

CAPITAL ADEQUACY (E) TASK FORCE

Capital Adequacy (E) Task Force August 12, 2025, Minutes

Capital Adequacy (E) Task Force June 30, 2025, Meeting Minutes (Attachment One)

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Proposal 2025-09-P (Underwriting Risk Line 1 Factors) (Attachment One-B)

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Draft Pending Adoption

Draft: 8/18/25

Capital Adequacy (E) Task Force
Minneapolis, Minnesota
August 12, 2025

The Capital Adequacy (E) Task Force met in Minneapolis, MN, Aug. 12, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Mike Yanacheak (IA); Judith L. French, Vice Chair, represented by Tom Botsko (OH); Heather Carpenter represented by David Phifer (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Timothy J. Temple represented by Tom Travis (LA); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Ned Gaines represented by Hermoliva Abejar (NV); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker and Rachel Hemphill (TX); Scott A. White represented by Doug Stolte (VA); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its June 30, May 15, and Spring National Meeting Minutes

Yanacheak reported that the Task Force met on June 30, May 15, and March 25. During its June 30 meeting, the Task Force undertook the following action: 1) adopted proposals 2025-10-L (RBC Asset Credit for Modco/Funds Withheld), 2025-09-P (Underwriting Risk Line 1 Factors), 2025-11-CR (Catastrophe Modeling Attestation), and 2025-03-CA (Underwriting Risk Investment Income Update); 2) adopted its revised procedure document, which it had exposed for a 30-day public comment period that ended June 14, with no comments received; 3) adopted its 2026 proposed charges, which it had exposed for a 30-day public comment period that ended June 14, with one comment received from the American Council of Life Insurers (ACLI) in support of the addition to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's charges; 4) exposed a referral from the Statutory Accounting Principles (E) Working Group regarding changes to the collateral loan Schedule BA reporting for a 45-day public comment period ending Aug. 14; and 5) received a comment letter from PineBridge Investments regarding the Risk-based capital (RBC) treatment for Securities Valuation Office (SVO)-designated investments. Yanacheak also noted that during the May 15 meeting, the Task Force took the following action: 1) adopted proposals 2024-21-L MOD (Tax Credit Investments), 2024-24-L MOD (Principle-Based Bond Definition Project), 2025-01-L (C-2 Mortality Risk – LR025), 2025-04-L MOD (Other Long-Term Assets LR008), 2025-05-L (Asset Concentration LR010), 2025-06-CR (Disclosure Climate Cat Exposure Instruction), 2024-25-CA (Principle-Based Bond Project for P/C and Health), 2024-26-CA (Tax Credit for P/C and Health), and 2025-07-CA MOD (Trend Test); 2) exposed proposal 2025-03-CA (Underwriting Risk Investment Income Update) for a 30-day public comment period ending June 14; 3) exposed its revised procedure document, and 2026 proposed charges for a 30-day public comment period ending June 14; 4) discussed comments received on proposal 2024-16-CA (Revised Preamble); 5) discussed bond-like treatment for SVO-designated bond mutual funds; and 5) discussed the recently established Risk-Based Capital Governance (EX) Task Force.

Botsko made a motion, seconded by Chou, to adopt the Task Force's June 30 (Attachment One), May 15, (Attachment Two), and March 25 (*see NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force*) minutes. The motion passed unanimously.

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2. Adopted the Reports of its Working Groups

A. Health Risk-Based Capital (E) Working Group

Drutz reported that the Health Risk-Based Capital (E) Working Group met June 20. During this meeting, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted its April 30 minutes, which included the following action: a) discussed the referral regarding interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers; b) discussed the referral regarding INT 24-02: Medicare Part D Prescription Payment Plan; c) referred proposal 2025-03-CA to the Capital Adequacy (E) Task Force, which had been exposed for a 30-day comment period; d) exposed the American Academy of Actuaries (Academy's) H2—Underwriting Risk Component and managed care credit calculation in the health risk-based capital (RBC) formula report for a 60-day public comment period that ended June 29; 3) discussed the 2024 health RBC statistics, which included 1,143 filings—21 companies triggered an action level, and 18 companies triggered the trend test; 4) extended the exposure of the Academy's H2—Underwriting Risk Component and managed care credit calculation in the RBC formula report to June 30.

B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Reedy reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met June 23 and April 22. During these meetings, the Working Group took the following action: 1) adopted its Spring National Meeting minutes; 2) discussed comment letters received on the American Council of Life Insurers' (ACLI's) RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in the 2023 annual statement filings; and 3) exposed proposal 2025-12-IRE (Securities Valuation Office [SVO] Fund Alignment Project) for a 30-day public comment period that ended July 23. The proposal was drafted for the life RBC framework only.

Reedy also said the Working Group met in joint regulator-to regulator session with the Statutory Accounting Principles (E) Working Group and the Valuation of Securities (E) Task Force, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss the review of residual tranches and/or interest data reported by insurance companies in their 2024 annual statement and RBC filings.

C. Life Risk-Based Capital (E) Working Group

Reedy reported that the Life Risk-Based Capital (E) Working Group met on July 21, in joint session with the Variable Annuities Capital and Reserve (E/A) Subgroup; June 18; May 7, in joint session with the Variable Annuities Capital and Reserve (E/A) Subgroup; May 1; and April 9 in joint session with the Life Actuarial (A) Task Force. During these meetings, the Working Group took the following action: 1) discussed comments received from the Academy and the ACLI on a presentation prepared by NAIC staff to solicit feedback on potential changes to the C-3 Phase II capital metric, as well as other changes to methodology; 2) exposed proposal 2025-14-L (C-3 GOES Implementation) for a 30-day public comment period ending Aug. 20; 3) adopted its Spring National Meeting minutes; 4) adopted its May 7 and April 9 minutes; 5) adopted proposal 2025-10-L (RBC Asset Credit Modco/FWH); 6) adopted proposal 2025-13-L (Covariance) and delayed exposure until further notice; 7) discussed 2024 life RBC statistics; 8) discussed its referral to the Statutory Accounting Principles (E) Working Group regarding asset valuation reserves (AVR) equity and other invested asset component lines 15, 16, 68, and 69; 9) received a referral from the Statutory Accounting Principles (E) Working Group on collateral loans; 10) discussed a request for the NAIC to provide generator of economic scenarios (GOES) sensitivity scenarios; 11) exposed a presentation prepared by NAIC staff to solicit feedback on potential changes to the C-3 Phase I and C-3 Phase II capital metric, as well as other changes to methodology, for a 45-day public comment period that ended June 23; 12) adopted proposal 2024-21-L MOD (Tax Credit Investments) to update the RBC instructions and blanks for adoption of #2022-14 and 2024-11BWG MOD by the Statutory Accounting Principles (E) Working Group and the Blanks (E)

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Working Group, respectively; 13) adopted proposal 2024-24-L MOD (Principle-Based Bond Definition Project) to incorporate changes adopted by the Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD, with these changes resulting from the Statutory Accounting Principles (E) Working Group's adoption of the principle-based bond definition; 14) adopted proposal 2025-01-L (C-2 Mortality Risk) 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; 15) adopted proposal 2025-05-L (Assets Concentration—LR010) to clarify the LR010 instruction so that "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002 (C-1o risk component); 16) adopted proposal 2024-04-L (Other Long-Term Asset—LR008) to reorganize the LR008—Other Long-Term Assets page to ensure Schedule BA assets of the same risk components (C-1o versus C1-cs) are grouped to facilitate proper modified coinsurance (modco)/funds withheld (FWH) reinsurance agreement adjustments within LR008; 17) exposed proposal 2025-10-L (RBC Asset Credit modco/FWH) for a 30-day public comment period that ended May 30; 18) heard a presentation from the Academy on C-3 alignment; 19) heard a presentation from the Academy on covariance; 20) received a referral from the Statutory Accounting Principles (E) Working Group on RBC asset credit for modco/FWH reinsurance transactions; 21) exposed amendment proposal form (APF) 2025-04 for a 21-day public comment period that ended April 29; 22) discussed *Valuation Manual* (VM)-20, Requirements for Principle-Based Reserves for Life Insurance, deterministic reserve (DR) scenario methodology; and 23) discussed the GOES model governance framework.

D. Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup

Botsko reported that the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup met June 30. During this meeting, the Working Group and Subgroup took the following action: 1) adopted their Spring National Meeting minutes; 2) adopted their June 11 minutes, which included the following action: a) adopted proposal 2025-09-P (Underwriting Risk Line 1 Factors, and proposal 2025-11-CR (Catastrophe Modeling Attestation); b) discussed 2024 property/casualty (P/C) RBC statistics; c) heard updates on the wildfire impact analysis; d) discussed climate impact disclosures; e) discussed flood peril; and f) discussed property claim services events list enhancement; and 3) adopted their May 2 minutes, which included the following action: a) adopted proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction); b) exposed proposal 2025-09-P (Underwriting Risk Line 1 Factors), and proposal 2025-11-CR (Catastrophe Modeling Attestation) for a 30-day public comment period that ended June 1; c) heard updates on the wildfire impact analysis; d) discussed holding a summer panel discussion; e) discussed the process for updating the catastrophe event lists; f) discussed the Statutory Accounting Principles (E) Working Group referral for RBC assessment for capital notes and non-bond debt securities; g) discussed bond-like treatment for SVO-designated mutual funds; and h) discussed the appointment of the Risk-Based Capital Model Governance (EX) Task Force.

Botsko made a motion, seconded by Drutz, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment Three), Life Risk-Based Capital (E) Working Group (Attachment Four), the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Five), and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment Six). The motion passed unanimously.

3. Adopted the Health, Life, and P/C Newsletters

Yanacheak stated that the 2025 health, life, and property/casualty (P/C) newsletters encompass all the proposals adopted by the Working Groups and Task Force for year-end 2025 health, life, and P/C RBC forecasting and instructions publications. He mentioned that the purpose of this adoption was to review the newsletter's content, with the format to be updated at a later date. The adopted versions of the newsletters will be posted on the Working Groups' web page in September.

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Botsko made a motion, seconded by Reedy, to adopt the contents of the Working Groups' 2025 health, life, and P/C RBC newsletters (Attachment Seven). The motion passed unanimously.

4. Discussed Preamble Issues

Yanacheak stated that the purpose of this discussion is to ensure all pertinent issues are publicly addressed. He referenced the 1993 Proceedings, noting that the proposed formula is a threshold capital formula rather than a target capital formula. This formula is designed to identify companies with capital levels requiring regulatory attention, not to differentiate among adequately capitalized companies. Therefore, it would be inappropriate to use this formula to rate or rank adequately capitalized companies.

Yanacheak said that regulators received around 150 comment letters at that time. Most regulators wanted the RBC formula and results to be public, but the industry was wary due to the significant change from the previous flat capital requirements. Consequently, the industry did not want the formula details and RBC ratios disclosed to avoid misuse. However, times have changed, and some in the industry now believe the RBC should be used to rank companies.

Yanacheak identified four key items from previous discussions: 1) the topic of publishing the total adjusted capital (TAC) and authorized control level (ACL) in the Annual Statement Five-Year Historical page is not currently on the Task Force agenda. The Task Force never received a proposal to remove these items; 2) the Task Force did not refer to any annual statement changes to the Blanks (E) Working Group; 3) the Task Force and its working groups are committed to continuously refining the RBC framework as needed. For example, the issue of calibration of safety level/metric was discussed in the Variable Annuities Capital and Reserve (E/A) Subgroup; 4) some preamble conversations will be informed by discussions with the Risk-Based Capital Model Governance (EX) Task Force. Yanacheak also mentioned that the NAIC staff included the RBC preamble proposal, industry comments, and summaries (Attachment Eight, Attachment Nine, and Attachment Ten) from the RBC Purposes and Guideline Ad Hoc Subgroup in the meeting materials. He encouraged all interested parties to review the materials, provide constructive comments, and include a redline with revised language two weeks before the upcoming October meeting. The October meeting will discuss and determine which comments will be included in the final exposure.

Botsko expressed full support for the plan, believing it will address all outstanding issues in the preamble proposal. Peter Gould (Retired) also found the layout plan helpful and looked forward to commenting and participating in the October meeting.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2025-1-SummerI/Aug. 12 CADTF minutes.docx

Draft: 7/2/25

Capital Adequacy (E) Task Force
Virtual Meeting
June 30, 2025

The Capital Adequacy (E) Task Force met June 30, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Mike Yanacheak (IA); Judith L. French, Vice Chair, represented by Tom Botsko (OH); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Eric Unger (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Timothy J. Temple represented by Melissa Gibson (LA); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Andy Schallhorn (OK); Michael Humphreys represented by Diana Sherman (PA); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Michael Wise represented by Hinal Patel (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker and Rachel Hemphill (TX); Scott A. White represented by Greg Chew (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted Proposal 2025-10-L (RBC Asset Credit for Modco/Funds Withheld)

Barlow stated that proposal 2025-10-L originated from a referral by the Statutory Accounting Principles (E) Working Group. This proposal was exposed May 1 for a 30-day public comment period that ended May 30, during which no comments were received by the Life Risk-Based Capital (E) Working Group. However, NAIC staff noted a few editorial changes to the instructions for LR045 through LR048 as a result of the adoption of proposal 2025-04-L (Other Long-Term Assets). The Working Group adopted this proposal during its June 18 meeting, and the changes will be effective for 2025 risk-based capital (RBC) reporting.

Barlow made a motion, seconded by Botsko, to adopt proposal 2025-10-L (Attachment One-A). The motion passed unanimously.

2. Adopted Proposal 2025-09-P (Underwriting Risk Line 1 Factors)

Botsko emphasized that proposal 2025-09-P is intended to provide a routine annual update to the industry underwriting factors, specifically premium and reserve in PR017 and PR018 within the property/casualty (P/C) RBC formula. The proposal was exposed for a 30-day public comment period that ended June 1, with no comments received. The Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup adopted this proposal during their June 11 joint meeting.

Botsko made a motion, seconded by Chou, to adopt proposal 2025-09-P (Attachment One-B). The motion passed unanimously.

3. Adopted Proposal 2025-11-CR (Catastrophe Modeling Attestation)

Chou explained that proposal 2025-11-CR seeks to update the PR002 attestation by including the newly added wildfire and severe convective storm perils from PR027 for informational purposes only. Chou reiterated that the Subgroup will closely monitor the development of these catastrophe perils and update the attestation and PR027

interrogatories as needed. The proposal was exposed for a 30-day public comment period that ended June 1, with no comments received. The Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup adopted this proposal during their June 11 joint meeting.

Chou made a motion, seconded by Botsko, to adopt proposal 2025-11-CR (Attachment One-C). The motion passed unanimously.

4. Adopted Proposal 2025-03-CA (Underwriting Risk Investment Income Update)

Drutz stated that the purpose of this proposal is to provide an annual update on the underwriting factors for comprehensive medical, Medicare supplement, dental, and vision for the investment income adjustment. The Health Risk-Based Capital (E) Working Group exposed this proposal for a 30-day public comment period that ended April 23, during which one comment was received from AHIP in support of the proposal. Additionally, the Task Force exposed this proposal for a 30-day public comment period that ended June 14, with no comments received.

Drutz made a motion, seconded by Eft, to adopt proposal 2025-03-CA (Attachment One-D). The motion passed unanimously.

