



Draft date: 6/4/24

Virtual Meeting

CAPITAL ADEQUACY (E) TASK FORCE

Friday, June 28, 2024

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

ROLL CALL

Judith L. French, Chair	Ohio	Grace Arnold	Minnesota
Doug Ommen, Vice Chair	Iowa	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Ricardo Lara	California	D.J. Bettencourt	New Hampshire
Michael Conway	Colorado	Justin Zimmerman	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Karima M. Woods	District of Columbia	Jon Godfread	North Dakota
Michael Yaworsky	Florida	Glen Mulready	Oklahoma
Ann Gillespie	Illinois	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Vicki Schmidt	Kansas	Mike Kreidler	Washington
Sharon P. Clark	Kentucky	Nathan Houdek	Wisconsin
Kathleen A. Birrane	Maryland		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of Proposal 2024-09-CA (Underwriting Risk Investment Risk Factor)—*Steve Drutz (WA)* Attachment A
2. Consider Adoption of 2024-13-CA (Receivable for Securities Factors)—*Tom Botsko (OH)* Attachment B
3. Consider Adoption of Proposal 2024-15-L (Collateral Loans)—*Philip Barlow (DC)*
 - a. Iowa Department of Insurance and Financial Services—*Kevin Clark (IA)* Attachment C
4. Consider Adoption of Proposal 2024-17-L (BA Mortgages Omitted AVR Line)—*Philip Barlow (DC)* Attachment D

5. Discuss and Consider Adoption of Proposal 2024-16-CA (Revised Preamble)—*Tom Botsko (OH)* Attachment E
 - a. Transamerica—*William J. Schwegler*
 - b. American Academy of Actuaries—*Tricia Matson*
 - c. American Council of Life Insurers (ACLI)—*Mariana Gomez-Vock, Brian Bayerle, and Colin Masterson*

6. Consider Adoption of Proposal 2024-12-H(MOD) (Modified Health Care Receivable Factors) —*Steve Drutz (WA)* Attachment F

7. Consider Adoption of Risk-Based Capital Investment Risk and Evaluation (E) Working Group Meeting Summary—*Philip Barlow (DC)* Attachment G

8. Consider Adoption of Proposal 2024-18-CA (Residual Factor for PC & Health)—*Tom Botsko (OH)* Attachment H

9. Consider Adoption of Proposal 2024-14-P (PC Underwriting Line 1 Factors)—*Tom Botsko (OH)* Attachment I

10. Discuss the Possibility of Establishing a New Working Group to Evaluate the Non-Investment Risk Issues—*Tom Botsko (OH)*

11. Discuss a Referral from the Statutory Accounting Principles (E) Working Group (SAPWG) Regarding the Investments in Tax Credit Structures—*Dale Bruggeman (OH)* Attachment J

12. Hear Updates from the SAPWG on the Potential Revisions on Schedule BA Collateral Loans Disclosures and Reporting Lines—*Dale Bruggeman (OH)* Attachment K

13. Discuss Any Other Matters Brought Before the Task Force—*Tom Botsko (OH)*

14. Adjournment

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>2-12-24</u></p> <p>CONTACT PERSON: <u>Crystal Brown</u></p> <p>TELEPHONE: <u>816-783-8146</u></p> <p>EMAIL ADDRESS: <u>cbrown@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 Capitol Blvd SE</u> <u>Tumwater, WA 98501</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2024-09-CA</u> Year <u>2024</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>04/30/2024</u></p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>02/22/2024</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|---|--|---|
| <input 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 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.

Additional Staff Comments:

2-2-24 mkc – WG exposed for 32-day comment period ending 3/25/2024

3-26-24 mkc – No comment received.

4-30-24 eky – TF exposed for 30-day comment period ending 5/30/2024

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

Revised 2-2023

2024 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	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2024	5.55	5.54	5.46	5.41	5.24	4.80	4.33	4.09	3.93	3.95	3.95	4.25	4.08
01/03/2024	5.54	5.54	5.48	5.41	5.25	4.81	4.33	4.07	3.90	3.92	3.91	4.21	4.05
01/04/2024	5.56	5.48	5.48	5.41	5.25	4.85	4.38	4.14	3.97	3.99	3.99	4.30	4.13
01/05/2024	5.54	5.48	5.47	5.41	5.24	4.84	4.40	4.17	4.02	4.04	4.05	4.37	4.21
01/08/2024	5.54	5.48	5.49	5.39	5.24	4.82	4.36	4.11	3.97	3.99	4.01	4.33	4.17
01/09/2024	5.53	5.46	5.47	5.38	5.24	4.82	4.36	4.09	3.97	4.00	4.02	4.33	4.18
01/10/2024	5.53	5.46	5.46	5.39	5.23	4.82	4.37	4.10	3.99	4.01	4.04	4.35	4.20
01/11/2024	5.54	5.47	5.46	5.38	5.22	4.75	4.26	4.02	3.90	3.95	3.98	4.32	4.18
01/12/2024	5.55	5.47	5.45	5.37	5.16	4.65	4.14	3.92	3.84	3.91	3.96	4.32	4.20
01/16/2024	5.54	5.47	5.45	5.37	5.18	4.70	4.22	4.02	3.95	4.01	4.07	4.43	4.30
01/17/2024	5.54	5.47	5.47	5.40	5.20	4.80	4.34	4.12	4.02	4.07	4.10	4.42	4.31
01/18/2024	5.53	5.48	5.45	5.39	5.20	4.80	4.34	4.13	4.04	4.10	4.14	4.48	4.37
01/19/2024	5.54	5.47	5.45	5.39	5.21	4.84	4.39	4.18	4.08	4.12	4.15	4.47	4.36
01/22/2024	5.53	5.47	5.46	5.39	5.22	4.83	4.37	4.14	4.03	4.07	4.11	4.44	4.32
01/23/2024	5.53	5.46	5.45	5.38	5.21	4.81	4.31	4.16	4.06	4.11	4.14	4.48	4.38
01/24/2024	5.52	5.44	5.44	5.40	5.22	4.83	4.34	4.19	4.06	4.14	4.18	4.52	4.41
01/25/2024	5.54	5.48	5.44	5.39	5.19	4.76	4.28	4.12	4.01	4.07	4.14	4.49	4.38
01/26/2024	5.54	5.45	5.44	5.39	5.19	4.78	4.34	4.15	4.04	4.10	4.15	4.49	4.38
01/29/2024	5.53	5.46	5.42	5.37	5.19	4.76	4.29	4.10	3.97	4.02	4.08	4.42	4.31
01/30/2024	5.53	5.47	5.42	5.38	5.19	4.80	4.36	4.14	4.00	4.03	4.06	4.40	4.28
01/31/2024	5.53	5.46	5.42	5.40	5.18	4.73	4.27	4.05	3.91	3.95	3.99	4.34	4.22



February 2, 2023

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

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
	High Tier (i.e., less than \$3Million (M) 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%

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

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

Health Instructions**Page XR013, Line 13**

← Detail Eliminated to Conserve Space →

Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 5.05%.

	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.070611	0.070611
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 US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond ([U.S. Department of the Treasury](http://www.treasury.gov)) on each Monday through the month of January and determine if further modifications to the 5.59% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions**Page PR020, Line 10**

← Detail Eliminated to Conserve Space →

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	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.070611	0.070611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Life Instructions**LR020, Line 10**

Detail Eliminated to Conserve Space

**Line (10) Underwriting Risk Factor**

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	0.14 2734	0.14 2734	0.083 28
Medicare Supplement	0.09 7380	0.0 596603	0.0 596603
Dental	0.114 38	0.07 0611	0.07 0611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

UNDERWRITING RISK

Experience Fluctuation Risk

	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non- Health	(7) Total
(1) † Premium							
(2) † Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) † Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) † Other Health Risk Revenue		XXX				XXX	
(5) Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6) Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) † Net Incurred Claims						XXX	
(8) Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9) Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) † Fee-For-Service Offset		XXX				XXX	
(11) Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12) Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13) Underwriting Risk Factor*					0.130	0.130	XXX
(14) Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15) Managed Care Discount Factor						XXX	XXX
(16) RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) † Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18) Alternate Risk Charge **						XXX	XXX
(19) Alternate Risk Adjustment						XXX	XXX
(20) Net Alternate Risk Charge***						XXX	
(21) Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non- Health
\$0 - \$3 Million	0.142734	0.09738	0.11438	0.251	0.130	0.130
\$3 - \$25 Million	0.142734	0.0596603	0.070644	0.251	0.130	0.130
Over \$25 Million	0.08328	0.0596603	0.070644	0.151	0.130	0.130

ALTERNATE RISK CHARGE**						
** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	\$50,000	N/A
	or	or	or	or	or	
	2 x Maximum Individual Risk	2 x Maximum Individual Risk	2 x Maximum Individual Risk	6 x Maximum Individual Risk	2 x Maximum Individual Risk	

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

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

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	<u>Comprehensive</u>	<u>Medicare</u>		<u>Stand-Alone</u>	
	<u>Medical</u>	<u>Supplement</u>	<u>Dental & Vision</u>	<u>Medicare Part D</u>	<u>TOTAL</u>
				<u>Coverage</u>	
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3) Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4) Other Health Risk Revenue†	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.142734	0.09738	0.11438	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.08328	0.0596603	0.070644	0.151	XXX
(10.3) Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge£	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

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

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum
	or	or	or	or	of
	2 x Maximum Individual Risk	2 x Maximum Individual Risk	2 x Maximum Individual Risk	6 x Maximum Individual Risk	Columns (1), (2) (3) and (4)

£ 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.

UNDERWRITING RISK

Experience Fluctuation Risk

		(1)	(2)	(3)	(4)	(5)
	Line of Business	Comprehensive Medical	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	0.142734	0.09738	0.11438	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	0.08328	0.0596603	0.07064	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

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

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum of Columns (1), (2), (3) and (4)
	or	or	or	or	
	2 x Maximum Individual Risk	2 x Maximum Individual Risk	2 x Maximum Individual Risk	6 x Maximum Individual Risk	

£ 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.

