

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"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

DATE: <u>3/25/25</u>	FOR NAIC USE ONLY
CONTACT PERSON: <u>Derek Noe</u>	Agenda Item # <u>2025-07-CA</u>
TELEPHONE: <u>816-783-8973</u>	Year <u>2025</u>
EMAIL ADDRESS: <u>DNOE@NAIC.ORG</u>	DISPOSITION
ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u>	ADOPTED:
NAME: <u>Mike Yanacheak</u>	<input type="checkbox"/> TASK FORCE (TF) _____
TITLE: <u>Chair</u>	<input type="checkbox"/> WORKING GROUP (WG) _____
AFFILIATION: <u>Iowa Insurance Division</u>	<input type="checkbox"/> SUBGROUP (SG) _____
ADDRESS: <u>1963 Bell Avenue, Suite 100, Des Moines,</u>	EXPOSED:
<u>IA 50315</u>	<input type="checkbox"/> TASK FORCE (TF) _____
	<input type="checkbox"/> WORKING GROUP (WG) _____
	<input type="checkbox"/> SUBGROUP (SG) _____
	REJECTED:
	<input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____
	OTHER:
	<input type="checkbox"/> DEFERRED TO _____
	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
	<input type="checkbox"/> (SPECIFY) _____

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

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

This proposal seeks to expand the instructions for LR034, LR035, PR033, PR034 and XR027 to facilitate consistent labeling of various company action levels across lines of businesses. In addition, the Blanks for LR034 and LR035 are modified to aligned with the corresponding instructions.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

COMPARISON OF TOTAL ADJUSTED CAPITAL TO RISK-BASED CAPITAL XR027

As long as the Total Adjusted Capital (TAC) shown on Line (1) of Comparison of Total Adjusted Capital to Risk-Based Capital section exceeds the Company Action Level Risk-Based Capital (CALRBC) shown on Line (2), the reporting entity has passed the minimum capital adequacy test of the Health RBC formula. However, that does not necessarily mean that the reporting entity is financially sound. The RBC formula is just one of many regulatory tools used by regulators to evaluate the financial health of regulated entities. Although healthy companies rarely fail the RBC test, weak companies often do pass the RBC test, although weak companies will eventually fail the test if their problems continue.

Those organizations that do trigger one of the RBC action levels are generally subject to regulatory action by the state of domicile, or by a non-domiciliary state where the reporting entity does business, under the provisions of state law. The NAIC *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315) provides for an increasingly stringent regulatory response for companies that trigger one of the RBC action levels. Those action levels are (1) Company Action Level, (2) Regulatory Action Level, (3) Authorized Control Level and (4) Mandatory Control Level.

The four RBC action levels trigger an increasingly stringent level of regulatory response for those companies that trigger one of the action levels. **In addition, a health organization triggers Company Action Level if it triggered trend test as described below.**

Lines (2) through (6) will be calculated automatically by the program. One of the following action levels will appear on Line (126).

- (1) Company Action Level (TAC is between 150 percent and 200 percent of the Authorized Control Level RBC).
- (2) Regulatory Action Level (TAC is between 100 percent and 150 percent of the Authorized Control Level RBC).
- (3) Authorized Control Level (TAC is between 70 percent and 100 percent of the Authorized Control Level RBC).
- (4) Mandatory Control Level (TAC less than 70 percent of the Authorized Control Level RBC).
- (5) Company Action Level – Trend Test (see instructions below on Trend Test)
- (0) None of the above.

Company Action Level requires the reporting entity to prepare and submit to the insurance commissioner a comprehensive financial plan. The plan identifies the conditions that contributed to the company's financial condition, contains proposals to correct the company's financial problems, and provides projections of the company's financial condition, both with and without the proposed corrections.

Regulatory Action Level requires the reporting entity to submit a comprehensive financial plan. In addition, the insurance commissioner may perform any examinations or analysis of the reporting entity's business and operations that it deems necessary and issue any appropriate corrective orders to address the company's financial problems.

Authorized Control Level authorizes the insurance commissioner to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the reporting entity which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation).