5. Adopted its Revised Procedure Document

Yanacheak stated that the purpose of the revisions to its procedure document is to: 1) further clarify the meaning of RBC structural and non-structural changes; 2) change the working agenda review cadence to an annual review during each Fall National Meeting; and 3) adjust the initial national meeting materials posting period to 10 calendar days. He mentioned that this revised procedure document was exposed for a 30-day public comment period that ended June 14, during which no comments were received.

Malm made a motion, seconded by Reedy, to adopt its revised procedure document (Attachment One-E). The motion passed unanimously.

6. Adopted its 2026 Proposed Charges

Yanacheak said the proposed changes to the Task Force's 2026 charges include: 1) adding one entry to item one; 2) modifying item two to clarify the non-structural change meaning; and 3) revising the charges for the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. The Task Force agreed to expose its proposed charges for a 30-day public comment period that ended June 14, during which one comment was received from the American Council of Life Insurers (ACLI) in support of the addition to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's charges, which calls out "coordination and alignment between different NAIC workstreams."

Botsko made a motion, seconded by Sherman, to adopt the Task Force's revised proposed charges (Attachment One-F). The motion passed unanimously.

7. Exposed a Statutory Accounting Principles (E) Working Group Referral Regarding Collateral Loan Schedule BA Reporting Changes

Yanacheak reported that the Task Force received a referral from the Statutory Accounting Principles (E) Working Group on June 5 regarding changes to the collateral loan schedule BA reporting. Bruggeman noted that in 2023, the Statutory Accounting Principles (E) Working Group began reviewing collateral loans due to their rapid increase as an asset class, particularly among a select few insurers, where they constituted up to a quarter of total invested

assets by the end of 2024. Regulators expressed concerns that investments, which would typically incur a higher RBC charge, were being structured as collateral loans to benefit from the lower, fixed charge applicable to them. The Statutory Accounting Principles (E) Working Group adopted the final agenda item proposing more granular reporting lines on Schedule BA. On May 29, the Blanks (E) Working Group adopted revisions to the asset valuation reserve (AVR) and Schedule BA (Other Long-Term Assets) to incorporate more detailed reporting of collateral loans based on the type of underlying collateral securing the loan, effective Jan. 1, 2026. Bruggeman also mentioned that the Statutory Accounting Principles (E) Working Group appreciates the Task Force's consideration of specific RBC factors for the different collateral loan reporting lines. Yanacheak encouraged all interested parties to review the referral, which the Task Force will discuss in October.

Hemphill made a motion, seconded by Sherman, to expose this referral for a 45-day public comment period ending Aug. 14. The motion passed unanimously.

8. Received a Comment Letter from PineBridge Investments Regarding the RBC Treatment for SVO-Designated Investments

Yanacheak reported that the Task Force received a comment letter from PineBridge Investments regarding the bond-like treatment for SVO-designated bond mutual funds. He noted that this comment was also directed to the various RBC working groups under the Financial Condition (E) Committee, which are currently reviewing the issue. Yanacheak stated that he will discuss this matter with the different working groups and provide an update in October.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2025-2-Summer/June 30 CADTF minutes.docxf

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 |

DATE: <u>04/14/2025</u>		FOR NAIC USE ONLY	
CONTACT PERSON: <u>Kazeem Okosun</u>		Agenda Item # <u>2025-10-L</u>	
TELEPHONE: <u>816-783-8981</u>		Year <u>2025</u>	
EMAIL ADDRESS: <u>kokosun@naic.org</u>		DISPOSITION	
ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Philip Barlow, Chair</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
TITLE: <u>Associate Commissioner of Insurance</u>		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>06-20-2025</u>	
AFFILIATION: <u>District of Columbia</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>1050 First Street, NE Suite 801</u>		EXPOSED:	
<u>Washington, DC 20002</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u>	
		<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 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)

The Working Group received a referral from Statutory Accounting Principles (E) Working Group, which informed the Working Group of the adopted statutory accounting revisions for the reporting of modified coinsurance (modco) and fund withheld (FWH) assets as restricted assets, and added new disclosures on whether the modco/FWH assets have been pledged for another purpose specific to the ceding insurance reporting entity. The reporting changes are anticipated to be effective year end 2025, subject to Blanks (E) Working Group activity.

The referral suggested clarifications to the *Life/Fraternal RBC Forecasting and Instructions* so that it is clear that if any portion of a modco/FWH assets has been concurrently used as a pledged asset for a purpose specific to the ceding insurance reporting entity at any time of the year, the RBC for the ceding company shall not be reduced.

Additional Staff Comments:

05-01-2025: Proposal was exposed with comments due 05-30-2025. No comment letter received (KO)

6-18-2025: Highlighted in YELLOW were editorial changes we needed to make to the instruction due to the adoption of Proposal 2025-04-L MOD

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

Revised 2-2023

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.



MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded - Bonds C-1o
LR045

Column (4)

Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The “total” should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed - Bonds C-1o
LR046

Column (4)

Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The “total” should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs
LR047

Column (4)

Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The “total” should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. Specifically, LR047 Column (4), Line (9999999) should equal the sum of LR004 Column (6) Line (29), LR005 Column (5) Line (8) and (19), LR006 Column (3) Line (5), LR007 Column (3) Line (11) and (23), LR008 Column (5) Line (9), Line (19), Line (29), Line (39), **Line (45)**, **Line (47)** and Line (55), LR009 Column (6) Line (22), LR012 Column (2) Line (19) and LR017 Column (5) Line (28).

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs

LR048

Column (4)

Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The “total” should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. Specifically, LR048 Column (4), Line (9999999) should equal the sum of LR004 Column (6) Line (30), LR005 Column (5) Line (9) and (20), LR006 Column (3) Line (6), LR007 Column (3) Line (12) and (24), LR008 Column (5) Line (10), Line (20), Line (30), Line (40), ~~Line (46) Line (48)~~ and Line (56), LR009 Column (6) Line (23), LR012 Column (2) Line (20) and LR017 Column (5) Line (29).

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 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 checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right; margin-right: 50px;">DATE: <u>4/16/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>P/C RBC (E) Working Group</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-09-P</u> Year <u>2025</u></p> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED: <input type="checkbox"/> TASK FORCE (TF) _____ <input checked="" type="checkbox"/> WORKING GROUP (WF) <u>06/11/25</u> <input checked="" type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED: <input type="checkbox"/> TASK FORCE (TF) _____ <input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05/02/25</u> <input checked="" type="checkbox"/> SUBGROUP (SG) <u>05/02/25</u></p> <p>REJECTED: <input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER: <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <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 checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input 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 checked="" 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)

The proposed change aims to deliver a routine annual update to the industry underwriting factors, including premium and reserve, within the PCRBC formula.