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>4-8-24</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>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2024-13-CA</u> Year <u>2024</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>04/30/2024</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 checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Update the RBC factors for Receivables for Securities.

Based on a weighted average calculation of bonds, common, preferred and hybrid stock investments, the receivable for securities factors were adjusted for all RBC forecasting blanks.

Additional Staff Comments:

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

Revised 2-2023

	Proposed 2024	2021	2018	2016	2014
Life	0.016	0.015	0.014	0.014	0.014
Health	0.024	0.024	0.025	0.024	0.024
P/C	0.025	0.020	0.025	0.023	0.024

Proposed 2024 Life RBC Factor for Receivables for Securities

	(1)	(2)	(3)	(4)	(5)	(6)	
	Statement Value	Allocation % by Class Type	RBC Factors by Class Type	Weighted Avg RBC Factor by Class type (2)x(3)	Allocation % by Asset type (1)/Total (1)	Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	194,021,789,334	5.24%	0.00000	0.000			
NAIC 1.A	506,148,695,508	13.67%	0.00158	0.000			
NAIC 1.B	90,036,719,503	2.43%	0.00271	0.000			
NAIC 1.C	156,268,586,715	4.22%	0.00419	0.000			
NAIC 1.D	173,081,182,677	4.67%	0.00523	0.000			
NAIC 1.E	204,207,960,748	5.51%	0.00657	0.000			
NAIC 1.F	421,796,587,793	11.39%	0.00816	0.001			
NAIC 1.G	438,737,173,476	11.85%	0.01016	0.001			
NAIC 2.A	442,373,341,861	11.94%	0.01261	0.002			
NAIC 2.B	571,155,764,811	15.42%	0.01523	0.002			
NAIC 2.C	319,838,831,236	8.64%	0.02168	0.002			
NAIC 3.A	40,428,385,027	1.09%	0.03151	0.000			
NAIC 3.B	33,826,609,661	0.91%	0.04537	0.000			
NAIC 3.C	41,859,274,788	1.13%	0.06017	0.001			
NAIC 4.A	17,558,056,343	0.47%	0.07386	0.000			
NAIC 4.B	18,027,424,521	0.49%	0.09535	0.000			
NAIC 4.C	14,980,620,137	0.40%	0.12428	0.001			
NAIC 5.A	4,618,312,997	0.12%	0.16942	0.000			
NAIC 5.B	11,908,785,835	0.32%	0.23798	0.001			
NAIC 5.C	1,008,244,423	0.03%	0.30000	0.000			
NAIC 6	2,087,040,768	0.06%	0.30000	0.000			
Subtotal	3,703,969,388,162	100.00%		0.013	98.37%	0.013	
Preferred stock							
NAIC 1	3,273,389,198	18.48%	0.0039	0.001			
NAIC 2	10,075,067,030	56.89%	0.0126	0.007			
NAIC 3	2,058,350,579	11.62%	0.0446	0.005			
NAIC 4	980,582,619	5.54%	0.0970	0.005			
NAIC 5	866,090,716	4.89%	0.2231	0.011			
NAIC 6	455,936,493	2.57%	0.3000	0.008			
Subtotal	17,709,416,635	100.00%		0.037	0.47%	0.000	
Common stock (subtotal)	43,789,344,739	100.00%	0.3000	0.300	1.16%	0.003	
Total	3,765,468,149,536				100.00%	0.016	RBC Factor Receivables for Securities Life

Proposed 2023 P&C RBC Factor for Receivables for Securities

	(1)	(2)	(3)	(4)	(5)	(6)	
	Statement Value	Allocation % by Class Type	RBC Factors by Class Type	Weighted Avg RBC Factor by Class type (2)x(3)	Allocation % by Asset type (1)/Total (1)	Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	252,990,862,025	20.57%	0.00000	0.000			
NAIC 1.A	293,555,850,261	23.87%	0.00200	0.000			
NAIC 1.B	57,186,968,605	4.65%	0.00400	0.000			
NAIC 1.C	57,461,059,052	4.67%	0.00600	0.000			
NAIC 1.D	50,141,495,694	4.08%	0.00800	0.000			
NAIC 1.E	61,085,788,433	4.97%	0.01000	0.000			
NAIC 1.F	85,436,350,941	6.95%	0.01300	0.001			
NAIC 1.G	86,898,961,945	7.07%	0.01500	0.001			
NAIC 2.A	79,007,157,871	6.43%	0.01800	0.001			
NAIC 2.B	96,122,789,301	7.82%	0.02100	0.002			
NAIC 2.C	54,436,332,403	4.43%	0.02500	0.001			
NAIC 3.A	7,779,786,778	0.63%	0.05500	0.000			
NAIC 3.B	8,926,659,821	0.73%	0.06000	0.000			
NAIC 3.C	10,342,767,727	0.84%	0.06600	0.001			
NAIC 4.A	7,546,890,280	0.61%	0.07100	0.000			
NAIC 4.B	9,061,773,416	0.74%	0.07700	0.001			
NAIC 4.C	6,003,639,607	0.49%	0.08700	0.000			
NAIC 5.A	1,137,504,077	0.09%	0.09800	0.000			
NAIC 5.B	3,454,683,084	0.28%	0.10900	0.000			
NAIC 5.C	244,917,020	0.02%	0.12000	0.000			
NAIC 6	809,283,663	0.07%	0.30000	0.000			
Subtotal	1,229,631,522,004	100.00%		0.011	89.38%	0.010	
Preferred stock							
NAIC 1	375,682,422	6.59%	0.0030	0.000			
NAIC 2	3,418,704,780	59.95%	0.0100	0.006			
NAIC 3	1,096,732,027	19.23%	0.0200	0.004			
NAIC 4	102,641,767	1.80%	0.0450	0.001			
NAIC 5	451,218,320	7.91%	0.1000	0.008			
NAIC 6	257,641,690	4.52%	0.3000	0.014			
Subtotal	5,702,621,006	100.00%		0.032	0.41%	0.000	
Common stock (subtotal)	140,397,670,137	100.00%	0.1500	0.150	10.21%	0.015	
Total	1,375,731,813,147				100.00%	0.025	RBC Factor Receivables for Securities P/C

Proposed 2023 Health RBC Factor for Receivables for Securities

	(1)	(2)	(3)	(4)	(5)	(6)	
	Statement Value	Allocation % by Class Type	RBC Factors by Class Type	Weighted Avg RBC Factor by Class type (2)x(3)	Allocation % by Asset type (1)/Total (1)	Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	52,262,379,200	22.62%	0.00000	0.000			
NAIC 1.A	62,144,903,778	26.90%	0.00200	0.001			
NAIC 1.B	7,492,842,706	3.24%	0.00400	0.000			
NAIC 1.C	7,065,813,766	3.06%	0.00600	0.000			
NAIC 1.D	7,721,775,528	3.34%	0.00800	0.000			
NAIC 1.E	12,240,802,320	5.30%	0.01000	0.001			
NAIC 1.F	13,817,276,206	5.98%	0.01300	0.001			
NAIC 1.G	15,890,795,938	6.88%	0.01500	0.001			
NAIC 2.A	15,262,265,442	6.61%	0.01800	0.001			
NAIC 2.B	15,431,587,412	6.68%	0.02100	0.001			
NAIC 2.C	10,763,397,705	4.66%	0.02500	0.001			
NAIC 3.A	1,673,474,938	0.72%	0.05500	0.000			
NAIC 3.B	2,260,008,331	0.98%	0.06000	0.001			
NAIC 3.C	2,557,378,488	1.11%	0.06600	0.001			
NAIC 4.A	1,324,818,598	0.57%	0.07100	0.000			
NAIC 4.B	1,735,799,906	0.75%	0.07700	0.001			
NAIC 4.C	838,977,643	0.36%	0.08700	0.000			
NAIC 5.A	172,416,227	0.07%	0.09800	0.000			
NAIC 5.B	122,085,597	0.05%	0.10900	0.000			
NAIC 5.C	59,483,949	0.03%	0.12000	0.000			
NAIC 6	163,161,494	0.07%	0.30000	0.000			
Subtotal	231,001,445,172	100.00%		0.011	90.02%	0.010	
Preferred stock							
NAIC 1	91,479,908	13.53%	0.0030	0.000			
NAIC 2	312,656,134	46.23%	0.0100	0.005			
NAIC 3	130,474,575	19.29%	0.0200	0.004			
NAIC 4	25,557,463	3.78%	0.0450	0.002			
NAIC 5	98,310,363	14.54%	0.1000	0.015			
NAIC 6	17,838,817	2.64%	0.3000	0.008			
Subtotal	676,317,260	100.00%		0.033	0.26%	0.000	
Common stock (subtotal)	24,939,438,935	100.00%	0.1500	0.150	9.72%	0.015	
Total	256,617,201,367				100.00%	0.024	RBC Factor Receivables for Securities Health

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"/> Investment 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"/> P/C RBC (E) Working Group | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right; margin: 0;">DATE: <u>03/15/2023</u></p> <p>CONTACT PERSON: <u>Brian Bayerle</u></p> <p>TELEPHONE: <u>(202) 624-2169</u></p> <p>EMAIL ADDRESS: <u>BrianBayerle@acli.com</u></p> <p>ON BEHALF OF: <u>ACLI</u></p> <p>NAME: <u>Brian Bayerle</u></p> <p>TITLE: <u>Chief Life Actuary</u></p> <p>AFFILIATION: <u>ACLI</u></p> <p>ADDRESS: <u>101 Constitution Ave, NW Suite 700</u> <u>Washington, DC 20001</u></p>	<p style="text-align: center; margin: 0;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2024-15-L</u> Year _____</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"/> WORKINGGROUP (WG) <u>6/17/2024</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) _____</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 type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Background: In order to support reporting of certain mortgage-type investments as collateral loans backed by mortgages in 2024, without changing capital treatment of BA mortgage investments, in 2024, update RBC mapping capture those investments consistent with existing practice. Note that those investments will map to AVR for Investments with Underlying Characteristics with Mortgages and be captured in that RBC category.

