + 5699999 + 5799999 + 5899999 + 5999999 + 6099999 + 6199999 + 6299999 + 6399999 + 6499999 + 6599999 + 6699999 | 0 | 0.2000 | 0 |
| (19) Schedule BA Assets Excluding Collateral Loans, Tax Credit Investments, WCFI, & Residual Tranches or Interests | L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18) | 0 | 0.2000 | 0 |
| (20) NAIC 01 Working Capital Finance Investments | Notes to Financial Statement Item L5M(01a) C3 | 0 | 0.0038 | 0 |
| (21) NAIC 02 Working Capital Finance Investments | Notes to Financial Statement Item L5M(01b) C3 | 0 | 0.0125 | 0 |
| (22) Total Other Long-Term Assets | L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(18)+L(19)+L(20)+L(21) | 0 | | 0 |

MISCELLANEOUS ASSETS PR009

| | Annual Statement Source | (1) <u>Book/Adjusted</u> <u>Carrying Value</u> | Factor | (2) <u>RBC Requirement</u> |
|---|--|--|--------|-------------------------------|
| (1) Receivable for Securities | P2C3L9 | 0 | 0.025 | 0 |
| (2) Aggregate W/I for Invest Assets | P2C3 L11 | 0 | 0.050 | 0 |
| (3) Cash | P2 L5, inside amt 1 | 0 | 0.003 | 0 |
| (4) Cash Equivalents | P2 L5, inside amt 2 | 0 | | |
| (5) Less: Cash Equivalents, Total Bonds | Sch E Pt 2 C7 L0509999999 | 0 | | |
| (6) Less: Exempt Money Market Mutual Funds as Identified by SVO | Sch E Pt 2 C7 L8209999999 | 0 | | |
| (7) Net Cash Equivalents | L(4)-L(5)-L(6) | 0 | 0.003 | 0 |
| (8) Short-Term Investments | P2 L5, inside amt 3 | 0 | | |
| (9) Short-Term Bonds | Sch DA Pt 1 C6 L0509999999 | 0 | | |
| (10) Total Other Short-Term Investments | L(8)-L(9) Sch BA Pt1 C12 Lines 3199999 + 3299999 + 3399999 + 3499999 + 3599999 + 3699999 + 3799999 + 3899999 + 3999999 + 4099999 + 4199999 + 4299999 | 0 | 0.003 | 0 |
| (11) Collateral Loans | Notes to Financial Statement Item 5S C3 L11 | 0 | | |
| (12) Less: Non-Admitted Collateral Loans | L(11) - L(12) | 0 | 0.050 | 0 |
| (13) Net Admitted Collateral Loans | P2C3 L7 | 0 | 0.050 | 0 |
| (14) Derivatives | | | | |
| (15) Total Miscellaneous Assets | L(1)+L(2)+L(3)+L(7)+L(10)+L(13)+L(14) | 0 | | 0 |

Draft: 5/1/25

Adopted by the Executive (EX) Committee and Plenary, Dec. xx, 2026

Adopted by the Financial Condition (E) Committee, Dec. xx, 2026

Adopted by the Capital Adequacy (E) Task Force, June. xx, 2026

2026-2027 Proposed Charges

CAPITAL ADEQUACY (E) TASK FORCE

~~The mission of the Capital Adequacy (E) Task Force (CADTF) is to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The Risk-Based Capital (RBC) formula largely consists of a series of risk factors that are applied to selected assets, liabilities, or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item. The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.~~

Ongoing Support of NAIC Programs, Products, or Services

1. ~~1.~~—To carry out its mission, the CADTF is charged with carrying out the following initiatives:
 - A. ~~Evaluate emerging “risk” issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.~~
 - B. ~~Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.~~
 - C. ~~Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).~~
 - D. ~~Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the Accounting Practices and Procedures Manual, Annual Statement Blanks, and the Valuation Manual to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.~~
 - E. ~~Monitor and evaluate changes to the Purposes and Procedure Manual of the NAIC Investment Analysis Office to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to address the risk.~~
 - F. ~~Evaluateing refinements to the existing NAIC RBC formula and consider improvements and revisions to the various RBC Blanks to (1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and (2) oversee the development of additional reporting formats within the existing RBC Blanks as needs are identified.~~
 - G. Continually review the RBC instructions, blanks and forecastings and revise as appropriate.

~~The **Capital Adequacy (E) Task Force** will:~~

~~Evaluate application of the Risk-Based Capital (RBC) formula and emerging “risk” issues for referral to RBC working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.~~

~~Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).~~

~~Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.~~

~~Continually review the RBC instructions, blanks and forecastings and revise as appropriate.~~

2. ~~_____~~ **The Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group** will:

A. Evaluate refinements to the existing NAIC RBC formulas and consider improvements and revisions to the RBC Blanks to (1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and (2) oversee the development of additional reporting formats within the existing RBC Blanks as needs are identified.~~implemented in the prior year.~~

B. ~~Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.~~ Any proposal that affects the RBC structure must be adopted by CADTF no later than May 15 of the reporting year, and any proposal that affects a non-structural change to the RBC Blanks, RBC factors and/or instructions must be adopted by CADTF no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by CADTF no later than July 30, where the Capital Adequacy (E) Task Force votes to pursue by two-thirds consent of members.

C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual), Annual Statement Blanks, and the Valuation Manual to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.