Additional Staff Comments:

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

Revised 2-2023

PR017 Line 1 Reserves

Schedule P Line of Business	LOB	Proposed for adoption - 2025 Industry Average Development	2024 Industry Average Development	2023 Industry Average Development	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development
H/F	A	0.997	1.020	0.999	1.001	0.998	0.993	0.989	0.989	0.984	0.972
PPA	B	1.072	1.061	1.047	1.022	1.025	1.035	1.026	1.022	1.012	1.002
CA	C	1.110	1.115	1.106	1.082	1.083	1.078	1.087	1.060	1.034	1.015
WC	D	0.912	0.882	0.873	0.906	0.912	0.916	0.955	0.952	0.971	0.971
CMP	E	1.018	1.024	1.026	1.037	0.999	1.016	0.992	0.967	0.956	0.942
MM Occurrence	F1	0.914	0.910	0.906	0.887	0.874	0.861	0.864	0.871	0.868	0.841
MM Clms Made	F2	1.024	0.996	0.984	0.983	0.973	0.940	0.907	0.886	0.854	0.822
SL	G	0.995	0.996	0.994	0.990	0.976	0.963	0.938	0.933	0.926	0.919
OL	H	0.995	0.993	0.969	0.995	0.964	0.968	0.971	0.966	0.952	0.929
Fidelity / Surety	K	0.875	0.875	0.852	0.842	0.915	0.907	0.995	0.996	1.016	1.035
Special Property/Pet Insurance Plan	I/U	0.985	0.989	0.983	0.993	0.978	0.977	0.972	0.971	0.982	0.973
Auto Physical Damage	J	1.002	0.999	1.016	1.011	0.989	0.993	0.996	1.000	1.001	0.995
Other (Credut, A&H)	L	0.938	0.942	0.946	0.955	0.965	0.971	0.973	0.976	0.981	0.986
Financial / Mortgage Guaranty	S	0.486	0.493	0.674	0.694	0.723	0.682	0.788	0.870	0.820	0.853
Intl	M	1.927	2.168	2.414	3.041	1.104	1.162	1.037	0.851	0.855	0.897
Rein. Property & Financial Lines	N/P	0.925	0.930	0.924	0.917	0.893	0.886	0.872	0.834	0.814	0.814
Rein. Liability	O	1.090	1.054	1.024	1.008	0.989	0.985	0.955	0.945	0.914	0.896
PL	R	0.911	0.882	0.874	0.867	0.879	0.900	0.913	0.921	0.935	0.937
Warranty	T	0.978	0.991	0.995	0.998	1.007	1.013	1.017	1.015	0.989	0.977

PR018 Line 1 Premiums

Schedule P Line of Business	LOB	Proposed for Adoption - 2025 Industry Average Loss & Expense Ratio	2024 Industry Average Loss & Expense Ratio	2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio
H/F	A	0.700	0.695	0.679	0.665	0.681	0.678	0.681	0.687	0.688	0.701
PPA	B	0.807	0.799	0.791	0.793	0.795	0.810	0.810	0.806	0.800	0.792
CA	C	0.792	0.787	0.777	0.761	0.761	0.759	0.737	0.724	0.706	0.689
WC	D	0.649	0.646	0.651	0.664	0.682	0.705	0.726	0.744	0.751	0.752
CMP	E	0.683	0.684	0.671	0.661	0.673	0.672	0.666	0.664	0.647	0.648
MM Occurrence	F1	0.763	0.752	0.767	0.750	0.731	0.726	0.730	0.780	0.777	0.767
MM Clms Made	F2	0.840	0.828	0.815	0.829	0.821	0.797	0.768	0.747	0.722	0.691
SL	G	0.565	0.583	0.578	0.585	0.593	0.603	0.593	0.569	0.567	0.572
OL	H	0.664	0.649	0.641	0.637	0.635	0.639	0.638	0.633	0.629	0.618
Fidelity / Surety	K	0.374	0.375	0.363	0.366	0.394	0.384	0.399	0.417	0.430	0.464
Special Property/Pet Insurance Plan	I/U	0.552	0.559	0.550	0.547	0.559	0.553	0.554	0.563	0.555	0.559
Auto Physical Damage	J	0.731	0.733	0.727	0.718	0.726	0.732	0.730	0.732	0.727	0.711
Other (Credit, A&H)	L	0.714	0.711	0.702	0.698	0.693	0.684	0.682	0.709	0.712	0.699
Financial / Mortgage Guaranty	S	0.159	0.158	0.209	0.203	0.252	0.513	0.811	1.099	1.175	1.293
Intl	M	1.184	1.153	1.136	1.166	0.769	0.758	0.795	0.584	0.565	0.607
Rein. Property & Financial Lines	N/P	0.597	0.587	0.578	0.566	0.558	0.534	0.522	0.486	0.459	0.512
Rein. Liability	O	0.788	0.760	0.743	0.725	0.713	0.708	0.679	0.666	0.609	0.600
PL	R	0.609	0.594	0.597	0.601	0.617	0.645	0.656	0.671	0.670	0.684
Warranty	T	0.641	0.641	0.652	0.665	0.681	0.691	0.695	0.732	0.645	0.611

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 type="checkbox"/> Life RBC (E) Working Group |
| <input checked="" 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; margin: 0;">DATE: <u>4/15/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u></p> <p>NAME: <u>Wanchin Chou</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Connecticut Department of Insurance</u></p> <p>ADDRESS: <u>153 Market St., Hartford CT 06103</u></p>	<p style="text-align: center; margin: 0;">FOR NAIC USE ONLY</p> <p>Agenda Item #<u>2025-11-CR</u></p> <p>Year <u>2025</u></p> <hr/> <p style="text-align: center; margin: 0;">DISPOSITION</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 checked="" type="checkbox"/> WORKING GROUP (WG) <u>5/2/25</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) <u>5/2/25</u></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 checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input 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 checked="" 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)

The purpose of this proposal is to update the PR002 Attestation by incorporating the newly added wildfire and severe convective storm perils for informational purposes only from PR027.

Additional Staff Comments:

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

Revised 2-2023

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ATTESTATION RE: CATASTROPHE MODELING USED IN RBC CATASTROPHE RISK CHARGES PR002

(1) [Redacted Company Name] hereby certifies that the modeled catastrophe losses for earthquake risk, hurricane risk, wildfire risk, and severe convective storm risk entered on lines 1 through 4 of Schedule PR027A, PR027B, PR027C and PR027D of this Risk-Based Capital Report were determined by applying the same catastrophe models or combination of models to the same underlying exposure data, and using the same modeling assumptions, as the company uses in its own internal risk management process, with the following exceptions:

(1a) [Redacted]

These exceptions, if any, are made for the following reasons:

(1b) [Redacted]

The following describes the company's application of catastrophe modeling to the determination of the Rcat risk charges: (Include which models are used in what combinations for each of the Rcat charges; what key modeling assumptions are used, including but not limited to time dependency, secondary uncertainty, storm surge, demand surge, and fire following earthquake; and the rationale for treatment of each issue or item): (provide attachments if necessary):

(2) [Redacted]

The company further certifies that the underlying exposure data used in the catastrophe modeling process is accurate and complete to the best of our knowledge and ability, with the following limitations:

(3) [Redacted]

The following describes the extent to which the exposure location data is accurate to GPS coordinates; to zip code; and to a level less accurate than zip code: (provide attachments if necessary):

(4) [Redacted]

The following describes the steps taken to validate, to the best of the Company's knowledge and belief, the accuracy and completeness of the exposure data used in the modeling process to determine the Rcat catastrophe risk charges (provide attachments if necessary):

(5) [Redacted]

Provide an explanation of the methodology used to derive the amounts in columns 3 and 4 of page PR027A, PR027B, PR027C, and PR027D.

(6) [Redacted]

(7) Completed on behalf of: [Redacted] (7) Completed By: [Redacted] [Redacted] [Redacted] [Redacted]
Last First Middle Title

(7) Email: [Redacted] (7) Phone: [Redacted] Date: [Redacted]

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <input checked="" 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"/> 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>FOR NAIC USE ONLY</u>	
CONTACT PERSON: <u>Derek Noe</u>		Agenda Item # <u>2025-03-CA</u>	
TELEPHONE: <u>816-783-8973</u>		Year <u>2025</u>	
EMAIL ADDRESS: <u>dnoe@naic.org</u>		<u>DISPOSITION</u>	
ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Steve Drutz</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
TITLE: <u>Chief Financial Analyst/Chair</u>		<input type="checkbox"/> WORKING GROUP (WG) _____	
AFFILIATION: <u>WA Office of Insurance Commissioner</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>5000 Capital Blvd SE</u>		EXPOSED:	
<u>Tumwater, WA 98501</u>		<input checked="" type="checkbox"/> TASK FORCE (TF) <u>05/15/2025</u>	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>03/24/2025</u>	
		<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 checked="" type="checkbox"/> REFERRED TO OTHER NAIC GROUP	
		<input type="checkbox"/> (SPECIFY) <u>CADTF 4/30/25</u>	

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

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

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision for the investment income adjustment.