While this change accomplishes a “no change” result for 2024, it is expected that a broader discussion, including structural changes, will occur in 2025.

ACLI Proposal:

Life and Fraternal RBC Blanks LR008:

Update Line “(50) Schedule BA Collateral Loans” Annual Statement Source to be updated as follows:

Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part

The value in Column (1) Book / Adjusted Carrying Value will now be a company records entry and should represent all collateral loans which have not been captured elsewhere in the RBC formula.

Update to LR008 RBC Instructions:

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Update to LR009 RBC Instructions:

Column (1) Except for Line (1), (12), and (16), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,1299999, 2399999 and 2499999, and collateral loans backed by mortgages, as reported in footnote 5T, line 7.

Additional Staff Comments:

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

Revised 11-2023

Collateral Loan → AVR → RBC mapping proposal - 2024

For Life RBC Working Group

Overview

In 2024, certain investments will be required to be reported as collateral loans backed by mortgages. The attached proposal comprises a mapping change from BA → AVR → RBC which results in those assets maintaining their historical capital treatment as BA mortgages. This would be appropriate given that they are fixed income instruments which are collateralized by mortgages (generally first lien mortgages) and that they therefore have mortgage-like risk.

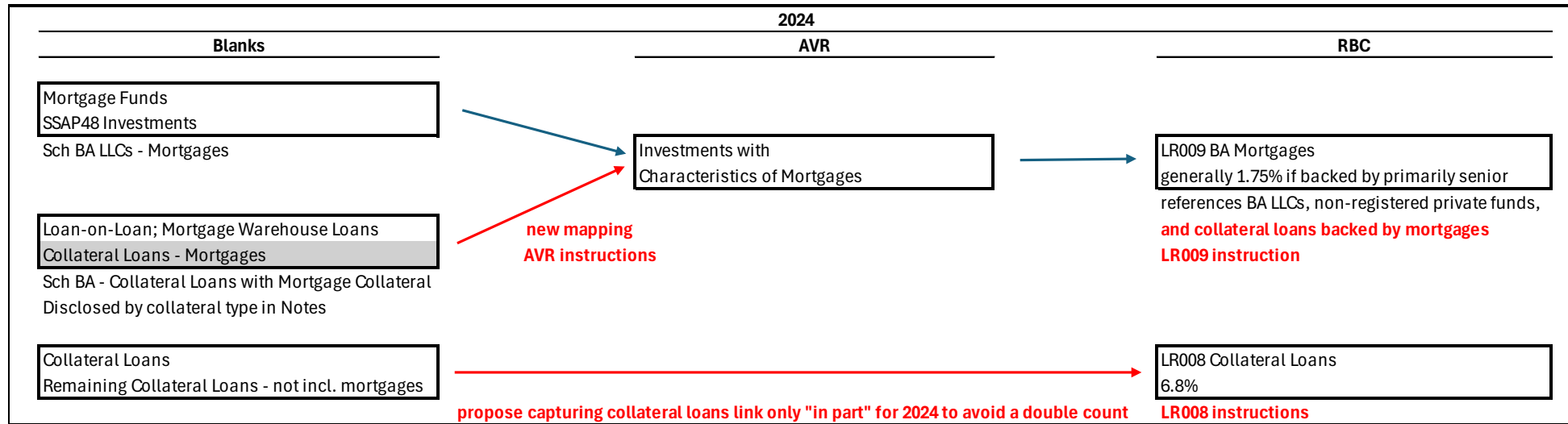
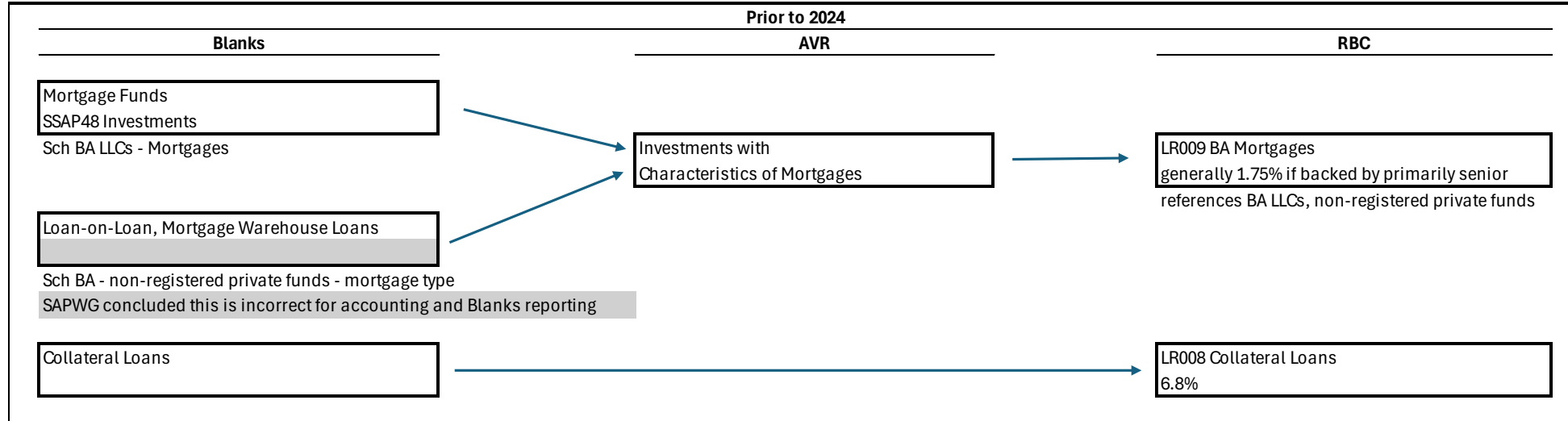
1- Overview of Proposal

2- Note on AVR mapping proposal supported by SAPWG

3- Review of proposed Life RBC instruction changes

Note that this is designed to solve 2024 reporting and capital with no disruption on the transition year. If a more comprehensive set of changes is adopted in 2025, we would expect those changes would supercede this fix. In other words, the focus of this proposal is to maintain current capital treatment this year, even as accounting changes occur.

Invested Assets Which are Captured for Capital as BA Mortgages



2025

Subsequent to determination of 2024 guidance, expose for comment a mapping of all collateral loans to AVR to RBC
 Result of 2025 exposure should be that everything maps directly through all of the steps, 1-to-1, or many-to-1, with no "in part" reference needed

Blanks Proposal for 2024 Reporting:

Annual Statement Instructions - AVR

Blanks proposal ensures that Collateral Loans backed by Mortgages map the AVR section which categorizes those investments in the appropriate buckets for RBC.

Life RBC Proposal:

To maintain capital treatment of loan-on-loan investments as BA mortgages, in a year when their accounting presentation navigates to Collateral Loans back by Mortgages, the following changes are proposed:

LR008

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g, BA mortgages.

8	(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)
9	(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part
10	(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93

LR009

Reference to tie out should be adjusted to include new category: Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,12999999, 23999999~~and~~ 24999999 **and collateral loans backed by mortgages (footnote 5T, line 7).**

The minor changes listed above to LR008, and LR009, will be provided in an RBC Proposal Form, and would result in BA mortgages maintaining their capital charge in 2024, even as reporting for those investments changes to Collateral Loans backed by Mortgages.

OTHER LONG-TERM ASSETS

		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Schedule BA - Unaffiliated Common Stock</u>						
(42) Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65	_____			X §	= _____
(43) Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66	_____			X 0.3000	= _____
(44) Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)	=====		=====		=====
(45) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					_____
(46) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					_____
(47) Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)	=====				=====
<u>Schedule BA - All Other</u>						
(48.1) BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67	_____				
(48.2) BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68	_____				
(48.3) Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)	_____			X 0.3000	= _____
(49.1) BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69	_____				
(49.2) Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)	_____			X 0.3000	= _____
(50) Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part	_____			X 0.0680	= _____
(51) Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93	_____			X 0.3000	= _____
(52.1) NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94	_____			X 0.0050	= _____
(52.2) NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95	_____			X 0.0163	= _____
(52.3) Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)	_____				
(53.1) Other Schedule BA Assets	AVR Equity Component Column 1 Line 96	_____				
(53.2) Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)	_____				
(53.3) Net Other Schedule BA Assets	Line (53.1) less (53.2)	_____			X 0.3000	= _____
(54) Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)	=====				=====
(55) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					_____
(56) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					_____
(57) Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)	=====				=====
(58) Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)	=====				=====

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

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

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

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

From: Clark, Kevin <kevin.clark@iid.iowa.gov>
Sent: Wednesday, May 1, 2024 9:34 AM
To: Yeung, Eva <EYeung@naic.org>; Botsko, Thomas <thomas.botsko@insurance.ohio.gov>; Barlow, Philip <philip.barlow@dc.gov>
Cc: Gann, Julie <JGann@naic.org>; Mears, Carrie <carrie.mears@iid.iowa.gov>
Subject: Comment on Collateral Loan Exposure(s)

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

Hi Eva / Tom / Philip -

I wanted to provide some comments from Iowa around the RBC treatment of collateral loans which is the subject of several referrals / proposals as listed below:

- CATF Collateral Loan Memorandum Exposure - Comments due May 1
- Life RBC Exposure - 2024-15-L - Comments due May 22
- Life RBC Collateral Loan Reporting Change Referral from SAPWG to LRBC dated 2/29/24 and received at the national meeting on 3/17/24

Iowa supports the ACLI proposal to allow look-through treatment for collateral loans secured by mortgages for 2024 (2024-15-L). This concept is consistent with the look-through treatment of funds holding mortgages which has been in place for a number of years, works well and more accurately captures the risk attributes of the loans being held.

