

## Capital Adequacy (E) Task Force

### RBC Proposal Form

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input checked="" type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group                         |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup                        | <input type="checkbox"/> 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 |

<b>DATE:</b> <u>01-27-23</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b> <u>Crystal Brown</u>	Agenda Item # <u>2022-15-H</u>
<b>TELEPHONE:</b> <u>816-783-8146</u>	Year <u>2023</u>
<b>EMAIL ADDRESS:</b> <u>cbrown@naic.org</u>	<b><u>DISPOSITION</u></b>
<b>ON BEHALF OF:</b> <u>Health Risk-Based Capital (E) Working Grp</u>	<input checked="" type="checkbox"/> ADOPTED <u>HRBC 3/21/23 TF 3/23/23</u>
<b>NAME:</b> <u>Steve Drutz</u>	<input type="checkbox"/> REJECTED _____
<b>TITLE:</b> <u>Chief Financial Analyst/Chair</u>	<input type="checkbox"/> DEFERRED TO _____
<b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
<b>ADDRESS:</b> <u>5000 Capitol Blvd SE</u>	<input checked="" type="checkbox"/> EXPOSED <u>1-30-23</u>
<u>Tumwater, WA 98501</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

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

- Health RBC Blanks      Property/Casualty RBC Blanks      Life and Fraternal RBC Instructions  
 Health RBC Instructions      Property/Casualty RBC Instructions      Life and Fraternal RBC Blanks  
 OTHER \_\_\_\_\_

#### DESCRIPTION OF CHANGE(S)

Renumber the lines on page XR008.

#### REASON OR JUSTIFICATION FOR CHANGE \*\*

Renumber all the lines on page XR008. The line numbers carry over from the bond page, renumbering the lines will allow for easier updated in the future for adjustments to the bonds.

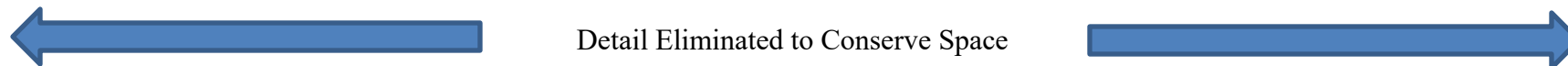
#### Additional Staff Comments:

1-30-23 cgb Proposal 2022-15-H was exposed for a 30-day comment period ending on Feb. 28.  
 2-28-23 cgb No comments received during comment period.  
 3-21-23 cgb HRBCWG adopted at their 3/21/23 meeting  
 3/23/23 cgb Task Force adopted at their 3/23/23 meeting

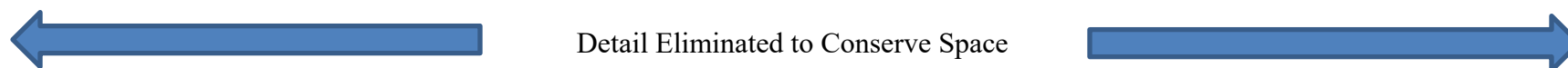
\*\* This section must be completed on all forms.

Revised 7-2022

## Overview of the NAIC Health Risk-Based Capital Report



Negative values can sometimes appear in the value column or RBC Subtotal column of this report. These negative values are retained to facilitate crosschecking of amounts reported in the annual statement against amounts reported in the RBC filing. However, when a negative number appears in the value column, that value will be converted to zero before determining the RBC Requirement. For example, a negative \$10,000 for cash [XR008, Col (1), Line (281)] will produce a zero (\$0 times 0.003) in Column (2), RBC Requirement, rather than a negative \$30 (-\$10,000 times 0.003).



### 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 (835) reflects the total from Schedule DA: Short-Term Investments (Line (633)), less the short-term bonds (Line (734)). (The short-term bonds reported in Line (734) 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 (1643)).

- Collateral Loans reported on Line (1340) 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 (1441) and (1542), 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 (1744). 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 (1845):
    - 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 (1946).
  - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (2047).
  - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (44) through (47) would be reported on Line (2148).


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**FIXED INCOME ASSETS - BONDS**

