

NAIC Fraternal Risk-Based Capital Newsletter

August 2018

Volume 11



What RBC Pages Should Be Submitted?

For year-end 2018 fraternal RBC, submit hard copies of pages **FR001 through FR049** to any state that requests a hard copy. A hardcopy is not required to be submitted to the NAIC.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hardcopy filing. Other pages, such as the mortgage and real estate worksheets, do not need to be submitted, but they still need to be retained by the company as documentation.

Non-Government Money Market Mutual Funds

As a result of the adoption of proposal 2017-07-CA, by the Capital Adequacy (E) Task Force at the Spring National Meeting, the instructions and line for non-government money market mutual funds (MMMMF) Line (22) on page FR005 was deleted. The purpose of the deletion was to avoid the double counting of MMMFs in both cash equivalents and common stock.

Tax Reform Changes

As a result of the adoption of proposal 2018-13-L by the Capital Adequacy (E) Task Force on its June 28 conference call, changes necessitated for the life and fraternal RBC factors and instructions by the implementation of the Federal Tax Cuts and Jobs Act were made. While the primary changes were updating the tax factors on FR030, there were also adjustments to the pre-tax factors applied to bonds, and those item receiving bond treatment, to reflect discounting at a higher rate. 0.97 is an approximation developed from the corporate bond model used to develop the proposed revision to bond factors under consideration by the Investment Risk-Based Capital (E) Working Group. Pre-tax factors for long-term care and disability premiums, health claim reserves, the interest rate risk and business risk were also adjusted to retain the current after-tax impact consistent with the approach taken when the tax factors were originally included.

The Life Risk-Based Capital (E) Working Group will be continuing work on the implications of tax reform in the formula.

Federal Home Loan Bank Collateral

As a result of the adoption of proposal 2017-03-L by the Capital Adequacy (E) Task Force at its Spring National Meeting, the treatment of Federal Home Loan Bank (FHLB) advances was modified. The previous C-0 charge for collateral held for FHLB advances of 1.3% on FR017 was changed to 0% for the collateral equal to the amount advanced when that liability is part of C-3 modeling, and a factor based on the risk of the FHLB for any collateral in excess. The factor will be based on an NAIC 2 bond factor if the FHLB funded advance liabilities associated with funding agreement activities exceed 5% of total net admitted assets.

In This Issue:

What RBC Pages to Submit	1
Non-Government Money Market Mutual Funds	1
Tax Reform Changes	1
Federal Home Loan Bank Collateral.....	1
Operational Risk	2
Stop Loss Interrogatories	2
Medicaid Pass-Through Payments.....	2
Affordable Care Act Changes.....	2
Appendix 3– Commonly Used Terms for Medicare Part D Coverage.....	2
Contact Information	3
Risk-Based Capital Forecasting & Instructions	3

Operational Risk

A revised basic operational risk “add-on” structure and instructions were adopted by the Capital Adequacy (E) Task Force during its Spring National Meeting and April 28, 2018 conference call respectively. The “add-on” is equal to 3% of total RBC after covariance in all RBC formulas. The operational risk charge is offset (to a minimum of zero) by the amount of C-4a risk RBC carried by life RBC filers, as well as the C-4a risk RBC of life insurance subsidiaries owned directly by any insurer type.. The basic operational risk charge will be effective with the filing of the 2018 RBC formulas. The RBC charge was previously set at 0% for 2017 RBC by the Task force based on a technical issue that was subsequently addressed by the Operational Risk (E) Subgroup.

Stop Loss Interrogatories

As a result of the adoption of proposal 2018-01-CA by the Capital Adequacy (E) Task Force on its April 30 conference call, electronic only tables for stop loss interrogatories were added. Table 1 will be used to collect data to review and evaluate the stop loss factors. Table 2 will be used to capture the number of stop loss contracts by group size.

Medicaid Pass-Through Payments

As a result of the adoption of proposal 2017-08-CA by the Capital Adequacy (E) Task Force at its Spring National Meeting, new lines (6) and (16) were added to FR019. The purpose of the change is to reflect the fact that Medicaid Pass-Through Payments are more like uninsured business, such as ASC and ASO, and should reflect a similar charge.

Affordable Care Act Changes

The Capital Adequacy (E) Task Force adopted proposals 2018-02-CA and 2017-09-CA at its Spring National Meeting. Proposal 2018-02-CA deleted the structure and instructions for the Underwriting Risk–Experience Fluctuation Risk—Informational-Only page from the formula. Proposal 2017-09-CA modifies the Risk Adjustment and Risk Corridor Sensitivity Test by removing the risk corridor portion. The purpose of these changes was due to discontinuation of the reinsurance and risk corridor programs, as well as the continued changes of the Affordable Care Act.

Appendix 3 – Commonly Used Terms for Medicare Part D Coverage

As a result of the adoption of proposal 2018-03-CA by the Capital Adequacy (E) Task Force on its June 28 conference call, the individual definitions in Appendix 3—Commonly Used Terms for Medicare Part D Coverage were deleted and a reference to *Interpretation (INT) 05-05: Accounting for Revenue Under Medicare Part Coverage* was added to reduce the misalignment of changes in the INT compared to the RBC instructions.

Risk-Based Capital Forecasting and Instructions

The NAIC *2018 Fraternal Risk-Based Capital Forecasting & Instructions* is available for purchase through the NAIC Publications Department. Customers who purchase this publication can download the forecasting spreadsheet from the [NAIC Account Manager](#). This publication is available for purchase on or about November 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

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

© 2018 National Association of Insurance Commissioners

Fraternal Risk-Based Capital Newsletter Volume 11. Published annually or whenever needed by the NAIC for insurance regulators, professionals and consumers.

Direct correspondence to: Dave Fleming, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: (816) 783-8121. Email: dfleming@naic.org.

Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: (816) 783-8300. Email: prodserv@naic.org.

This page intentionally left blank.