Mandatory Control Level requires the insurance commissioner to place the reporting entity under regulatory control.

Trend Test

| A company whose RBC ratio is greater than or equal to ~~between~~ 200 percent and less than 300 percent and combined ratio is greater than 105 percent could trigger a Company Action Level RBC regulatory action per the Trend Test.

RISK-BASED CAPITAL LEVEL OF ACTION

(Including Tax Sensitivity Test)

LR034

Basis of Factors

This section of the risk-based capital report compares amounts previously developed and thus determines the level of regulatory attention, if any, applicable to the company.

Specific Instructions for Application of the Formula

Line (6) This section will be calculated automatically by the software, indicating the Level of Action:

Company Action Level RBC
Regulatory Action Level RBC
Authorized Control Level RBC
Mandatory Control Level RBC
None

Company Action Level RBC – Trend Test

The indicators are different event levels as defined in the Risk-Based Capital (RBC) for Insurers Model Act. Refer to the model act for further elaboration.

(0) An indicator of None requires no action.

(1) Company Action Level requires the company to prepare and submit an RBC Plan to the commissioner of the state of domicile. After review, the commissioner will notify the company if the plan is satisfactory.

(2) Regulatory Action Level requires the insurer to submit to the commissioner of the state of domicile an RBC Plan, or if applicable, a Revised RBC Plan. After examination or analysis, the commissioner will issue an order specifying corrective actions (Corrective Order) to be taken.

(3) Authorized Control Level authorizes the commissioner of the state of domicile to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the insurer.

(4) Mandatory Control Level authorizes the commissioner of the state of domicile to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

(5) Company Action Level – Trend Test requires the company to prepare and submit an RBC Plan to the commissioner of the state of domicile. After review, the commissioner will notify the company if the plan is satisfactory. Refer to Instructions for LR035 for details.

Tax Sensitivity Test

The tax sensitivity test provides a “what if” scenario that calculates the different RBC levels using pre-tax factors and eliminates deferred tax assets and liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

TREND TEST

LR035

Basis of Factors

Companies whose Total Adjusted Capital is **greater than or equal to ~~between~~ 2.0 and less than 3.0** times the Authorized Control Level Risk-Based Capital are subject to a trend test. The trend test calculates the greater of the decrease in the margin between the current year and the prior year and the average of the past three years. It assumes that the decrease could occur again in the coming year. Any company **whose total adjusted capital, after adjusting for the maximum margin decrease, as reported on Line (15)**, that trends below 1.9 times the Authorized Control Level Risk-Based Capital **as in Line (16)** would trigger Company Action Level RBC regulatory action.

Specific Instructions for Application of the Formula

The trend test will utilize two of the previous three years of information **to determine the average decrease in the last three years as reported in Line (13), the Marginal Difference Line (14) and Total Adjusted Capital Less Marginal Difference Line (15) respectively.**

RISK-BASED CAPITAL LEVEL OF ACTION

Company Name _____ Cocode: 00000

RISK-BASED CAPITAL LEVEL OF ACTION
(Including Tax Sensitivity Test)

	<u>Source</u>	(1) <u>RBC Amount</u>
(1) Total Adjusted Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 30	LR033 Calculation of Total Adjusted Capital Column (2) Line (13)	\$0
<u>Trigger Points for Level of Regulatory Action:</u>		
(2) Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	\$0
(3) Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	\$0
(4) Authorized Control Level Risk-Based Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 31	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	\$0
(5) Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	\$0
(6) Level of Action, including Trend Test †:		None
(7) Authorized Control Level RBC Ratio	Line (1) / Line (4)	0.000%
<u>Tax Sensitivity Test</u>		
(8) Tax Sensitivity Test: Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Column (2) Line (18)	\$0
(9) Tax Sensitivity Test: Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	\$0
(10) Tax Sensitivity Test: Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	\$0
(11) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	\$0
(12) Tax Sensitivity Test: Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (77)	\$0
(13) Tax Sensitivity Test: Level of Action:		None

=IF(D8<D22,"Mandatory Control Level",IF(D8<D19,"Authorized Control Level", IF(D8<D16,"Regulatory Action Level", IF(D8<D13,"Company Action Level", IF(AND('LR035'!D29>'LR035'!D27,'LR035'!D11<'LR035'!D9), "Company Action Level -Trend Test","None")))))

† If Total Adjusted Capital Line (1) exceeds Company Action Level Risk-Based Capital Line (2), None will be indicated (unless the Trend Test triggers Company Action Level). Otherwise, the appropriate level of action will be indicated.