As noted in the SAPWG referral, beginning in 2025, reporting lines for collateral loans will be broken out by type of underlying collateral. This will allow the information needed to apply the ACLI proposed look-through treatment to pull directly from the investment schedules, rather than the proposed "work around" that will be needed in 2024. In addition to supporting the ACLI proposal for 2024, Iowa supports making the ACLI proposal permanent using the newly available reporting lines in 2025.

In addition to mortgage loans, the more granular reporting lines will also allow look-through treatment to be applied for other types of collateral that have an existing RBC framework. This again will allow the capital factors to more accurately reflect the risk characteristics of these investments. For example, Real Estate and Equity Investments also have specific RBC frameworks that would facilitate look-through treatment. Iowa supports extending look-through treatment to those types of collateral loans as well. This would not require a significant undertaking of the Working Group as it would leverage existing RBC mechanisms, but would result in a meaningful improvement to the alignment of risk and capital for collateral loans.

We appreciate your consideration,

- Kevin Clark and Carrie Mears - Iowa Insurance Division

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Kevin Clark, CPA
Chief Accounting & Reinsurance Specialist
Iowa Insurance Division
Iowa Department of Insurance and Financial Services
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Capital Adequacy (E) Task Force

RBC Proposal Form

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

<p style="text-align: right;">DATE: <u>4/25/2024</u></p> <p>CONTACT PERSON: <u>Dave Fleming</u></p> <p>TELEPHONE: <u>816-783-8121</u></p> <p>EMAIL ADDRESS: <u>dfleming@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>2024-17-L</u> Year <u>2024</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>6/18/2024</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>4/25/2024</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input 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 adds a factor for the line added to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component as part of proposal 2024-05-L. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

SCHEDULE BA MORTGAGES

		(1)	(2)	(3)	(4)	(5)	(6)
	Annual Statement Source	Book / Adjusted Carrying Value	Involuntary Reserve Adjustment †	RBC Subtotal	Cumulative Writedowns ‡	Average Factor	RBC Requirement
<u>In Good Standing</u>							
(1) Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX X	0.0014	=
(2) Affiliated Mortgages – Residential – All Other	AVR Equity Component Column 1 Line 44				XXX X	0.0068	=
(3) Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX X	*	=
(4) Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX X	0.0090	=
(5) Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX X	0.0175	=
(6) Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX X	0.0300	=
(7) Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX X	0.0090	=
(8) Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX X	0.0175	=
(9) Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX X	0.0300	=
(10) Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX X	0.0500	=
(11) Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX X	0.0750	=
(12) Total In Good Standing	Sum of Lines (1) through (11)						
<u>90 Days Overdue, Not in Process of Foreclosure</u>							
(13) Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX X	0.0027	=
(14) All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX X	0.1100	=
(15) All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 48 + Line 50				XXX X	0.1100	=
(16) Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)						
<u>In Process of Foreclosure</u>							
(17) Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX X	0.0054	=
(18) All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX X	0.1300	=
(19) All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 53 + Line 55				XXX X	0.1300	=
(20) Total In Process of Foreclosure	Lines (17) + (18) + (19)						
(21) Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)						
(22) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(23) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(24) Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)						

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

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

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>4-24-24</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>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2024-16-CA</u> Year <u>2024</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>04/30/2024</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>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|---|--|---|
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| <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)

The purpose of this proposal is to provide edits to the RBC Preamble to clarify and emphasize the purposes and the intent of using RBC.

Additional Staff Comments:

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

Revised 2-2023

Risk-Based Capital Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry, and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.
2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.
3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.
4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risk (health).
5. The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.
6. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The 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.
7. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
 - Evaluate emerging “risk” issues for referral to the 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).
 - Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual* and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.

Preamble

8. The RBC forecasting, and instructions were developed and are now maintained in accordance with the mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital specific regulatory requirements based on its size and risk profile.

B. Purpose of Risk-Based Capital

9. The purpose of RBC is to identify potentially weakly capitalized companies **in order to** facilitate regulatory actions **designed to**, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies.
10. **RBC instructions**, RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions.
11. Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act (#312)* or the *Risk-Based Capital (RBC) for Health Organizations Model Act (#315)*—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement **(including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts)** containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

C. Objectives of Risk-Based Capital Reports

12. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.

To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an “RBC event” and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer's risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

There are several RBC levels with different levels of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next higher level, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action. **Mandatory Control Level (MCL) requires the insurance commissioner to place the reporting entity under regulatory control.**

D. Critical Concepts of Risk-Based Capital

13. Over the years, various financial models have been developed to try to measure the “right” amount of capital that an insurance company should hold.¹ “No single formula or ratio can give a complete picture of a company's

¹ Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

Preamble

operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur.”

14. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company’s RBC results to compare competitors.
15. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise’s ability to maintain itself as a going concern.
16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering 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.
17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and 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 addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.

E. Limited use of Risk-Based Capital

18. Use of RBC is limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.
19. RBC does not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer’s RBC ratio but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer’s financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.
20. RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for

Preamble

RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength.



May 30, 2024

Judith L. French (Ohio)
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Doug Ommen (Iowa)
Vice Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Dear Ms. French and Mr. Ommen,

Aegon Ltd. (“Aegon”) and the Transamerica Companies (“Transamerica”) welcome the opportunity to comment on the CADTF exposure of 2024-16-CA. Transamerica represents the U.S. insurance operations of Aegon, whose shares are traded on the New York and Euronext (Amsterdam) stock exchanges.

We understand the proposed preamble changes to be a precursor to the removal of RBC information from the public statutory annual statement. We believe that the ramifications of such removal would be significant, and we urge the Task Force to defer action on this proposal so that these ramifications can be carefully considered.

As a public company, it is important for our investors to have accurate information about Aegon’s ability to return invested capital. Transamerica’s RBC constrains its generation of free capital, and Transamerica has historically generated a significant percentage of Aegon’s free capital. Eliminating RBC transparency would introduce uncertainty among investors, making Aegon’s shares less attractive for investment.

We also fear unintended consequences for the state-based system of regulation. Making RBC confidential would make state regulation an outlier and in contravention of international standards. Moreover, proposed preamble language that frames RBC as unreliable for well-capitalized companies may be perceived as calling into question its efficacy for purposes of regulatory action against weakly capitalized companies.

In searching the *Proceedings of the NAIC*, we found no evidence that state regulators ever intended for public RBC reporting to be temporary. We do not believe that a decision to reverse a three-decade-old policy decision should be taken lightly. We urge regulators to take additional time to consider the full ramifications of this proposal.

Thank you for considering our feedback. We look forward to further discussions at a future meeting of the Capital Adequacy Task Force.

Sincerely,

A handwritten signature in black ink that reads "William J. Schwegler". The signature is fluid and cursive, with a long horizontal stroke at the end.

William J. (Bill) Schwegler
Transamerica
Senior Director, Financial Policy
6400 C Street SW
Cedar Rapids, IA 52499
Ph: 319-355-2667
bill.schwegler@transamerica.com

cc: Kim Cross, Iowa Insurance Division
Mike Yanacheak, Iowa Insurance Division



May 31, 2024

Tom Botsko
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Risk-Based Capital Preamble Exposure

Dear Chair Botsko,

On behalf of the Prudential Regulation Committee (the committee) of the American Academy of Actuaries,¹ I appreciate the opportunity to provide input to the Capital Adequacy Task Force (CADTF) on the exposed revisions to the [Risk-Based Capital Preamble, 2024-16-CA](#). The Academy's mission is to serve the public and the U.S. actuarial profession. As part of that mission, the Academy has historically closely collaborated with the NAIC and state regulators in updating components of the NAIC's risk-based capital (RBC) framework to maintain it as an appropriate solvency monitoring tool. The committee has the following comments regarding the Exposure.

The Importance of RBC Transparency

We believe that maintaining public disclosure of the RBC level of individual insurance companies is beneficial to policyholders, consumers, and other external stakeholders. While recent discussion at the CADTF and the paragraphs added to the Preamble may point to the potential removal of RBC disclosures, we emphasize that a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime. For example, maintaining public disclosure of available and required capital is aligned with the globally accepted framework for insurance supervision, as outlined in International Association of Insurance Supervisors (IAIS) [Insurance Core Principle \(ICP\) 20.10](#). Disallowing such disclosures of the NAIC's risk-based capital may imply a distancing from these principles for a sound supervisory regime.

We believe that RBC has served its purpose well in that it has assisted regulators in identifying weakly capitalized companies. It has also provided a general and consistent way for other stakeholders to obtain a high-level understanding of a company's solvency position, which promotes public confidence. Removal of this important information may lead to the development of alternative metrics of solvency risk assessment and public reliance on those metrics, which would be detrimental to the public given the effectiveness of RBC.

The Uses of RBC Information

We appreciate the edits in the Exposure regarding certain misuses of RBC such as use for ranking individual companies or for detailed comparisons. While we recognize that there are instances in which

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 more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

public data can be used for purposes that are not appropriate, if the data is valuable for its appropriate purposes eliminating it from the public domain may not be the best approach to solving the problem.

We also note that the Exposure may emphasize some of the misuses of RBC without fully highlighting the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general for many years. The proposed changes to paragraphs 11 and 14 and the new section E may be interpreted by some readers as critical of RBC generally. While we understand the purpose of these paragraphs in terms of outlining RBC's limitations, they may call into question the perceived validity and reliability of RBC when it has worked well for its purpose for many years. Therefore, we suggest the CADTF also consider potential revisions that reinforce the significant value that RBC has provided to date.

We agree with the additions made in section E about RBC being developed and calibrated for its primary use, the identification of potentially weakly capitalized companies. However, we disagree that any other use of RBC is inappropriate, including the use of RBC information outside of specific RBC action levels. For example, excess capital above the defined Authorized Control Level RBC provides useful information for company management and is regularly used by those focused on financial management and solvency risk, including actuaries. Part of sound risk management involves an assessment of Statutory-required and available capital levels in baseline and stressed conditions which can inform risk-based decision making. In addition, for some companies, RBC can be effective in capturing their risks, and these companies may reasonably use RBC as their primary capital management tool. We believe that the language in the exposure could better reflect these important company uses of RBC.