Update the Underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision on pages XR013, LR019, LR020, PR019, and PR020 for the investment income adjustment.

Additional Staff Comments:

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

Revised 2-2023

2025 Investment Yield for Investment Income Adjustment

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

Date	1 Mo	1.5 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2025	4.45	N/A	4.36	4.36	4.31	4.25	4.17	4.25	4.29	4.38	4.47	4.57	4.86	4.79
01/03/2025	4.44	N/A	4.35	4.34	4.31	4.25	4.18	4.28	4.32	4.41	4.51	4.60	4.88	4.82
01/06/2025	4.43	N/A	4.36	4.35	4.31	4.24	4.17	4.28	4.30	4.42	4.52	4.62	4.91	4.85
01/07/2025	4.42	N/A	4.35	4.35	4.31	4.24	4.19	4.30	4.33	4.46	4.57	4.67	4.97	4.91
01/08/2025	4.41	N/A	4.34	4.35	4.31	4.25	4.19	4.28	4.31	4.45	4.56	4.67	4.97	4.91
01/09/2025	4.44	N/A	4.36	4.35	4.31	4.24	4.16	4.27	4.31	4.46	4.57	4.68	4.98	4.92
01/10/2025	4.42	N/A	4.35	4.36	4.33	4.27	4.25	4.40	4.46	4.59	4.70	4.77	5.04	4.96
01/13/2025	4.42	N/A	4.36	4.37	4.34	4.30	4.24	4.40	4.49	4.61	4.71	4.79	5.05	4.97
01/14/2025	4.42	N/A	4.35	4.36	4.33	4.29	4.22	4.37	4.46	4.59	4.70	4.78	5.06	4.98
01/15/2025	4.40	N/A	4.34	4.35	4.32	4.26	4.19	4.27	4.34	4.45	4.55	4.66	4.95	4.88
01/16/2025	4.43	N/A	4.36	4.34	4.32	4.26	4.18	4.23	4.29	4.39	4.50	4.61	4.91	4.84
01/17/2025	4.43	N/A	4.35	4.34	4.32	4.28	4.21	4.27	4.33	4.42	4.52	4.61	4.91	4.84
01/21/2025	4.42	N/A	4.35	4.36	4.33	4.28	4.21	4.29	4.33	4.40	4.49	4.57	4.87	4.80
01/22/2025	4.42	N/A	4.35	4.36	4.32	4.28	4.20	4.29	4.34	4.43	4.51	4.60	4.89	4.82
01/23/2025	4.45	N/A	4.36	4.36	4.32	4.27	4.18	4.29	4.35	4.45	4.55	4.65	4.92	4.87
01/24/2025	4.45	N/A	4.36	4.35	4.32	4.25	4.17	4.27	4.33	4.43	4.53	4.63	4.91	4.85
01/27/2025	4.44	N/A	4.36	4.32	4.30	4.25	4.13	4.17	4.24	4.32	4.43	4.53	4.82	4.76
01/28/2025	4.44	N/A	4.35	4.31	4.30	4.26	4.14	4.19	4.25	4.33	4.43	4.55	4.84	4.78
01/29/2025	4.43	N/A	4.34	4.31	4.34	4.27	4.17	4.21	4.27	4.35	4.44	4.55	4.85	4.79
01/30/2025	4.37	N/A	4.38	4.30	4.33	4.27	4.16	4.18	4.24	4.31	4.41	4.52	4.81	4.76
01/31/2025	4.37	N/A	4.37	4.31	4.33	4.28	4.17	4.22	4.27	4.36	4.47	4.58	4.88	4.83



February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
High Tier (i.e., less than \$3Million (M) or less than \$25M)			
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
Low Tier			
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

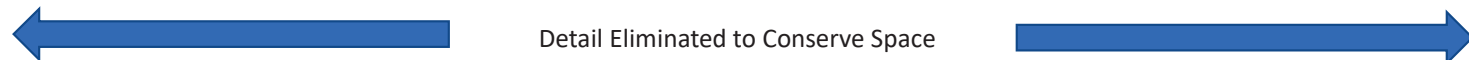
Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

Health Instructions

Page XR013, Line 13



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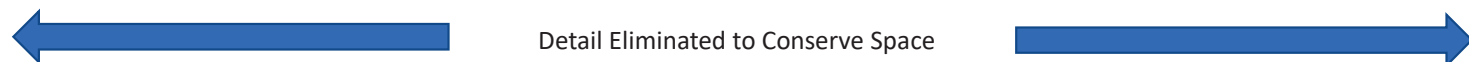
Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 54.5%.

	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond ([U.S. Department of the Treasury](#)) on each Monday through the month of January and determine if further modifications to the 54.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions

Page PR020, Line 10



Detail Eliminated to Conserve Space

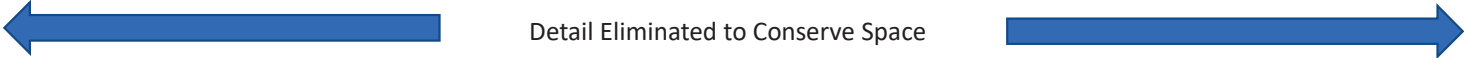
Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Life Instructions

LR020, Line 10



Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	\$0 - \$3 Million	\$3 - \$25 Million	Over \$25 Million
Comprehensive Medical	0.14 4027	0.14 4027	0.08 4432
Medicare Supplement	0.09 8773	0.06 09596	0.06 09596
Dental <u>& Vision</u>	0.11 5343	0.07 1606	0.07 1606
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non- Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non- Health
\$0 - \$3 Million	0.144027	0.09873	0.115343	0.251	0.130	0.130
\$3 - \$25 Million	0.144027	0.0609596	0.071696	0.251	0.130	0.130
Over \$25 Million	0.084432	0.0609596	0.071696	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	<u>Comprehensive</u>	<u>Medicare</u>		<u>Stand-Alone</u>	
	<u>Medical</u>	<u>Supplement</u>	<u>Dental & Vision</u>	<u>Medicare Part D</u>	<u>TOTAL</u>
	<u>Coverage</u>				
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3) Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4) Other Health Risk Revenue†	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3) Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge£	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum
	or	or	or	or	of
	2 x Maximum	2 x Maximum	2 x Maximum	6 x Maximum	Columns
	Individual Risk	Individual Risk	Individual Risk	Individual Risk	(1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid‡		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)
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£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

**PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S
CAPITAL ADEQUACY TASK FORCE IN CONNECTION WITH PROPOSED AMENDMENTS TO RISK-BASED
CAPITAL BLANKS AND INSTRUCTIONS**

The following establishes procedures and rules of the Financial Condition (E) Committee's Capital Adequacy Task Force (Task Force) and its Working Groups with respect to proposed amendments to the NAIC RBC Forecasting (blanks) and Instructions.

1. The Task Force may consider relevant proposals to change the RBC blanks and instructions at the national meeting or designated interim meeting as scheduled by the Task Force.
2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmte_e_capad.htm. All interested party proposals should be emailed to the appropriate NAIC staff support with a completed proposal form and mocked-up changes.

