

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 |

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| <p style="text-align: right;">DATE: <u>1/12/2026</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Ben Slutsker, Chair</u></p> <p>TITLE: <u>Director of Life Actuarial Valuation</u></p> <p>AFFILIATION: <u>Minnesota Dept of Commerce</u></p> <p>ADDRESS: <u>85 7th Place East, Suite 280</u> <u>Saint Paul, MN 55101</u></p> | <p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # <u>2026-02-L</u></p> <p>Year <u>2026</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 (WG) _____</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

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

During first half of 2024, Life Risk-Based Capital (E) Working Group and Capital Adequacy (E) Task Force adopted Proposal 2024-05-L and 2024-17-L, which ultimately afforded “Affiliated BA Mortgage – Residential – All Other – In Good Standing” a risk charge of 0.0068. This charge mirrors what is incurred with direct ownership of “Residential Mortgage – All Other – In Good Standing” as though the reporting entity owns the mortgages directly and reports on LR004. The affiliated BA residential mortgage provision is considered a “look-through” treatment, on the premise that if the BA structure is affiliated, then the reporting entity has the ability to obtain and assess the underlying residential mortgage loans to determine appropriate RBC treatment.

In Feb 2025, while deliberating Proposal 2024-24-L Principle Based Bond Definition Project, both ACLI and Pacific Life included in their [comment letters](#) a request to revisit “Unaffiliated BA Mortgage – Residential – All Other – In Good Standing”, which is currently not separated out in AVR and therefore in RBC. This proposal is drafted to address that comment. A concurrent exposure of Proposal 2025-27BWG MOD was made at Blanks (E) Working Group to facilitate this proposal.

Additional Staff Comments:

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

Revised 2-2023

SCHEDULE BA MORTGAGES

| | | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---------------------|------------------------------------|---------------------------|----------------------------|
| | <u>Annual Statement Source</u> | <u>Book / Adjusted Carrying Value</u> | <u>Involuntary Reserve Adjustment †</u> | <u>RBC Subtotal</u> | <u>Cumulative Writedowns ‡</u> | <u>Average Factor</u> | <u>RBC Requirement</u> |
| <u>In Good Standing</u> | | | | | | | |
| (1) Insured or Guaranteed | AVR Equity Component Column 1 Line E6 + Line E8 | \$0 | \$0 | \$0 | XXX | X 0.0014 | = \$0 |
| (2) Affiliated / Unaffiliated Mortgages - Residential - All Other | AVR Equity Component Column 1 Line E7 + Line E24 | \$0 | \$0 | \$0 | XXX | X 0.0068 | = \$0 |
| (3) Unaffiliated Mortgages with Covenants | AVR Equity Component Column 1 Line E20 | \$0 | \$0 | \$0 | XXX | X 0.000 * | = \$0 |