We also observe that RBC is utilized for other regulatory review tools such as ORSA and GCC, so the added language in Section E appears inconsistent with this practice of using RBC for broader purposes. For GCC specifically, the NAIC's recent adoption of the excess relative ratio scaling approach indicates that capital levels above minimum requirements remain relevant, in this case, for understanding group solvency. As such, we believe the sole emphasis on identifying potentially weakly capitalized companies may not be appropriate and recommend tempering the language in Section E.

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's Risk Management and Financial Reporting policy analyst, at behnke@actuary.org.

Sincerely,

Tricia Matson, MAAA, FSA
Chairperson, Prudential Regulation Committee
American Academy of Actuaries

**Mariana Gomez-Vock**

Sr. Vice President, Prudential Issues & International

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May 30, 2024

Tom Botsko

Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: 2024-16-CA (Provide Edits to the RBC Preamble)

Dear Chair Botsko,

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the CADTF exposure of 2024-16-CA which aims to provide edits to the RBC Preamble to clarify that a company's RBC and adjusted reports should not be used to rank insurers.

ACLI supports regulators' ability to maintain RBC as a tool to identify potentially weakly capitalized companies and facilitate regulatory actions that ensure companies make good on their promises to policyholders, and we are committed to working constructively with regulators on this effort. However, regarding the current exposure, we request a delay in proceeding so that stakeholders may properly consider all key issues and potential unintended consequences. Delaying consideration of the RBC Preamble changes would provide industry and regulators with more time to craft appropriate updates that both address concerns around the public usage of RBC and harmonize with other ongoing projects at the NAIC.

The uses of insurance capital have evolved considerably since the original adoption of the NAIC Risk-Based Capital (RBC) For Insurers Model Act (#312, hereafter "Model Act"). For example, the ability of companies to share their RBC ratio in public forums has significantly strengthened public perceptions of the U.S. state-based regulatory system of insurance companies, e.g., during and after the financial crisis of 2008 and 2009. Further, other regulatory regimes have required

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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

acli.com

disclosure of information of company capital positions that highlight the importance of RBC transparency, including:

- GAAP Accounting Standard ASC 944-505-50-1, which states: “Insurance entities shall disclose in their financial statements... (t)he amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on the entity's current operations) if significant in relation to the entity's statutory capital and surplus.” Companies have previously received notices from the SEC stating that reporting within the 10-K “above the minimum required RBC levels” is not a sufficient statement.
- Other foreign jurisdictions (e.g., Japan ESR) require some sort of solvency disclosure and removing the publication of the RBC ratio would make the U.S. one of the few jurisdictions that does not.
- The Employment Liability Insurance Report requests TAC and ACL information.
- Insurance Core Principle (ICP) 20.10 of the International Association of Insurance Supervisors (IAIS) requires that companies disclose “the capital available to cover regulatory capital requirements.”

In addition, this proposed change to the RBC Preamble could lead to a significant lack of transparency into an insurer's financial health for consumers and policyholders. It could complicate validation of RBC-related information for rating agencies, investment analysts, and reinsurance and other arrangements.

While we strongly urge regulators to delay action in order to conduct further analysis, we believe the following edits are, at a minimum, necessary. These edits are included in redlined sections later on in this letter. Additional edits may be necessary as industry and regulators learn more about the ramifications of these changes:

- Paragraph 11: We recommend striking the proposed parenthetical statement which is not part of the language in Model Act, which is otherwise quoted. We would also recommend adding a paragraph regarding striking a balance on considering the needs of other stakeholders including the consumers relying on transparent measures of financial health.
- Paragraph 14: We recommend replacing “neither useful nor appropriate” with “may not be meaningful” as we believe the proposed language calls into question the reliability of RBC, contrary to the interests of both regulators and the industry. Additionally, we recommend removing the example from this paragraph for the same reason.
- Paragraph 18: Recommend changing “limited” to “intended”, and striking the second sentence of this proposed paragraph, and focus on the affirmative use of the RBC data.
- Paragraph 20: Recommend striking the third and fourth sentences of this proposed paragraph and focus on the affirmative use of the RBC data.

One possible way to address regulator concerns around public disclosure of RBC is to have companies include a disclaimer around the intended purpose of RBC data as described in the RBC Preamble. We would be happy to work with regulators on the precise wording of such a disclaimer.

Lastly, we would caution against any changes to the Annual Statement related to this effort, specifically, the Total Adjusted Capital (TAC) and Authorized Control Level (RBC) values in the Five-Year Historical Data sheet of the Annual Statement. The Model Act specifically allows for this disclosure, and we believe retaining these lines is necessary for the above regulatory requirements and to maintain appropriate transparency within the RBC framework. Removal of these lines would likely increase the use of alternate metrics that estimate financial strength which may introduce inconsistencies between entities and inaccuracies due to estimation, neither of which is to the benefit of regulators and stakeholders.

The following is a redline of the proposed edits (as highlighted in yellow in the exposure) that we believe will address our preliminary concerns while providing appropriate clarifications:

Section B 11.

- Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for possible corrective action with respect to the insurer and is not intended or appropriate as a means to rank insurers generally. Therefore—except as otherwise required under the provisions of Risk-Based Capital (RBC) for Insurers Model Act (#312) or the Risk-Based Capital (RBC) for Health Organizations Model Act (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, ~~webcast materials, or any other earnings presentations or webcasts~~) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

Because the RBC framework has been developed with certain regulatory needs in mind, state regulators have decided keep some elements of the calculation confidential, as well as any workout plans for companies that have triggered a regulatory action level. Publication of limited RBC disclosures in the Annual Statement accommodates the interests of stakeholders that include policyholders, investors, insurers, and other regulatory authorities, and strikes an appropriate balance between confidentiality and transparency.

Section D 14.

- Because the NAIC formula develops threshold levels of capitalization rather than a target level, it may not be meaningful is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

Section E 18.

- Use of RBC is intended limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

Section E 20.

- RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management

or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

Thank you once again for the consideration of our comments and we look forward to further discussion on this matter at a future session of the Capital Adequacy (E) Task Force.

Sincerely,

Mañana Gomez *B Banerji* *Colin Masterson*

cc: Eva Yeung, NAIC

Capital Adequacy (E) Task Force

RBC Proposal Form

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| <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>6-6-24</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>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 Capitol Blvd SE</u> <u>Tumwater, WA 98501</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2024-12-H-MOD</u></p> <p>Year <u>2024</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>6/24/24</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>6/6/24</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Adjust the health care receivable factors in XR021 to include a tiered adjustment.

Additional Staff Comments:

6/6/24 – Modified from Proposal 2024-12-H, to apply tiered factor on non-pharmaceutical rebate receivables in aggregate (i.e., aggregation of Claim Overpayment Receivables, Loan and Advances to Providers, Capitation Arrangement Receivables, Risk Sharing Receivables and Other Health Care Receivables). The Working Group directed re-expose for 14-day public comment period ending 6/20/24.

6/25/24 – The Working Group conducted an e-vote to adopt this proposal on 6/24/24.

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

Revised 2-2023

Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for ~~pharmaceutical rebates and~~ amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets. ~~The RBC requirement for pharmaceutical rebates receivables is 20 percent of the first \$5 million and a 3 percent charge will be applied to the amount in excess. –and a~~ An RBC requirement of 19-40 percent is applied to the first \$10 million of the aggregated annual statement amount and 5 percent will be applied to the amounts in excess of the \$10 million the annual statement amount for all other health care receivables reported in Lines (26.2) through (26.6) in aggregate. Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999.

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999.

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999.

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6). Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.

Other Receivables	Annual Statement Source	(1)	(2)
		Amount	Factor RBC Requirement
(25) Investment Income Receivable	Page 2, Column 3, Line 14		0.010 \$0
(26) Health Care Receivables	Exhibit 3, Column 7, Line 0799999		
(26.1) Pharmaceutical Rebate Receivables	Exhibit 3, Column 7, Line 0199999	*	\$0 =MAX(0,ROUND(IF(F6<=5000000,F6*0.2,(5000000*0.2)+((F6-5000000)*0.03)),0))
(26.2) Claim Overpayment Receivables	Exhibit 3, Column 7, Line 0299999	**	\$0 =MAX(0,ROUND(IF(F7<=10000000,F7*0.4,(10000000*0.4)+((F7-10000000)*0.05)),0))
(26.3) Loan and Advances to Providers	Exhibit 3, Column 7, Line 0399999	**	\$0 =MAX(0,ROUND(IF(F8+F7<=10000000,F8*0.4,(10000000*0.4)+((F8+F7)-10000000)*0.05)-H7),0))
(26.4) Capitation Arrangement Receivables	Exhibit 3, Column 7, Line 0499999	**	\$0 =MAX(0,ROUND(IF(F9+F8+F7<=10000000,F9*0.4,(10000000*0.4)+((F9+F8+F7)-10000000)*0.05)-SUM(H7:H8)),0))
(26.5) Risk Sharing Receivables	Exhibit 3, Column 7, Line 0599999	**	\$0 =MAX(0,ROUND(IF(F10+F9+F8+F7<=10000000,F10*0.4,(10000000*0.4)+((F10+F9+F8+F7)-10000000)*0.05))-SUM(H7:H9),0))
(26.6) Other Health Care Receivables	Exhibit 3, Column 7, Line 0699999	**	\$0 =MAX(0,ROUND(IF(F11+F10+F9+F8+F7<=10000000,F11*0.4,(10000000*0.4)+((F11+F10+F9+F8+F7)-10000000)*0.05)-SUM(H7:H10)),0))
(27) Amounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Column 3, Line 17		0.050 \$0
(28) Amounts Due from Parents, Subs, and Affiliates	Page 2, Column 3, Line 23		0.050 \$0
(29) Aggregate Write-Ins For Other Than Invested Assets	Page 2, Column 3, Line 25		0.050 \$0
(30) Total Other Receivables RBC	Line (25) + Sum Lines (26.1) through (29)		\$0
(31) Total Credit RBC	Lines (17) + (24) + (30)		\$0

* Line (26.1) Pharmaceutical Rebates - A factor of .200 will be applied to the first \$5,000,000 in Column (1), and a factor of .030 will be applied to the remaining amount in excess of \$5,000,000.
 ** Lines (26.2) - (26.6) Non-Pharmaceutical Rebates - These lines are aggregated first and a factor of .400 will be applied to the first \$10,000,000 in Column (1) and a factor of .050 will be applied to the remaining amount in excess of \$10,000,000.

**RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP****Meeting Summary Report for the Capital Adequacy (E) Task Force
June 28, 2024**

1. The Risk-Based Capital Investment Risk and Evaluation (E) Working Group met June 21, May 22, and April 12 to discuss residual tranches and the 45% risk-based capital (RBC) factor in place for year-end 2024. After consideration of comments, as well as a review of alternative proposals to bifurcate residual tranches between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC factor for all residual tranches for year-end 2024. This motion passed with nine affirmative votes and six opposing votes by the members present. The 45% RBC factor for residual tranches was adopted fully through the NAIC committee structure in 2023. Therefore, no further action is needed to incorporate this RBC factor. Key comments in support of the motion include:
 - A. The creation of a second category with a lower 30% RBC charge based on overall underlying investment classification (type of residual) would rely on reporting entities to classify residuals based on ill-defined classification types and does not factor any risk attributes other than collateral type, which may not be a reliable predictor of risk.
 - B. The creation of a second category with a lower 30% RBC charge based on the next most junior tranche rating could create an incentive to combine residual tranches with the next lowest tranche to allow for a higher-level tranche to be used as the metric in determining residual RBC category. Furthermore, it was noted that it would increase reliance on ratings and could result in rating shopping for residual classification.
 - C. Middle market collateralized loan obligations (CLOs) are the largest category of residual interests held by life-reporting entities as surveyed by the American Council of Life Insurers (ACLI). As the assessed risk is similar to broadly syndicated loans (BSLs) when characteristics are comparable (residual thickness and next most junior tranche rating), these residuals should be classified for a 45% RBC factor, similar to BSL residuals, during the interim.
 - D. State insurance regulators noted that the 2023 adoption of the 45% RBC factor was delayed for implementation until 2024 to allow industry to present a rationale supporting a lower risk factor, and without such data justifying a lower charge, there should be no more delay in implementation.
2. The alternative proposals the Working Group contemplated June 21 included:
 - A. The exposed proposal 2024-19-I with modifications to: 1) classify all middle market CLOs into the 45% RBC category; and 2) eliminate the ability for state insurance regulators to direct certain residual interests to the 30% category. (This state discretion was inconsistent with the RBC preamble that precludes deviations from the adopted RBC formula.)
 - B. A new proposal presented by the Iowa Insurance Division to classify residual tranches between 30% and 45% RBC categories based on the rating of the next most junior tranche.
3. The discussion of the RBC factor for residual tranches has been subject to much discussion, including those taking place on the following dates in 2024:

- A. Spring National Meeting: Discussion and exposure of an Oliver Wyman residual tranche report and analysis.
- B. April 12: Consideration of comments on the exposures and a motion to incorporate an additional one-year implementation delay to move the interim 45% charge on residuals from 2024 to 2025. This motion did not pass, with 11 members opposing, four supporting, and one abstaining.
- C. April 16: Exposure of a memorandum requesting additional feedback by industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% residual tranche factor.
- D. May 22: Discussion of comment letters received on the exposed memorandum and exposure of a proposal to bifurcate residual tranches between 30% and 45% based on the classification of the underlying collateral of the residual.
- E. June 21: Discussion of comments on the exposed proposal and alternatives to classify residual tranches between 30% and 45% reporting categories. This consideration resulted in the action to retain the 45% factor for all residual tranches for year-end 2024. This motion passed with nine affirmative votes and six opposing votes by the members present.

Capital Adequacy (E) Task Force

RBC Proposal Form

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| <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"/> Investment 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"/> P/C RBC (E) Working Group | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>1/27/24</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>P/C RBC (E) Working Group</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2024-18-CA</u> Year <u>2024</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WF) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK Force(TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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| <input checked="" type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
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| <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 adds a 20% charge for the Total Residual Tranches or Interests in PR008 for P/C and XR008 for Health.

Additional Staff Comments:

06-13-24 eky The Task Force adopted the proposal 2024-02-CA Residual Tranches "Structure" in April 30.

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

Revised 2-2023

Fixed Income Assets XR007 and XR008

The RBC requirement for fixed income assets is largely driven by the default risk on those assets. There are two major subcategories: Bonds and Miscellaneous. Bonds include items that meet the definition of a bond, regardless if the bond is long-term (reported on Schedule D-1), short-term (reported on Schedule DA), or a cash equivalent (reported on Schedule E-2). Miscellaneous fixed income assets include non-bond items reported on the cash equivalent and short-term schedules, derivatives, mortgage loans, collateral loans, and other items reported on Schedule BA: Other Long-Term Invested Assets.

Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation (1.A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by NAIC Designation Category and that year’s economic environment. The default probabilities were based on historical data intended to reflect a complete business cycle of favorable or unfavorable credit environments. The risk of default was measured over a five-year time horizon, based on the duration of assets held for health companies.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC Designation Category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

While the life and property/casualty formulas have a separate calculation for the bond size factor (based on the number of issuers in the RBC filer’s portfolio), the health formula does not include a separate calculation, instead a bond size component was incorporated into the bond factors. A representative portfolio of 382 issuers was used in calculating the bond risk factors.

There is no RBC requirement for bonds guaranteed by the full faith and credit of the United States, Other U.S. Government Obligations, and securities on the NAIC U.S. Government Money Market Fund List because it is assumed that there is no default risk associated with U.S. Government issued securities.

The book/adjusted carrying value of all bonds should be reported in Columns (1), (2) or (3). The bonds are split into twenty-one different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the *Purposes and Procedures Manual of the Investment Analysis Office*. The subtotal of Columns (1), (2), and (3) will be calculated in Column (4). The RBC requirement will be automatically calculated in Column (5).

Miscellaneous Fixed Income Assets (XR008)

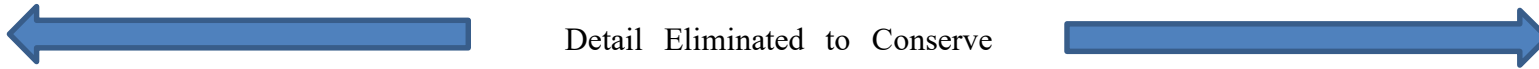
The factor for cash is 0.3 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021 and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company’s cash position is negative.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3 percent factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) should equal Schedule DA, Part 1, Column 7, Line 2509999999.)

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20 percent factor (Line (16) [and Line \(22\)](#)).

- Collateral Loans reported on Line (13) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.
- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (14) and (15), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.
- Low-income housing tax credit investment are reported on Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.
 - Federal Guaranteed Low-Income Housing Tax Credit (LIHTC) investments are to be included in Line (17). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.
 - Federal Non-Guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (18):
 - a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.
 - b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.
 - State Guaranteed LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (19).
 - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (20).
 - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).

PR008 – Other Long-Term AssetsSchedule BA Assets (Other Invested Assets – excluding collateral loans, low income housing tax credits and Working Capital Finance Investments)

Other Invested Assets are those that are listed in Schedule BA and are somewhat more speculative and risky than most other investments. The factor for Schedule BA assets excluding collateral loans, [low income housing tax credits, and working capital finance investments](#) is 20%.

The book/adjusted carrying value of total Schedule BA assets (including collateral loans, low income housing tax credits and Working Capital Finance Investments) should equal Page 2, Line 8, Column 3 of the annual statement.

Low Income Housing Tax Credits

Report Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.

Federal Guaranteed low-income housing tax credit (LIHTC) investments are to be included in Line (13). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.

Federal Non-guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (14):

- a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.
- b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.

State LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (15).

State LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included in Line (16).


State and federal LIHTC investments that do not meet the requirements of lines (13) through (16) would be reported on Line (17).

Working Capital Finance Investments

The book/adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments should equal Note to the Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.