		(1) Long-Term Bonds Schedule D, Part 1 Book/Adjusted Carrying Value <u>L(3) thru (26) = Sch D Pt 1F</u>	(2) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value <u>L(3) thru (26) = Sch DA Pt 1F</u>	(3) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value <u>L(3) thru (26) = Sch E Pt 2F</u>	(4) Subtotal <u>C(1) + C(2) + C(3)</u>	(5) Factor <u>RBC Requirement</u>
<b>BONDS</b>	<u>Annual Statement Source</u>					
(1) NAIC 1.A - U.S. Government - Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1) = Sch D, Pt 1, C11, L0109999999 C(2) = Sch DA, Pt 1, C7, L0109999999 C(3) = Sch E, Pt 2, C7, L0109999999 + L8209999999					0.000
(2) NAIC Designation Category 1.A Bonds	C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) C(3)=Footnote Amt 1 L000001A - SCE, Pt2, C7 L0109999999					0.003
(3) NAIC Designation Category 1.B Bonds	Footnote Amt 2 L000001A					0.005
(4) NAIC Designation Category 1.C Bonds	Footnote Amt 3 L000001A					0.008
(5) NAIC Designation Category 1.D Bonds	Footnote Amt 4 L000001A					0.011
(6) NAIC Designation Category 1.E Bonds	Footnote Amt 5 L000001A					0.014
(7) NAIC Designation Category 1.F Bonds	Footnote Amt 6 L000001A					0.016
(8) NAIC Designation Category 1.G Bonds	Footnote Amt 7 L000001A					0.019
(9) Total NAIC 01 Bonds	Sum of Lines (1) through (8)					
(10) NAIC Designation Category 2.A Bonds	Footnote Amt 1 L000001B					0.022
(11) NAIC Designation Category 2.B Bonds	Footnote Amt 2 L000001B					0.025
(12) NAIC Designation Category 2.C Bonds	Footnote Amt 3 L000001B					0.031
(13) Total NAIC 02 Bonds	Sum of Lines (10) through (12)					
(14) NAIC Designation Category 3.A Bonds	Footnote Amt 1 L000001C					0.069
(15) NAIC Designation Category 3.B Bonds	Footnote Amt 2 L000001C					0.076
(16) NAIC Designation Category 3.C Bonds	Footnote Amt 3 L000001C					0.083
(17) Total NAIC 03 Bonds	Sum of Lines (14) through (16)					
(18) NAIC Designation Category 4.A Bonds	Footnote Amt 1 L000001D					0.089
(19) NAIC Designation Category 4.B Bonds	Footnote Amt 2 L000001D					0.097
(20) NAIC Designation Category 4.C Bonds	Footnote Amt 3 L000001D					0.110
(21) Total NAIC 04 Bonds	Sum of Lines (18) through (20)					
(22) NAIC Designation Category 5.A Bonds	Footnote Amt 1 L000001E					0.123
(23) NAIC Designation Category 5.B Bonds	Footnote Amt 2 L000001E					0.137
(24) NAIC Designation Category 5.C Bonds	Footnote Amt 3 L000001E					0.151
(25) Total NAIC 05 Bonds	Sum of Lines (22) through (24)					
(26) Total NAIC 06 Bonds	Footnote Amt 1 L000001F					0.300
(27) Total Bonds RBC	Lines (9) + (13) + (17) + (21) + (25) + (26)					

FIXED INCOME ASSETS - MISCELLANEOUS

	Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(1) Cash	Page 2, Line 5, inside amount 1		0.0030	
(2) Cash Equivalents	Page 2, Line 5, inside amount 2			
(3) Less: Cash Equivalents, Total Bonds	Schedule E, Part 2, Column 7, Line 2509999999			
(4) Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5) Net Cash Equivalents	<b>Line (2) - (3) - (4)</b>		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	<b>Lines (6) - (7)</b>		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 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 Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	<b>Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21)</b>			
(23) Derivatives	Page 2, Column 3, Line 7		0.0500	
(24) Total <b>Miscellaneous</b> Fixed Income Assets RBC	<b>Lines (27)+(1) + (5) + (8) + (9) + (10) + (11) + (12) + (22) + (23)</b>			

 Denotes items that must be manually entered on filing software.

**CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE**

			(1) <u>RBC Amount</u>
<b>H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS</b>			
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)	_____
(2)	Directly Owned Insurer Subject to RBC	XR003, Affiliates Page, Line (1)	_____
(3)	Indirectly Owned Insurer Subject to RBC	XR003, Affiliates Page, Line (2)	_____
(4)	Directly Owned Health Entity Subject to RBC	XR003, Affiliates Page, Line (3)	_____
(5)	Indirectly Owned Health Entity Subject to RBC	XR003, Affiliates Page, Line (4)	_____
(6)	Directly Owned Alien Insurer	XR003, Affiliates Page, Line (7)	_____
(7)	Indirectly Owned Alien Insurers	XR003, Affiliates Page, Line (8)	_____
(8)	Total H0	Sum Lines (1) through (7)	=====
 <b>H1 - ASSET RISK - OTHER</b>			
(9)	Investment Affiliates	XR003, Affiliates Page, Line (5)	_____
(10)	Holding Company Excess of Subsidiaries	XR003, Affiliates Page, Line (6)	_____
(11)	Investment in Parent	XR003, Affiliates Page, Line (9)	_____
(12)	Other Affiliates	XR003, Affiliates Page, Line (10)	_____
(13)	Fair Value Excess Affiliate Common Stock	XR003, Affiliates Page, Line (11)	_____
(14)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + <b>XR007, Fixed Income Assets - Bonds, Line (27)</b> + XR008, Fixed Income Assets - <b>Miscellaneous, Line (24)</b>	_____
(15)	Replication & Mandatory Convertible Securities	XR009, Replication/MCS Page, Line (9999999)	_____
(16)	Unaffiliated Preferred Stock	XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7)	_____
(17)	Unaffiliated Common Stock	XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (12)	_____
(18)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9)	_____
(19)	Asset Concentration	XR012, Grand Total Asset Concentration Page, Line (27)	_____
(20)	Total H1	Sum Lines (9) through (19)	=====
 <b>H2 - UNDERWRITING RISK</b>			
(21)	Net Underwriting Risk	XR013, Underwriting Risk Page, Line (21)	_____
(22)	Other Underwriting Risk	XR015, Underwriting Risk Page, Line (25.3)	_____
(23)	Disability Income	XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3)	_____
(24)	Long-Term Care	XR016, Underwriting Risk Page, Line (41)	_____
(25)	Limited Benefit Plans	XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44)	_____
(26)	Premium Stabilization Reserve	XR017, Underwriting Risk Page, Line (45)	_____
(27)	Total H2	Sum Lines (21) through (26)	=====

       Denotes items that must be manually entered on filing software.

**#REF!**