| (4) Unaffiliated Mortgages - Deceased with Government Securities | AVR Equity Component Column 1 Line E21 | \$0 | \$0 | \$0 | XXX | X 0.0090 | = \$0 |
| (5) Unaffiliated Mortgages - Primarily Senior | AVR Equity Component Column 1 Line E22 | \$0 | \$0 | \$0 | XXX | X 0.0175 | = \$0 |
| (6) Unaffiliated Mortgages - All Other | AVR Equity Component Column 1 Line E23 | \$0 | \$0 | \$0 | XXX | X 0.0300 | = \$0 |
| (7) Affiliated Mortgages - Category CM1 | AVR Equity Component Column 1 Line E1 | \$0 | \$0 | \$0 | XXX | X 0.0090 | = \$0 |
| (8) Affiliated Mortgages - Category CM2 | AVR Equity Component Column 1 Line E2 | \$0 | \$0 | \$0 | XXX | X 0.0175 | = \$0 |
| (9) Affiliated Mortgages - Category CM3 | AVR Equity Component Column 1 Line E3 | \$0 | \$0 | \$0 | XXX | X 0.0300 | = \$0 |
| (10) Affiliated Mortgages - Category CM4 | AVR Equity Component Column 1 Line E4 | \$0 | \$0 | \$0 | XXX | X 0.0500 | = \$0 |
| (11) Affiliated Mortgages - Category CM5 | AVR Equity Component Column 1 Line E5 | \$0 | \$0 | \$0 | XXX | X 0.0750 | = \$0 |
| (12) Total In Good Standing | Sum of Lines (1) through (11) | \$0 | \$0 | \$0 | | | \$0 |
| <u>90 Days Overdue, Not in Process of Foreclosure</u> | | | | | | | |
| (13) Insured or Guaranteed 90 Days Overdue | AVR Equity Component Column 1 Line E10 + Line E12 | \$0 | \$0 | \$0 | XXX | X 0.0027 | = \$0 |
| (14) All Other 90 Days Overdue - Unaffiliated | AVR Equity Component Column 1 Line E25 | \$0 | \$0 | \$0 | XXX | X 0.1100 | = \$0 |
| (15) All Other 90 Days Overdue - Affiliated | AVR Equity Component Column 1 Line E9 + Line E11 + Line E13 | \$0 | \$0 | \$0 | XXX | X 0.1100 | = \$0 |
| (16) Total 90 Days Overdue, Not in Process of Foreclosure | Lines (13) + (14) + (15) | \$0 | \$0 | \$0 | \$0 | | \$0 |
| <u>In Process of Foreclosure</u> | | | | | | | |
| (17) Insured or Guaranteed in Process of Foreclosure | AVR Equity Component Column 1 Line E15 + Line E17 | \$0 | \$0 | \$0 | XXX | X 0.0054 | = \$0 |
| (18) All Other in Process of Foreclosure - Unaffiliated | AVR Equity Component Column 1 Line E26 | \$0 | \$0 | \$0 | XXX | X 0.1300 | = \$0 |
| (19) All Other in Process of Foreclosure - Affiliated | AVR Equity Component Column 1 Line E14 + Line E16 + Line E18 | \$0 | \$0 | \$0 | XXX | X 0.1300 | = \$0 |
| (20) Total In Process of Foreclosure | Lines (17) + (18) + (19) | \$0 | \$0 | \$0 | | | \$0 |
| (21) Total Schedule BA Mortgages (pre-MODCO/Funds Withheld) | Lines (12) + (16) + (20) | \$0 | \$0 | \$0 | | | \$0 |
| (22) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements | Company Records (enter a pre-tax amount) | | | | | | \$0 |
| (23) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements | Company Records (enter a pre-tax amount) | | | | | | \$0 |
| (24) Total Schedule BA Mortgages (including MODCO/Funds Withheld.) | Lines (21) - (22) + (23) | | | | | | \$0 |