The following guidelines apply:

- Although proposal shall be exposed throughout the year to allow ample time for consideration, any proposals that affect ~~an RBCa structural change to the RBC blank blank~~ (e.g. ~~all pages addition/deletion of a row or column~~ after LR001, PR001, XR001) must be exposed by the Task Force or its Working Groups no later than March 31 of the effective year of the change. - The proposal must be adopted by the Task Force no later than May 15 of the effective year of the change.
- Any proposal that only affects the instructions, non-structural change to the RBC Blanks (e.g. description or reference change) or factors must be exposed by the Task Force / Working Group by May 15 and adopted by the Task Force by June 30 of the current year.
- Only the Task Force may extend the June 30th adoption deadline for previously considered proposals upon a two-thirds- consent of the Task Force members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high and implementation by the RBC software vendors is feasible. The two-thirds consent applies only in the instance of a Task Force vote that is outside of the standard RBC adoption deadlines (May 15 and June 30).

An illustration of the proposed change to the RBC blank, factors, or instructions should accompany the Proposal Form. In addition, an impact analysis is preferred for any factor change. If another NAIC Committee, Task Force or Working Group is known to have considered this proposal, that Committee, Task Force or Working Group should provide any relevant information.

The Task Force/Working Groups will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days to ensure adequate time to provide comment on any structural change, unless a shorter exposure is approved by the Task Force or Working Groups) or to reject the proposal. The comment period shall end at least 3 business days prior to the next designated national or interim meetings of the Task Force/ Working Group. The Task Force/Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Task Force/Working Group if the proposal has merit but warrants additional work or input. The Task Force may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group it will be considered again after comments/recommendations are received. The Task Force will review and adopt the working agenda at the each Fall National Meeting, if necessary, to ensure all items designated as a priority 1 are being addressed to assess the status of the priority items, to add or delete items that have been addressed or to reprioritize the remaining items on the working agenda.

3. Interested Party proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Task Force/Working Group if the proposal is filed at least fifteen business days prior to the

meeting.

4. The NAIC staff support shall prepare the meeting materials including all suggested proposals. Interim meeting materials will be posted no later than three business days prior to the scheduled meeting on the NAIC website. Initial national meeting materials will be posted ten business-calendar days before the first day of each National Meeting on the NAIC website. Materials posted ten business-calendar days in advance of the National Meeting will not be printed for distribution.
5. At each meeting, the Task Force/Working Group will review comments that were received by the comment exposure due date for suggested proposals.
6. NAIC staff support will incorporate editorial changes discovered in the annual updates of the RBC formulas e.g., reference changes due to new SSAPs or annual statement references. NAIC staff support may also request that the Task Force/Working Group reconsider items adopted, if these items contain substantial -modifications.
7. The Task Force/Working Group may, when deemed necessary, appoint an Ad Hoc Group to study proposals and/or certain issues.
8. The NAIC will publish the RBC Forecasting and Instructions for the next subsequent year on, or about November 1 each year. The following documentation will be posted to the NAIC Web site:
 - RBC Proposals adopted by the Task Force (after each interim and National Meeting)
 - Annual RBC Newsletters (after Summer National Meeting)
 - Annual RBC Statistics (after Summer National Meeting)
 - Working Agenda (after each-Fall National Meeting)
 - Any subsequent corrections to these publications (as needed)

Draft: 8/14/24

Adopted by the Executive (EX) Committee and Plenary, Dec. xx, ~~2024~~2025

Adopted by the Financial Condition (E) Committee, Dec. xx, ~~2024~~2025

Adopted by the Capital Adequacy (E) Task Force, ~~Sept~~June. 26xx, ~~2024~~2025

2025-2026 Proposed Charges

CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Capital Adequacy (E) Task Force** will:

- A. ~~Evaluate application of the Risk-Based Capital (RBC) formula and~~ Evaluate emerging “risk” issues for referral to ~~the risk-based capital (RBC)~~ working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
- B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
- C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.
- ~~C.D.~~ Continually review the RBC instructions, blanks and forecastings and revise as appropriate.

2. The **Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group** will:

- A. Evaluate refinements to the existing NAIC RBC formulas implemented in the prior year. ~~Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.~~
- B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than May 15 of the reporting year, and any proposal that affects ~~the~~ a non-structural change to the RBC Blanks, RBC factors and/or instructions must be adopted no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by July 30, where the Capital Adequacy (E) Task Force votes to pursue by two-thirds consent of members.
- C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.
- D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit

ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.

3. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation and determine if additional revisions need to be made.
 - B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.
4. The **Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.
5. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
 - A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
 - B. Continue to update the U.S. and non-U.S. catastrophe event list.
 - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
 - D. Evaluate the RBC results inclusive of a catastrophe risk charge.
 - E. Refine instructions for the catastrophe risk charge.
 - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
 - G. Evaluate other catastrophe risks for possible inclusion in the charge.
6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
 - A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
 - i. ~~Identifying and acknowledging uses that extend beyond the purpose of the Risk-Based Capital (RBC) for Insurers Model Act (#312). Evaluating relevant historical data and applying defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to current asset risk structure and factors (e.g. C-1o and C1-cs).~~
 - ii. ~~Facilitating coordination and alignment among NAIC committees/task forces/working groups related to its work in reviewing current asset risk framework.~~
 - iii. ~~Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels. Documenting the modifications made over time to the formulas, including, but not limited to, an analysis of the costs in study and development, implementation (internal and external), assimilation, verification, analysis, and review of the desired change to the RBC formulas and facilitating the appropriate allocation of resources.~~
7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
 - A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.

- B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
- C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
- D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
- E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung

SharePoint/FRS-RBC/CADTF/Charges/~~2024~~2026/~~2024~~2026 Proposed Charges.docx

Draft: 5/29/25

Capital Adequacy (E) Task Force
Virtual Meeting
May 15, 2025

The Capital Adequacy (E) Task Force met May 15, 2025. The following Task Force members participated: Doug Ommen, Chair, represented by Mike Yanacheak (IA); Judith L. French, Vice Chair, represented by Tom Botsko (OH); Lori K. Wing-Heier represented by Charles Hale and Richard Russell (AK); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann and Eric Unger (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Bradley Trim (FL); Ann Gillespie represented by Matt Cheung (IL); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Hermoliva Abejar (NV); Glen Mulready represented by Andy Schallhorn (OK); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Rachel Hemphill (TX); Scott A. White represented by Doug Stolte (VA); Patty Kuderer represented by Steve Drutz (WA); and Nathan Houdek represented by Michael Erdman (WI).

1. Adopted Proposal 2024-21-L MOD (Tax Credit Investments)

Barlow explained that the original proposal 2024-21-L aimed to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to *Statement of Statutory Accounting Principle (SSAP) No. 93—Investments in Tax Credit Structure* and *SSAP No. 94R—State and Federal Tax Credits* resulting from the New Markets Tax Credits (NMTC) project. He mentioned that the Life Risk-Based Capital (E) Working Group agreed to modify this proposal based on comments received from the American Council of Life Insurers (ACLI). Consequently, the Working Group re-exposed the modified proposal 2024-21-L MOD for a 30-day public comment period ending March 23, during which no comments were received. The Life Risk-Based Capital (E) Working Group adopted the proposal May 1.

Barlow made a motion, seconded by Botsko, to adopt proposal 2024-21-L MOD (Attachment Two-A). The motion passed unanimously.

2. Adopted Proposal 2024-24-L MOD (Principle-Based Bond Definition Project)

Barlow stated that the original proposal 2024-24-L aimed to incorporate changes adopted by the Blanks (E) Working Group proposals: 2023-06BWG MOD, 2023-07BWG MOD, and 2023-12BWG MOD. These changes resulted from the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group. He further mentioned that the Life Risk-Based Capital (E) Working Group agreed to modify this proposal based on comments received from the ACLI and Pacific Life. Consequently, the Working Group re-exposed the modified proposal 2024-24-L MOD for a 30-day public comment period ending March 23, during which no comments were received. The Life Risk-Based Capital (E) Working Group adopted the proposal May 1.