D. ~~Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.~~

3. ~~The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:~~

~~A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation and determine if additional revisions need to be made.~~

~~B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.~~

3. 4. ~~_____~~ **The Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:

A. Provide recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate.~~Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.~~

- ~~4.~~ ~~5.~~—The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
- A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
 - B. Continue to update the U.S. and non-U.S. catastrophe event list.
 - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
 - D. Evaluate the RBC results inclusive of a catastrophe risk charge.
 - E. Refine instructions for the catastrophe risk charge.
 - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
 - G. Evaluate other catastrophe risks for possible inclusion in the charge.
6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
- A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
 - i. Evaluating relevant historical data and applying defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to current asset risk structure and factors (e.g. C-1o and C1-cs).
 - ii. Facilitating coordination and alignment among NAIC committees/task forces/working groups related to its work in reviewing current asset risk framework.
 - iii. Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels.
 - iii-iv. Monitor and evaluate changes to the Purposes and Procedure Manual of the NAIC Investment Analysis Office to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to address the risk
7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
- A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.
 - B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
 - C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
 - D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
 - E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung/[Maggie Chang](#)

SharePoint/FRS-RBC/CADTF/Charges/~~2026~~2027/~~2026~~-2027 Proposed Charges.docx

TO: Ben Slutsker, Chair, Capital Adequacy (E) Task Force
Kevin Clark, Chair, Statutory Accounting Principles (E) Working Group
Roy Eft, Chair, Blanks (E) Working Group

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

CC: Carrie Mears, Chair, Invested Assets (E) Task Force
Ken Contron, Chair, Investment Designation Analysis (E) Working Group
Julie Gann Director, NAIC Solvency Policy - Financial Regulatory Affairs
Jake Stultz, Manager II, NAIC Accounting Policy - Financial Regulatory Affairs
Maggie Chang, Manager III, NAIC RBC & Solvency Policy - Financial Regulatory Affairs
Eva Yeung, Sr. RBC Analyst/Technical & Team Lead, NAIC Financial Regulatory Affairs
Mary Caswell, Sr. Manager II, NAIC Financial Regulatory Affairs
Jill Youtsey, Manager I - FDR Data Quality, NAIC Financial Regulatory Affairs

RE: Referral: Combining Security Identifiers and Adding a Security Identifier Type Field to the Annual and Quarterly Financial Statements

DATE: March 27, 2026

Summary: At the NAIC's 2025 Fall National Meeting and 2026 Spring National Meeting the Securities Valuation Office (SVO) put forward a recommendation that the annual and quarterly financial statement investment schedules be updated to combine investment security identifiers such as the Committee on Uniform Securities Identification Procedures (CUSIP), CUSIP International Numbering System (CINS), Private Placement Number (PPN) and the International Securities Identification Number (ISIN) into a single reporting field called Security Identifier paired with a Security Identifier Type field. They further recommended adding one new identifier, S&P Global's LoanX ID (LXID) (formerly IHS Marketit LoanX ID), which are unique identifiers developed to track individual loans, borrowers, and lenders in the syndicated loan and private credit markets. The objective of combining these fields is to improve investment security identification and integration with other NAIC systems, data, and reporting. The SVO has been working with the Blanks (E) Working Group support staff, American Council of Life Insurers (ACLI), Private Placement Investors Association (PPIA) and North American Securities Valuation Association (NASVA) on this proposal.

The Investment Designation Analysis (E) Working Group and Invested Assets (E) Task Force approved this referral to Blanks (E) Working Group to effect these changes and informational referrals to the Capital Adequacy (E) Task Force and Statutory Accounting Principles (E) Working Group to notify them and solicit their feedback.

Recommendation: The SVO recommends combining the current CUSIP “like” fields (e.g. CUSIP, CINS, PPN) with the electronic only ISIN field and the new LXID into a single Security Identifier field (Security ID). This would be accompanied by a new field to identify the Security ID Type. All of these identifiers are included in S&P Global’s Global Instruments Cross Reference Service (GICRS) database of global security identifiers that cross-references approximately 92 million instruments. The NAIC is in the process of integrating the GICRS data into its systems.

The Security ID Type field would be an abbreviation to denote the type of security identifier being reported: C=CUSIP and CINS (including syndicated loans with an CUSIP), I=ISIN (including syndicated loans with an ISIN), P=PPN and L=LXID. This change would permit additional security identifiers to be added in the future, as needed. The table below would be an example of the new fields. The reporting instructions for the annual and quarterly statement instructions should include the following preferred order of prioritization or usage of these security identifiers: CUSIP, CINS, ISIN, PPN and LXID.

Two special situation Security IDs are requested to accommodate common reporting issues. The first would be for securities acquired within the initial reporting year end of the financial statement reporting date that have not yet been issued an NAIC recognized Security ID but where one was requested. A temporary Security ID of “000000000” would be used for that initial reporting year end until the Security IDs is assigned. The temporary Security ID of “000000000” could only be used one time, in the initial reporting year end, but would need to be changed to an identifier of “999999999” in any subsequent reporting year end. The second special situation Security ID would be for securities that the insurer does not expect to receive a Security ID and an identifier of “999999999” would be used to clearly identify these securities as not having an NAIC recognized Security ID. The Security ID of “000000000” and “999999999” would not have a Security ID Type. Securities with the Security IDs of “000000000” and “999999999” would still need to follow the P&P Manual guidance to determine the NAIC Designation Category and the appropriate use of the administrative symbols.

| Security ID | Security ID Type |
|--------------|------------------|
| 123456AB7 | C |
| U12345ABX | C |
| US123456AB79 | I |
| 123456#B7 | P |
| LX118650 | L |
| 000000000 | |
| 999999999 | |

Please reach out to Charles Therriault or Marc Perlman with any questions about this referral.