FIXED INCOME ASSETS - MISCELLANEOUS

	<u>Annual Statement Source</u>	(1) <u>Bk/Adj Carrying Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
(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 2509999999			
(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 7, Line 2509999999			
(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	
(13) Collateral Loans	Included in Page 2, Column 3, Line 8		0.0500	
(14) NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	
(15) NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	
(16) Other Long-Term Invested Assets Excluding Collateral Loans, Residual Tranches or Interests and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000	
(17) Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	
(18) Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	
(19) State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0014	
(20) State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.0260	
(21) All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500	
(22) Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999		0.2000	
(23) Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22)			
(24) Derivatives	Page 2, Column 3, Line 7		0.0500	
(25) Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + (23) + (24)			

 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>	<u>Factor</u>	(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) Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14) Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15) State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0014	0
(16) State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.0260	0
(17) All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(18) Working Capital Finance Investments	L(21)+L(22)	0		
(19) Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999		0.2000	
(20) Schedule BA Assets Excluding Collateral Loans, LIHTC, &-WCFI, & Residual Tranches or Interests	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)-L(19)	0	0.2000	0
(21) NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(22) NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(23) Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)+L(19)+L(20)+L(21)+L(22)	0		0

Capital Adequacy (E) Task Force

RBC Proposal Form

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

<p style="text-align: right;">DATE: <u>4/12/24</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>P/C RBC (E) Working Group</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2024-14-P</u> Year <u>2024</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 (WF) _____</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>04/25/2024</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|--|--|
| <input type="checkbox"/> Health RBC Blanks | <input 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)

The proposed change would provide a routine annual update of the industry underwriting factors (premium and reserve) in the PCRBC formula.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

Schedule P Line of Business	LOB	Proposed for adoption - 2024 Industry Average Development Ratio	2023 Industry Average Development	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development	2015 Industry Average Development
H/F	A	1.020	0.999	1.001	0.998	0.993	0.989	0.989	0.984	0.972	0.962
PPA	B	1.061	1.047	1.022	1.025	1.035	1.026	1.022	1.012	1.002	1.002
CA	C	1.115	1.106	1.082	1.083	1.078	1.087	1.060	1.034	1.015	0.987
WC	D	0.882	0.873	0.906	0.912	0.916	0.955	0.952	0.971	0.971	0.961
CMP	E	1.024	1.026	1.037	0.999	1.016	0.992	0.967	0.956	0.942	0.938
MM Occurrence	F1	0.910	0.906	0.887	0.874	0.861	0.864	0.871	0.868	0.841	0.966
MM Clms Made	F2	0.996	0.984	0.983	0.973	0.940	0.907	0.886	0.854	0.822	0.839
SL	G	0.996	0.994	0.990	0.976	0.963	0.938	0.933	0.926	0.919	0.975
OL	H	0.993	0.969	0.995	0.964	0.968	0.971	0.966	0.952	0.929	0.923
Fidelity / Surety	K	0.875	0.852	0.842	0.915	0.907	0.995	0.996	1.016	1.035	1.016
Special Property/Pet Insurance Plan	I/U	0.989	0.983	0.993	0.978	0.977	0.972	0.971	0.982	0.973	0.991
Auto Physical Damage	J	0.999	1.016	1.011	0.989	0.993	0.996	1.000	1.001	0.995	0.995
Other (Credut, A&H)	L	0.942	0.946	0.955	0.965	0.971	0.973	0.976	0.981	0.986	1.041
Financial / Mortgage Guaranty	S	0.493	0.674	0.694	0.723	0.682	0.788	0.870	0.820	0.853	1.185
Intl	M	2.168	2.414	3.041	1.104	1.162	1.037	0.851	0.855	0.897	1.350
Rein. Property & Financial Lines	NP	0.930	0.924	0.917	0.893	0.886	0.872	0.834	0.814	0.814	1.002
Rein. Liability	O	1.054	1.024	1.008	0.989	0.985	0.955	0.945	0.914	0.896	0.938
PL	R	0.882	0.874	0.867	0.879	0.900	0.913	0.921	0.935	0.937	1.072
Warranty	T	0.991	0.995	0.998	1.007	1.013	1.017	1.015	0.989	0.977	0.994

Schedule P Line of Business	LOB	Proposed 2024 Industry Average Loss & Expense Ratio	2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio	2015 Industry Average Loss & Expense Ratio
H/F	A	0.695	0.679	0.665	0.681	0.678	0.681	0.687	0.688	0.701	0.701
PPA	B	0.799	0.791	0.793	0.795	0.810	0.810	0.806	0.800	0.792	0.786
CA	C	0.787	0.777	0.761	0.761	0.759	0.737	0.724	0.706	0.689	0.684
WC	D	0.646	0.651	0.664	0.682	0.705	0.726	0.744	0.751	0.752	0.751
CMP	E	0.684	0.671	0.661	0.673	0.672	0.666	0.664	0.647	0.648	0.655
MM Occurrence	F1	0.752	0.767	0.750	0.731	0.726	0.730	0.780	0.777	0.767	0.880
MM Clms Made	F2	0.828	0.815	0.829	0.821	0.797	0.768	0.747	0.722	0.691	0.697
SL	G	0.583	0.578	0.585	0.593	0.603	0.593	0.569	0.567	0.572	0.630
OL	H	0.649	0.641	0.637	0.635	0.639	0.638	0.633	0.629	0.618	0.616
Fidelity / Surety	K	0.375	0.363	0.366	0.394	0.384	0.399	0.417	0.430	0.464	0.462
Special Property/ Pet Insurance Plan	I/U	0.559	0.550	0.547	0.559	0.553	0.554	0.563	0.555	0.559	0.571
Auto Physical Damage	J	0.733	0.727	0.718	0.726	0.732	0.730	0.732	0.727	0.711	0.703
Other (Credit, A&H)	L	0.711	0.702	0.698	0.693	0.684	0.682	0.709	0.712	0.699	0.706
Financial / Mortgage Guaranty	S	0.158	0.209	0.203	0.252	0.513	0.811	1.099	1.175	1.293	1.096
Intl	M	1.153	1.136	1.166	0.769	0.758	0.795	0.584	0.565	0.607	1.150
Rein. Property & Financial Lines	NP	0.587	0.578	0.566	0.558	0.534	0.522	0.486	0.459	0.512	0.723
Rein. Liability	O	0.760	0.743	0.725	0.713	0.708	0.679	0.666	0.609	0.600	0.749
PL	R	0.594	0.597	0.601	0.617	0.645	0.656	0.671	0.670	0.684	0.715
Warranty	T	0.641	0.652	0.665	0.681	0.691	0.695	0.732	0.645	0.611	0.799

MEMORANDUM

TO: Tom Botsko, representing Judith L. French, Chair of the Capital Adequacy (E) Task Force
Mike Yanacheak, representing Doub Ommen, Vice-Chair of the Capital Adequacy (E) Task Force
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice-Chair of the Life Risk-Based Capital (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

DATE: March 27, 2024

RE: SAPWG Referral for Investments in Tax Credit Structures

During the 2024 Spring National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) adopted agenda item *2022-14: New Market Tax Credits*, a new SAP concept to replace *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* with *SSAP No. 93R—Investments in Tax Credit Structures* which expands the scope of statutory guidance to include all qualifying tax credit investments regardless of structure or the underlying state/federal tax credit program. The new guidance will be effective on Jan. 1, 2025.

With this adoption, the Working Group directed NAIC staff to send a referral to both the Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group to inform them of the impending changes to reporting lines. Per the Blanks (E) Working Group proposal (Ref #2024-11BWG), the reporting line, for federal guaranteed programs is proposed to be deleted because these types of tax credit investment structures were substantially eliminated by the *Historic Boardwalk Hall, LLC v. Comm of Internal Revenue* court decision in 2012. The remaining existing Low-Income Housing Tax Credit (LIHTC) Investment Asset Valuation Reserve (AVR) reporting lines are proposed to be renamed and would continue to include LIHTC investments but would also be expanded to include any type of state or federal tax credit program assuming the investment meets the criteria described in paragraph 2 of SSAP No. 93R.

As the current RBC factors were specifically developed for investments in LIHTC programs, this change may indicate the need for a review to update new RBC factors and/or reporting lines which would include new tax credit programs which are not real estate based. Attachment A summarizes both the original LIHTC investment AVR reporting lines and the proposed AVR reporting lines for tax credit investments for your reference. (see Note 1)

The Working Group appreciates your time and consideration of this referral. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Dave Fleming, Maggie Chang, Kazeem Okosun

Note 1: Attachment A summarizes proposed changes to AVR reporting lines. Note that P/C and Health RBC formulas do not use AVR reporting lines. Yet, the proposed reporting lines for Schedule BA (Ref #2024-11BWG) use the same structure as proposed AVR reporting lines. For brevity, the proposed changes to Schedule BA are omitted herein.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/SAPWG to CATF and LRBCWG - 3-26-24.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat%20Acctg_Statutory_Referrals/2024/SAPWG%20to%20CATF%20and%20LRBCWG%20-%203-26-24.docx) **AVR reporting lines under SSAP No. 93—Low-Income**

Housing Tax Credit Property Investments

Line Number	NAIC Designation	Description	1	2	3	4	Basic Contribution		Reserve Objective		Maximum Reserve	
			Book/ Adjusted Carrying Value	Reclassify Related Party Encumbrances	Add Third Party Encumbrances	Balance for AVR Reserve Calculations (Cols. 1+2+3)	5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
		LOW INCOME HOUSING TAX CREDIT INVESTMENTS										
75		Guaranteed Federal Low-Income Housing Tax Credit					0.0003		0.0006		0.0010	
76		Non-guaranteed Federal Low-Income Housing Tax Credit					0.0063		0.0120		0.0190	
77		Guaranteed State Low Income Housing Tax Credit					0.0003		0.0006		0.0010	
78		Non-guaranteed State Low Income Housing Tax Credit					0.0063		0.0120		0.0190	
79		All Other Low-Income Housing Tax Credit.....					0.0273		0.0600		0.0975	
80		Total LIHTC (Sum of Lines 75 through 79)					XXX		XXX		XXX	

Proposed AVR reporting lines under SSAP No. 93R— Investments in Tax Credit Structures

		INVESTMENTS IN TAX CREDIT STRUCTURES										
75		Tax Credit Investments - Federal Non-guaranteed.....					0.0063		0.0120		0.0190	
76		Tax Credit Investments - State Guaranteed.....					0.0003		0.0006		0.0010	
77		Tax Credit Investments - State Non-guaranteed					0.0063		0.0120		0.0190	
78		Tax Credit Investments - Other					0.0273		0.0600		0.0975	
79		Total Tax Credit Investments (Sum of Lines 75 through 78)					XXX		XXX		XXX	

MEMORANDUM

TO: Tom Botsko, Chair Representative of the Capital Adequacy (E) Task Force and Chair of the Property and Casualty Risk-Based Capital (E) Working Group and
Steve Drutz, Chair of the Health Risk-Based Capital (E) Working Group
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group and Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Pat Gosselin, Chair of the Blanks (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

DATE: January 23, 2024

RE: Collateral Loan Reporting Changes

At the 2023 Fall National Meeting, the Statutory Accounting Principles (E) Working Group exposed agenda item *2023-28: Collateral Loan Reporting*, which proposes to expand Schedule BA Collateral Loans disclosures and reporting lines to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21R—Other Admitted Assets*. Currently, collateral loans are only divided by affiliated or unaffiliated and do not identify the various investment categories of underlying collateral. There are also proposed new disclosures to aggregate and identify what is admitted and not admitted within each of those newly proposed investment categories.