Barlow made a motion, seconded by Botsko, to adopt proposal 2024-24-L MOD (Attachment Two-B). The motion passed unanimously.

3. Adopted Proposal 2025-01-L (C-2 Mortality Risk-LR025)

Barlow stated that the intent of proposal 2025-01-L is to update the risk-based capital (RBC) instructions and blanks to allow for direct pulls of information between the annual statement, including the newly adopted general interrogatory as per adoption of proposal 2023-15BWG MOD by the Blanks (E) Working Group. He also said this proposal was exposed for a 30-day public comment period ending March 23, during which no comments were received. The Life Risk-Based Capital (E) Working Group adopted the proposal May 1.

Barlow made a motion, seconded by Botsko, to adopt proposal 2025-01-L (Attachment Two-C). The motion passed unanimously.

4. Adopted Proposal 2025-04-L MOD (Other Long-Term Assets LR008)

Barlow stated that the intent of the original proposal 2025-04-L is to reorganize the LR008 page to ensure investments of the same risk components are grouped to facilitate proper modified coinsurance (modco)/funds withheld reinsurance agreement adjustments within LR008. He also said this proposal was exposed for a 30-day public comment period ending April 23. The Working Group received one comment letter from the ACLI during the exposure period, with both editorial-type comments and conceptual issues for discussion. The editorial comments are captured in the modified proposal, and the conceptual issues were discussed and identified as issues isolated to the annual statement assets valuation reserves instruction. As such, no re-exposure was deemed necessary. The Life Risk-Based Capital (E) Working Group adopted the proposal May 1.

Barlow made a motion, seconded by Botsko, to adopt proposal 2025-04-L MOD (Attachment Two-D). The motion passed unanimously.

5. Adopted Proposal 2025-05-L (Asset Concentration LR010)

Barlow explained that proposal 2025-05-L aims to address the ACLI's comments on clarifying LR010 instructions regarding Securities Valuation Office (SVO)-designated non-bond debt securities. These securities were requested to obtain asset concentration factor treatment similar to bonds in LR002. A referral was sent to the Statutory Accounting Principles (E) Working Group with two options for consideration: 1) keeping the asset concentration treatment for non-bond debt securities almost the same before and after the adoption of the principle-based bond definition; and 2) using a hybrid approach where the base factors are NAIC-designation-driven and the asset concentration factor is flat at 15%. The Statutory Principles (E) Working Group chose the first option. This proposal was also exposed for a 30-day public comment period ending March 23, during which no other comments were received. The Life Risk-Based Capital (E) Working Group adopted the proposal May 1.

Barlow made a motion, seconded by Botsko, to adopt proposal 2025-05-L (Attachment Two-E). The motion passed unanimously.

6. Adopted Proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction)

Chou explained that proposal 2025-06-CR aims to ensure that the information provided by companies is reflected on an annual basis, aligning with other reporting schedules within the RBC report and enhancing future analysis. The proposal was exposed by the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup for a 30-day public comment period ending April 23, with no comments received. The Catastrophe Risk (E) Subgroup and Property and Casualty Risk-Based Capital (E) Working Group adopted the proposal May 2.

Chou made a motion, seconded by Botsko, to adopt proposal 2025-06-CR (Attachment Two-F). The motion passed unanimously.

7. Adopted Proposal 2024-25-CA (Principle-Based Bond Project for P/C and Health)

Yanacheak explained that the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group, effective for 2025 reporting, led to the Blanks (E) Working Group adopting three proposals: 2023-06BWG MOD, 2023-07BWG MOD, and 2023-12BWG MOD. To align with these changes in the annual statement, the RBC proposal 2024-25-CA was developed to incorporate the updates in the property/casualty (P/C) and health RBC blanks and instructions. Additionally, this proposal included an update to PR009 to pull the non-admitted collateral loans amount from the annual statement and notes to the financial statement 5S, due to the adoption of blanks proposal 2024-09BWG MOD. Initially, this proposal was exposed for a 75-day public comment period ending Feb. 1, with no comments received. Subsequently, the Task Force re-exposed it for another 30-day public comment period ending April 24, during which no comments were received.

Botsko made a motion, seconded by Eft, to adopt proposal 2025-25-CA (Attachment Two-G). The motion passed unanimously.

8. Adopted Proposal 2024-26-CA (Tax Credit for P/C and Health)

Yanacheak said the intent of this proposal is to update the low-income housing tax credits investment lines shown in PR008 and XR008 in the RBC instructions and blanks to reflect the recent changes adopted to the *Annual Statement Instructions*, as the current RBC instructions and line references in the blanks are no longer relevant. Initially, this proposal was exposed for a 75-day public comment period ending Feb. 1, with no comments received. Subsequently, the Task Force re-exposed it for another 30-day public comment period ending April 24, during which no comments were received.

Botsko made a motion, seconded by Drutz, to adopt proposal 2025-25-CA (Attachment Two-H). The motion passed unanimously.

9. Adopted Proposal 2025-07-CA MOD (Trend Test)

Yanacheak reiterated that 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 business. It was noted that trend testing was incorporated in the RBC model laws after the four regulatory levels were instituted. As such, the instructions are expanded to acknowledge this development. This proposal was exposed for a 30-day public comment period ending April 24, during which the Task Force received one comment letter from the ACLI (Attachment Two-I). Colin Masterson (ACLI) asked the Task Force to consider updating three formatting items to be consistent across three lines of business. Yanacheak said he agreed with the first two items in the comment letter. Regarding the third item, he said he did not think the formula should be displayed in the P/C and health blanks, as there have been no changes to the formula. Yanacheak also stated that NAIC staff developed a modified proposal to incorporate the ACLI's first two suggested updates and recommended that the Task Force adopt proposal 2025-07-CA MOD. Brian Bayerle (ACLI) expressed the ACLI's support for proposal 2025-07-CA MOD.

Rehagen made a motion, seconded by Eft, to adopt proposal 2025-07-CA MOD (Attachment Two-J). The motion passed unanimously.

10. Exposed Proposal 2025-03-CA (Underwriting Risk Investment Income Update)

Drutz said that the purpose of this proposal is to provide an annual update on the underwriting factors for comprehensive medical, Medicare supplement, dental, and vision for the investment income adjustment. The Health Risk-Based Capital (E) Working Group exposed this proposal for a 30-day public comment period ending April 23. During this period, one comment was received from AHIP, which supported the proposal.

Drutz made a motion, seconded by Botsko, to expose proposal 2025-03-CA (Attachment Two-K) for a 30-day public comment period ending June 14. The motion passed unanimously.

11. Exposed its Revised Procedure Document

Yanacheak stated that the revision's purpose is to: 1) further clarify the meaning of RBC structural and non-structural changes; 2) change the working agenda review cadence to annual review during every fall national meeting; and 3) change the initial national meeting materials posting days to 10 calendar days.

Reedy made a motion, seconded by Drutz, to expose its revised procedure document (Attachment One-E) for a 30-day public comment period ending June 14. The motion passed unanimously.

12. Exposed its 2026 Proposed Charges

Yanacheak said the proposed changes to the Task Force's 2026 charges include: 1) adding one item to item one; 2) modifying item two to clarify the non-structural change meaning; and 3) revising the charges for the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. The Task Force agreed to expose its proposed charges for a 30-day public comment period ending June 14. Hemphill recommended a minor modification to Section 1A, which Yanacheak agreed to.

Eft made a motion, seconded by Hemphill, to expose the Task Force's revised proposed charges with minor modification to Section 1A (Attachment One-F), for a 30-day public comment period ending June 14. The motion passed unanimously.