TREND TEST

Company Name

TREND TEST

	<u>Source</u>	<u>(1)</u> <u>Amount</u>
<u>Criteria for Applying Trend Test</u>		
(1) Authorized Control Level Risk-Based Capital	LR031 Calculation of Authorized Control Level Risk-Based Capital Column (1) Line (75)	\$0
(2) Trend Test Safe Harbor	3.0 x Line (1)	\$0
(3) Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Line (13)	\$0
<u>Trend Test Data</u>		
(4) First Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 2 Line 30	\$0
(5) First Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 2 Line 31	\$0
(6) Third Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 4 Line 30	\$0
(7) Third Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 4 Line 31	\$0
<u>Trend Test Calculation (only if applicable)†</u>		
(8) Current Year Margin	Line (3) - Line (1)	\$0
(9) First Prior Year Margin	Line (4) - Line (5)	\$0
(10) Third Prior Year Margin	Line (6) - Line (7)	\$0
(11) Decrease in Margin from First Prior Year	Line (9) - Line (8) (use zero if negative)	\$0
(12) Decrease in Margin from Third Prior Year	Line (10) - Line (8) (use zero if negative)	\$0
(13) Average decrease in Last Three Years	1/3 of Line (12)	\$0
(14) Marginal Difference	Greater of Line (11) and Line (13)	\$0
(15) Total Adjusted Capital Less Margin Difference	Line (3) - Line (14)	\$0
(16) Level of Risk-Based Capital	1.9 x Line (1)	\$0

† The Trend Test applies only if Total Adjusted Capital Line (3) is less than the Trend Test Safe Harbor Line (2) and ~~the LR034 Risk-Based Capital Level of Action Line (6) is "None"~~ Total Adjusted Capital Line (3) is greater than or equal to 200% of Authorized Control Level Risk-Based Capital as calculated in LR034 Line(2).

‡ If Line (15) is less than Line (16), the company triggers regulatory attention at the Company Action Level based on the trend test.

PR033 – Trend Test

A company whose RBC ratio is greater than or equal to 200 percent and less than 300 percent and combined ratio is greater than 120 percent could trigger a Company Action Level RBC regulatory action per the Trend Test.

PR034 - Comparison of Total Adjusted Capital and Authorized Control Level Risk-Based Capital

This section of the risk-based capital report compares amounts previously developed and determines which level of regulatory attention, if any, is applicable to the company.

Lines (1) through (5) will be calculated automatically ~~by the diskette~~. One of the following action levels will appear on L(76):

- 1) Company Action Level
- 2) Regulatory Action Level
- 3) Authorized Control Level
- 4) Mandatory Control Level
- 5) Company Action Level-Trend Test
- 0) None

Company Action Level requires the company to prepare and submit an RBC Plan to the commissioner of their state of domicile. The RBC Plan is to be submitted within 45 days. After review, the commissioner will notify the company if the plan is satisfactory.

Regulatory Action Level requires the insurer to submit an RBC Plan, or if applicable, a Revised RBC Plan within 45 days to the commissioner of their state of domicile. After examination or analysis, the commissioner will issue an order specifying corrective actions (Corrective Order) to be taken.

Authorized Control Level authorizes the commissioner to take whatever regulatory actions considered necessary to protect the best interest of the policyholders and creditors of the insurer, which may include the actions necessary to cause the insurer to be placed under regulatory control (i.e., rehabilitation or liquidation).

Mandatory Control Level authorizes the commissioner to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

When “None” shows, the company’s total adjusted capital exceeds the minimum RBC amount and the company is not subject to regulatory attention under the Risk-Based Capital (RBC) for Insurers Model Act. ~~NOTE: 98.5% of insurers usually fit into this category.~~