

## 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;"><b>DATE:</b> <u>02/21/2024</u></p> <p><b>CONTACT PERSON:</b> <u>Paul Navratil</u></p> <p><b>TELEPHONE:</b> _____</p> <p><b>EMAIL ADDRESS:</b> <u>PNavratil64@massmutual.com</u></p> <p><b>ON BEHALF OF:</b> <u>Life Risk-Based Capital (E) Working Group</u></p> <p><b>NAME:</b> <u>Philip Barlow, Chair</u></p> <p><b>TITLE:</b> <u>Associate Commissioner of Insurance</u></p> <p><b>AFFILIATION:</b> <u>District of Columbia</u></p> <p><b>ADDRESS:</b> <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <p>Agenda Item # <u>2025-01-L</u> Year <u>2025</u></p> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></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><b>EXPOSED:</b></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><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></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 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)

Proposal 2023-15BWG MOD was adopted by the NAIC Blanks (E) Working Group in 2024. It added a new general interrogatory to provide needed information for completing LR025 (Life Insurance page).

This proposal is to update the RBC instructions and blanks to allow for direct pulls of information between the annual statement including the newly adopted general interrogatory as per 2023-15BWG MOD and the RBC Blank.

#### Additional Staff Comments:

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

**Revised 2-2023**

Company Name

Confidential when Completed

NAIC Company Code

LIFE INSURANCE

	Annual Statement Source	(1)		(2)	
		Statement Value	Factor	RBC	Requirement
<u>Individual &amp; Industrial Life Net Amount at Risk</u>					
(1) Total Individual & Industrial Life Net Amount at Risk	<b>Company-Records (Exhibit of Life Insurance Sum of Columns 2 and 4, Line 23 x 1000) - [(Exhibit 5 Sum of Columns 3 and 4, Line 0199999) +(Separate Accounts Exhibit 3 Column 3 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.01) - (General Interrogatories Part 2, Column 1, Line 10.02)]</b>				
(2) Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	<b>Company-Records-General Interrogatories Part 2, Column 1, Line 10.08</b>	_____	X †	=	=====
(3) Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	<b>Company-Records General Interrogatories Part 2, Column 1, Line 10.14</b>	_____	X †	=	=====
(4) Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)	=====	X †	=	=====
(5) Total Individual & Industrial Life	Lines (2) + (3) + (4)				=====
<u>Group &amp; Credit Life</u>					
(6) Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	<b>Company-Records- (Exhibit of Life Insurance Sum of Columns 6 and 9, Line 23 x 1000 ) - (Exhibit of Life Insurance Sum of Columns 2 and 4, Line 43 and 44 x 1000) - [(Exhibit 5 Sum of Columns 5 and 6, Line 0199999 ) + Separate Accounts Exhibit 3 Column 4 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.15) - ( General Interrogatories Part 2, Column 1, Line 10.16)]</b>				
(7) Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	<b>Company-Records- General Interrogatories Part 2, Column 1, Line 10.22</b>	_____	X †	=	=====
(8) Group & Credit Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	<b>Company-Records- General Interrogatories Part 2, Column 1, Line 10.28</b>	_____	X †	=	=====
(9) Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	<b>Company-Records General Interrogatories Part 2, Column 1, Line 10.34</b>	_____	X †	=	=====
(10) Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)	=====	X †	=	=====
(11) FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4, Line 43 and 44 x 1000	_____	X 0.0004	=	=====
(12) Total Group & Credit Life	Lines (7) + (8) + (9) + (10) + (11)				=====
(13) Total Life	Lines (5) + (12)				=====

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

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

## LIFE INSURANCE

LR025

### *Basis of Factors*

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95<sup>th</sup> percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released in excess of the mortality cost expected under the moderately adverse scenario. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95<sup>th</sup> percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

### *Specific Instructions for Application of the Formula*

Lines 6-11 are not applicable to Fraternal Benefit Societies.

The NAR in total and for each of the factor categories **is derived using annual statement sources including appropriate General Interrogatories starting yearend 2025** and are net of reinsurance throughout.

The NAR size bands apply to the total amounts for individual & industrial life and group & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to \$500 million. Size band 2 is for NAR amounts greater than \$500 million and up to \$25 billion. Size band 3 is for NAR amounts greater than \$25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance and Group & Credit Life Permanent Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization of ceded amounts for direct insurers should be based on the

Detail Eliminated to Conserve Space