† 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).

Details Eliminated to Conserve Space

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

| Line Number | NAIC Designation | Description | 1 Book/ Adjusted Carrying Value | 2 Reclassify Related Party Encumbrances | 3 Add Third Party Encumbrances | 4 Balance for AVR Reserve Calculations (Cols. 1+2+3) | Basic Contribution | | Reserve Objective | | Maximum Reserve | |
|------------------|------------------|---|---|--|---|--|--------------------|---------------------------|-------------------|----------------------------|-----------------|----------------------------|
| | | | | | | | 5 Factor | 6 Amount (Cols.4x5) | 7 Factor | 8 Amount (Cols. 4x7) | 9 Factor | 10 Amount (Cols.4x9) |
| SECTION D | | INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF PREFERRED STOCKS | | | | | | | | | | |
| <u>301</u> | 1 | Highest quality | | XXX | XXX | | 0.0005 | | 0.0016 | | 0.0033 | |
| <u>312</u> | 2 | High quality | | XXX | XXX | | 0.0021 | | 0.0064 | | 0.0106 | |
| <u>323</u> | 3 | Medium quality | | XXX | XXX | | 0.0099 | | 0.0263 | | 0.0376 | |
| <u>334</u> | 4 | Low quality | | XXX | XXX | | 0.0245 | | 0.0572 | | 0.0817 | |
| <u>345</u> | 5 | Lower quality | | XXX | XXX | | 0.0630 | | 0.1128 | | 0.1880 | |
| <u>356</u> | 6 | In or near default | | XXX | XXX | | 0.0000 | | 0.2370 | | 0.2370 | |
| <u>367</u> | | Affiliated life with AVR | | XXX | XXX | | 0.0000 | | 0.0000 | | 0.0000 | |
| <u>378</u> | | Total with preferred stock characteristics (Sum of Lines <u>30D1</u> through <u>36D7</u>) | | XXX | XXX | | XXX | | XXX | | XXX | |
| SECTION E | | INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS | | | | | | | | | | |
| | | In Good Standing Affiliated: | | | | | | | | | | |
| <u>381</u> | | Mortgages – CM1 – highest quality | | | XXX | | 0.0011 | | 0.0057 | | 0.0074 | |
| <u>392</u> | | Mortgages – CM2 – high quality | | | XXX | | 0.0040 | | 0.0114 | | 0.0149 | |
| <u>403</u> | | Mortgages – CM3 – medium quality | | | XXX | | 0.0069 | | 0.0200 | | 0.0257 | |
| <u>414</u> | | Mortgages – CM4 – low medium quality | | | XXX | | 0.0120 | | 0.0343 | | 0.0428 | |
| <u>425</u> | | Mortgages – CM5 – low quality | | | XXX | | 0.0183 | | 0.0486 | | 0.0628 | |
| <u>436</u> | | Residential mortgages – insured or guaranteed | | | XXX | | 0.0003 | | 0.0007 | | 0.0011 | |
| <u>447</u> | | Residential mortgages – all other | | XXX | XXX | | 0.0015 | | 0.0034 | | 0.0046 | |
| <u>458</u> | | Commercial mortgages – insured or guaranteed | | | XXX | | 0.0003 | | 0.0007 | | 0.0011 | |
| | | Overdue, Not in Process Affiliated: | | | | | | | | | | |
| <u>469</u> | | Farm mortgages | | | XXX | | 0.0480 | | 0.0868 | | 0.1371 | |
| <u>4710</u> | | Residential mortgages – insured or guaranteed | | | XXX | | 0.0006 | | 0.0014 | | 0.0023 | |
| <u>4811</u> | | Residential mortgages – all other | | | XXX | | 0.0029 | | 0.0066 | | 0.0103 | |
| <u>4912</u> | | Commercial mortgages – insured or guaranteed | | | XXX | | 0.0006 | | 0.0014 | | 0.0023 | |
| <u>5013</u> | | Commercial mortgages – all other | | | XXX | | 0.0480 | | 0.0868 | | 0.1371 | |
| | | In Process of Foreclosure Affiliated: | | | | | | | | | | |
| <u>5114</u> | | Farm mortgages | | | XXX | | 0.0000 | | 0.1942 | | 0.1942 | |
| <u>5215</u> | | Residential mortgages – insured or guaranteed | | | XXX | | 0.0000 | | 0.0046 | | 0.0046 | |
| <u>5316</u> | | Residential mortgages – all other | | | XXX | | 0.0000 | | 0.0149 | | 0.0149 | |
| <u>5417</u> | | Commercial mortgages – insured or guaranteed | | | XXX | | 0.0000 | | 0.0046 | | 0.0046 | |
| <u>5518</u> | | Commercial mortgages – all other | | | XXX | | 0.0000 | | 0.1942 | | 0.1942 | |
| <u>5619</u> | | Total affiliated (Sum of Lines <u>38-DE1</u> through <u>55DE18</u>) | | | XXX | | XXX | | XXX | | XXX | |
| <u>5720</u> | | Unaffiliated – in good standing with covenants | | | XXX | | (c) | | (c) | | (c) | |
| | | Unaffiliated – in good standing defeased with government securities | | | XXX | | | | | | | |
| <u>5821</u> | | Unaffiliated – in good standing primarily senior | | | XXX | | 0.0011 | | 0.0057 | | 0.0074 | |
| <u>5922</u> | | Unaffiliated – in good standing all other | | | XXX | | 0.0040 | | 0.0114 | | 0.0149 | |
| <u>6023</u> | | Unaffiliated – in good standing all other | | | XXX | | 0.0069 | | 0.0200 | | 0.0257 | |
| <u>24</u> | | Unaffiliated – in good standing – residential mortgages - all other | | XXX | XXX | | 0.0015 | | 0.0034 | | 0.0046 | |
| <u>61245</u> | | Unaffiliated – overdue, not in process | | | XXX | | 0.0480 | | 0.0868 | | 0.1371 | |
| <u>62256</u> | | Unaffiliated – in process of foreclosure | | | XXX | | 0.0000 | | 0.1942 | | 0.1942 | |
| <u>63267</u> | | Total unaffiliated (Sum of Lines <u>57-DE20</u> through <u>62DE256</u>) | | | XXX | | XXX | | XXX | | XXX | |

Details Eliminated to Conserve Space