

MEMORANDUM

TO: Commissioner Doug Ommen, Chair, Capital Adequacy (E) Task Force
Director Judith L. French, Vice Chair, Capital Adequacy (E) Task Force

FROM: Philip Barlow, Chair, Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice Chair, Life Risk-Based Capital (E) Working Group

DATE: February 21, 2025

RE: ACLI Comment Letter Referral

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received and discussed a comment letter received from the American Council of Life Insurers (ACLI) in response to Proposal 2024-24-L—Principle Based Bond Definition Project. Within its comment letter, the ACLI inquired about potential referral(s) to the Health Risk-Based Capital (E) Working Group and the Property and Casualty Risk-Based Capital (E) Working Group to facilitate modifications to the health and property/casualty (P/C) risk-based capital (RBC) blanks, if deemed appropriate.

Since changes to the health and P/C RBC blanks resulted from the adoption of the principle-based bond definition was deliberated in Proposal 2025-25-CA at the Capital Adequacy (E) Task Force, the Working Group hereby forwards the ACLI comment letter as Attachment A for the Task Force’s consideration.

Please contact Maggie Chang, NAIC support staff, at mchang@naic.org with any questions.

Cc: Julie Gann, Maggie Chang, Eva Yeung, Kazeem Okosun, Derek Noe

Attachment A: ACLI comment letter titled “LRBC October 2024 Exposures” and dated Feb. 5, 2025

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February 5, 2025

Philip Barlow

Chair, NAIC Life Risk-Based Capital (RBC) (E) Working Group (LRBC)

Re: LRBC October 2024 Exposures

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the two RBC Proposal Forms (2024-21-L and 2024-24-L) which were exposed after the Working Group's meeting in October 2024. ACLI has split our comments below based on which exposure document they are referencing after a brief question relating to both forms.

General Feedback

- Will there be referrals for the needed modifications to the Health and P&C blanks? While we know action in these areas is outside the purview of this Working Group, it is perhaps worth notifying the groups of jurisdiction to let them decide if any actions are needed.

2024-21-L (Tax Credit)

LR007 (Real Estate):

- Line 21 (Total Tax Credit Investments) – We understand the line is being repurposed now as a total line, but do we need an instruction for that line? We do not believe the other total lines on LR007 are included in the instructions.

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

acli.com

2024-24-L (Principles-Based Bond Project)Blanks and/or Instructions -*LR008 (Other Long-Term Assets):*

- The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?
- Line (49.2) – Is the first sentence still needed now that we are speaking about 2025 RBC filing? Should this just state "Include AVR Equity component, Column 1, Line 93 within line (49.2)?"

LR009 (Schedule BA Mortgages):

- Basis of factors – the spacing in subsections 1 and 4 should be corrected.
- Changes to scheduled LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages in good standing for “(2) Affiliated Mortgages – Residential – All Other” with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, a similar line was not added for Unaffiliated Residential Mortgages in Good Standing. This leads to Unaffiliated Residential Mortgages in good standing getting included in either "Unaffiliated Mortgages - Primarily Senior" which has a charge of 0.0175 or “(6) Unaffiliated Mortgages – All Other” which has a charge of 0.0300. Should an additional line be added for “Unaffiliated Mortgages – Residential – All Other” with a proposed charge of 0.0068?
- ACLI would also recommend addressing the fact that BA Farm Loans 90 days overdue and in foreclosures are not mapped into LR009 from the AVR page. This can be seen as there are missing AVR lines (#46 and #51) on the LR009 source column.

LR010 (Asset Concentration Factor):

- Specific instructions for application of the formula – does “short-term investments” need to include cash equivalents now that they are part of LR002?

LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (19) should not be included as LR002 Bonds have their own page only for bonds (LR045) which is shown above with the same reference.

LR048- Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):

- Column 4 – LR002 Column (2) Line (20) should not be included as LR002 Bonds have their own page only for bonds (LR046) which is shown above with the same reference.

Blanks Pages -*LR002 (Short Term and Cash Equivalent Bonds):*

- Line 22 – Now that cash equivalents are to be added here, could there be a need to add a reference for the inclusion of cash equivalents (line 0299999) on this line too? Currently the line only includes LT Bonds and ST Bonds but not Cash Equivalents.

LR017:

- Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.

Thank you once again for the opportunity to review these RBC Proposal Forms and we look forward to continued discussions at a future LRBC meeting.

Sincerely,

A handwritten signature in cursive script, appearing to read "B Banfeeli Shannon Jones Colin Masterson". The signature is written in black ink and is positioned below the "Sincerely," text.

cc: Kazeem Okosun, NAIC