Since the existing Schedule BA Collateral Loans reporting lines have a connection to the Asset Valuation Reserve (AVR) and/or Risk Based Capital (RBC) schedules and instructions, we recognize the potential for corresponding revisions to them, and ask for your input. As discussions take place, we will keep you notified of significant changes that occur; and after completion we will forward referrals as necessary. For reporting changes, SAPWG typically sponsors Blanks changes to the Annual Statements, which would include necessary changes in format/instruction to the AVR schedule for the Life statement. We expect the format of RBC schedules and related instructional changes will happen within the RBC working groups in due course, as well as any consideration of risk charges for the proposed expansion lines based on underlying collateral. Please note that the AVR schedule and Life RBC schedules work together and may require some planning on all groups' parts. We also wanted to make you aware that during discussions of reporting changes under the bond project, we identified that some companies are reporting collateral loans as non-private equity funds, which then obtain RBC charges based on the underlying collateral assets.

The agenda item is initially exposed until Jan. 22, 2024, and includes a direct request to industry to provide comments on the proposed collateral loan reporting lines. NAIC staff expects further discussion on the extent of reporting lines needed and how those lines should be mapped to AVR for life companies.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509

p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197

p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004

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If you have any questions, or would like to further discuss, please contact the Statutory Accounting Principles (E) Working Group chair or vice chair (Dale Bruggeman, or Kevin Clark), or NAIC staff Julie Gann (jgann@naic.org).

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Mary Caswell, Crystal Brown, Dave Fleming, Eva Yeung, Maggie Chang

MEMORANDUM

TO: Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group
DATE: February 29, 2024
RE: Collateral Loan Reporting Changes – SAPWG Actions Feb. 20, 2024

On Feb. 20, 2024, the Statutory Accounting Principles (E) Working Group (SAPWG) considered agenda item 2023-28: *Collateral Loan Reporting*, which proposed to expand collateral loan disclosures and Schedule BA reporting lines in accordance with the type of collateral supporting the collateral loan pursuant to SSAP No. 21R—*Other Admitted Assets*. During this call the Working Group took the following actions:

- 1) Adopted a new disclosure to detail the collateral loans admitted and nonadmitted by type of underlying collateral. This disclosure is required for year-end 2024 and a blanks proposal is being sponsored to facilitate data capturing for 2024 reporting.
- 2) Exposed revised Schedule BA reporting lines to require allocation of collateral loans based on the underlying collateral. With this exposure, the Working Group specifically requested comments from regulators and industry on whether collateral loans backed by certain types of collateral should flow through the Asset Valuation Reserve (AVR) for risk-based capital (RBC) impact. With this request, a referral was directed to the Life Risk-Based Capital (E) Working Group (LRBCWG) to request feedback on the proposed reporting lines and the potential to map certain collateral loans to AVR for RBC purposes.

With the discussion that occurred on Feb. 20, 2024, it was identified that collateral loans do not currently flow through AVR. From historical review, the exclusion from AVR has been attributed to a 1990 intercompany survey where it was identified that collateral loans were very small risks and a small proportion of total portfolio value. Collateral loans were originally captured on Schedule C, and when that schedule was eliminated and the reporting moved to Schedule BA, a change to flow through AVR was not incorporated. Currently all investments reported as collateral loans, regardless of the underlying collateral that supports the loan, receive the same 0.0680 life RBC factor charge.

It has been identified that some reporting entities are currently reporting certain collateral loans in the Schedule BA “non-registered private fund” reporting category allocated by underlying collateral so that they flow through AVR for RBC impact. The discussion on Feb. 20, 2024, noted that this reporting causes consistency concerns, and the regulator’s need for comparable financial information is paramount in determining an insurer’s financial condition.

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To improve overall reporting, the SAPWG is sponsoring blanks changes to eliminate and clarify the purpose of certain reporting lines on Schedule BA. These changes include eliminating the “non-registered private fund” category and clarifying that such funds shall be reported in the “joint ventures, partnerships, or limited liability companies” reporting category. The sponsored blanks revisions further clarify the types of investments permitted for reporting in certain categories with inclusion of an explicit statement that investments shall be reported in the appropriate dedicated reporting line, and if such a line does not exist for a specific investment, it shall be reported as an “Any Other Asset.” These changes are captured in the Blanks (E) Working Group proposal 2023-12BWG that also details the new reporting lines for the non-bond debt securities in response to the bond project. This proposal is exposed for comment until April 23, 2024.

Although efforts to improve consistent reporting are underway, with the overall increase in collateral loans and actions by industry to report certain loans in categories that flow through AVR to reflect the underlying asset risk, this referral requests feedback from the LRBCWG on the allocation of collateral loans through AVR. Key elements to highlight for LRBCWG potential consideration include:

- An approach that maps reporting of certain collateral loans through existing AVR categories may not necessitate extensive RBC changes. Rather, specific reporting lines would map through the blanks reporting process to the identified AVR category and flow through automatically to the RBC schedule. If this approach is taken, the RBC revisions could potentially be limited to clarifying the items that continue to flow through to the existing collateral loan line.
- If an approach to map certain collateral loans through existing AVR categories is supported, information is requested on which collateral loans should be given this treatment. For example, information received from industry has indicated that “warehouse loans¹” with mortgage loan collateral have been reported as “non-registered private funds” with underlying characteristics of mortgage loans. This reporting facilitates a “look-through” RBC treatment whereby the mortgage RBC criteria is applied to the mortgage loans underlying the warehouse loan. Although this reporting has likely resulted in a more desirable RBC impact than the collateral loan classification, industry has continued to report loans backed by LLC interests as collateral in the collateral loan category, where look-through treatment would be less favorable. By reporting these items as collateral loans, the RBC factor was 0.0680 in comparison to a 0.3000 charge that could occur² if reported based on the underlying collateral. Ultimately, feedback is requested on whether loans backed by certain types of collateral should be treated differently through AVR as well as comments on when loans backed by certain types of collateral should be treated differently than other collateral loans.
- The existing collateral loan RBC factor is believed to have been established without much analysis, but rather reflects a blended rate of RBC charges. This was likely supported due to the historical small risk and population of collateral loans. From assessments of 2022 data, collateral loans make up a significant portion of assets at some companies, and it is anticipated that a significant number of collateral loans are backed by LLC interests. Unfortunately, underlying collateral data is limited to what is discernable from a review of the description captured in Schedule BA and only captures what was reported as collateral loans and not within another reporting category. The Working Group’s adoption of a new 2024 disclosure and reporting clarifications shall assist in providing improved information on the population of collateral loans,

¹ For reference, a “warehouse loan” is a loan to an originator of financing products (e.g. mortgage loans, consumer loans, middle market corporate loans, etc.) that is secured by the assets being originated. It is a temporary form of financing often used to “warehouse” the underlying collateral until sufficient scale is achieved to allow the collateral to be securitized.

² It is worth noting that there would typically be some level of overcollateralization when comparing the amount of loan and the underlying value of the LLC collateral.

and the underlying collateral that backs loans if the LRBCWG believes it is appropriate to complete a more detailed analysis of this asset category for RBC purposes.

Consistent with the prior referral dated Jan. 17, 2024, the SAPWG will continue to keep the LRBCWG informed of the discussions involving collateral loans. The proposed reporting lines for collateral loans are exposed at SAPWG until April 19, 2024, and are detailed within. As noted, this exposure specifically requests comments on whether collateral loans backed by certain types of collateral should flow differently through AVR for RBC impact. The SAPWG will share information received from this exposure with the LRBCWG to assist with further discussion, but also welcomes initial responses from the LRBCWG on this inquiry as well as the proposed reporting lines.

If you have any questions, or would like to further discuss, please contact the Statutory Accounting Principles (E) Working Group chair or vice chair (Dale Bruggeman, or Kevin Clark), or NAIC staff Julie Gann (jgann@naic.org).

February 20, 2024, SAPWG Exposed Schedule BA Collateral Loan Reporting Changes:

Collateral Loans – Reported by Qualifying Investment Collateral that Secures the Loan

Bonds and Asset-Backed Securities (SSAP No. 26R & SSAP No. 43R)

Unaffiliated.....
 Affiliated.....

Preferred Stocks (SSAP No. 32R)

Unaffiliated.....
 Affiliated.....

Common Stocks (SSAP No. 30R)

Unaffiliated.....
 Affiliated.....

Mortgage Loans (SSAP No. 37R)

Unaffiliated.....
 Affiliated.....

Real Estate (SSAP No. 40R)

Unaffiliated.....
 Affiliated.....

Joint Venture, Partnerships or Limited Liability Companies (SSAP No. 48)

Fixed Income Investments (Unaffiliated)
 Fixed Income Investments (Affiliated)

Common Stocks (Unaffiliated)
 Common Stocks (Affiliated)

Real Estate (Unaffiliated)
 Real Estate (Affiliated)

Mortgage Loans (Unaffiliated)
 Mortgage Loans (Affiliated)

Other (Unaffiliated)
Other (Affiliated)

Other Investment Category

Cash, Cash Equivalent and Short-Term Investments (Unaffiliated)
Cash, Cash Equivalent and Short-Term Investments (Affiliated)

Other Long-Term Invested Assets (Unaffiliated)
Other Long-Term Invested Assets (Affiliated)

Non-Collateral Loans

Related Party / Affiliated Loans.....
All Other Non-Collateral Loans.....

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Crystal Brown, Dave Fleming, Eva Yeung, Maggie Chang