13. Discussed Comments Received on Proposal 2024-16-CA (Revised Preamble)

Yanacheak reiterated that the Task Force members reached a consensus at the Spring National Meeting to re-expose proposal 2024-16-CA for a 45-day public comment period ending May 9. The Task Force received four comment letters (Attachment Two-L) during the exposure period. Peter Gould's (Retiree) comment letter asked the Task Force to consider rejecting proposal 2024-16-CA and improving transparency by adding the RBC information to the NAIC website as part of the Consumer Information Search Financial Overview Report.

Yanacheak also stated that the American Academy of Actuaries (Academy) indicated in its comment letter that the Task Force should temper the language in Section E of the preamble. He emphasized that a transparent basis for evaluating insurance company solvency is essential for an insurance regulatory regime. The RBC assists regulators in identifying weakly capitalized companies and provides a general and consistent way for other stakeholders to understand a company's solvency position.

The ACLI indicated in its comment letter that it urges the NAIC to adopt the edits suggested in its May 30, 2024, letter. Bayerle said the ACLI believes it is in the public interest to maintain the ability to disclose the RBC ratios as

appropriate. He said he also believed that the ACLI's proposed edits to the language in the preamble will better align with the spirit of transparency while maintaining regulators' ability to identify weakly capitalized companies. Yanacheak said the Center for Insurance Research's (CIR's) comment letter indicated that it is vital to maintain public access to the total adjusted capital (TAC) and authorized control level (ACL) data elements for consumers and consumer intermediaries. Transparency of the summary RBC results is necessary to meet the objectives of state insurance regulators, the NAIC, and consumer intermediaries in maintaining a strong, state-based system of financial oversight. Access to summary RBC result data is already established in existing state laws and regulations across the country, and the contemplated revisions would create gaps and/or conflicts with existing statutory law and complicate the freedom of information of state insurance departments. Brendon Bridgeland (CIR) reiterated that removing the TAC and ACL would make it harder for investors and policyholders to monitor insurance companies. Hemphill commented that the intent of the revised preamble is to reiterate that the RBC ratio is not a ranking mechanism.

Birny Birnbaum (Center for Economic Justice—CEJ) asked whether there is any written explanation for the rationale for removing the ACL and TAC from the annual statement five-year historical data page. Yanacheak said the purpose of proposal 2024-16-CA is limited to language in the preamble, and there is currently no proposal to remove the ACL and TAC from the five-year historical data page. He plans to set up a meeting to discuss this issue in the near future. Birnbaum said removing ACL and TAC is inconsistent with regulators being accountable to the public and insurers they regulate. There is no way for interested parties to offer advice or ways to improve the RBC regime. Yanacheak encouraged all regulators and interested parties to review the comments received and said he planned to schedule a meeting in October to discuss this issue. Wolf said he supported the idea of having a meeting in October, as the newly established Aggregation Method Implementation (G) Working Group may have discussions impacting the preamble modification. Barlow agreed with Yanacheak that the proposal does not include removing the ACL and TAC in the five-year historical data page, but the language in the preamble will require further discussion. Hemphill reiterated that the preamble edits emphasize the purpose of RBC and why it might not be suitable for other purposes. She re-emphasized that removing the ACL and TAC and the preamble edits are two separate discussion items. Cheung suggested that the Task Force may consider adding language in the preamble to limit the use of RBC. Bayerle said the ACLI is willing to work with the Task Force to develop a disclaimer like Cheung suggested.

14. Discussed Other Matters

A. Bond-Like Treatment for SVO-Designated Bond Mutual Funds

Yanacheak reported that the Task Force received four comment letters from different insurance companies regarding the bond-like treatment for SVO-designated bond mutual funds. He said that each comment letter's content is similar. The comments highlighted that insurers rely on fund vehicles to access select fixed income markets and diversify investment risk, as these vehicles allow for more efficient market access. The companies emphasized that the ability for insurers to invest in fixed income funds and receive fair RBC treatment commensurate with the SVO designations is critical for leveling market access across all insurers, regardless of size. Yanacheak noted that this comment was also directed to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which is currently reviewing this issue. He encouraged all interested parties to submit comments to be discussed at a future Working Group meeting. Maggie Chang (NAIC) said the Working Group plans to meet in June to discuss this issue.

B. Risk-Based Capital Model Governance (EX) Task Force

Yanacheak mentioned that the Risk-Based Capital Model Governance (EX) Task Force was established at the Spring National Meeting. He stated that an external consultant will be hired to perform a comprehensive gap analysis

and develop guiding principles. He also noted that the Risk-Based Capital Model Governance (EX) Task Force does not recommend that any of the NAIC RBC groups, including the Capital Adequacy (E) Task Force, pause their current work until it adopts new guiding principles.

Yanacheak welcomed all interested parties to make direct comments or suggestions on improvements to the RBC formula to the RBC working groups' chairs or NAIC support staff for consideration.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2025-2-Summer/May 25 CADTF minutes.docx

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 |

DATE: <u>2/06/25</u>		FOR NAIC USE ONLY	
CONTACT PERSON: <u>Kazeem Okosun</u>		Agenda Item # <u>2024-21-L MOD</u>	
TELEPHONE: <u>816-783-8981</u>		Year <u>2025</u>	
EMAIL ADDRESS: <u>kokosun@naic.org</u>		DISPOSITION	
ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Philip Barlow, Chair</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
TITLE: <u>Associate Commissioner of Insurance</u>		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u>	
AFFILIATION: <u>District of Columbia</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>1050 First Street, NE Suite 801</u>		EXPOSED:	
<u>Washington, DC 20002</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>10-23-2024, 02-21-2025</u>	
		<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 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 checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 –Investments in Tax Credit Structures and SSAP No. 94R – State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

This proposal addresses the structural and instructional changes adopted as per 2024-11BWG and does not address the potential factor change (for both RBC and AVR factors) resulted from the expansion of the scope of accounting guidance in SAPWG Ref # 2022-14 and the expansion of the types of tax credit investments captured in the guidance.

Additional Staff Comments:

This proposal removes or renames the Guaranteed Federal Low-Income Housing Tax Credits, Federal Non-Guaranteed Low Income Housing Tax Credits, State Guaranteed Low-Income Housing Tax Credits, State Non-Guaranteed Low-Income Housing Tax Credits, and All Other Low Income Housing Tax Credits lines (AVR lines 75 through 79) and broadens the scope of remaining tax credit structure lines in AVR in line with SAPWG adoption. These changes will result in corresponding changes in LRBC instructions and/or blanks, namely LR007, LR010, LR030 and LR031.

- 10-23-2024: Proposal was exposed with comments due 01-06-2025 – Comments received from ACLI (KO)
- 02-21-2025: Proposal was modified and re-exposed with comments due 03-23-2025 - No comment letter received (KO)

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

Revised 2-2023

REAL ESTATE LR007

Basis of Factors

The base factor for equity real estate of 11% was developed by adding a margin for conservatism to the results of an analysis of real estate performance over the period of 1978 – 2020. The analysis was conducted by a group of life insurance company real estate investment professionals coordinated by the ACLI. The data used was a national database of real property owned by investment fiduciaries and supplemented by data on real estate backing mortgage securities. The analysis is documented in a report to the NAIC dated March 29, 2021. In addition to modifying the factor for company owned and investment real estate, this updated factor will also be used for real estate acquired in satisfaction of debt (Foreclosed real estate). Foreclosed real estate is recognized in the statutory statements as having acquisition cost equal to market value at time of foreclosure. For assets with the characteristics of real held estate (partnership or other structure) reported on Schedule BA, a higher factor of 13% is used to account for the lower transparency involved with these structures. Schedule BA real estate was originally given a higher factor under a presumption that it was more highly levered. Analysis has shown these assets to have experience very similar to directly held and will therefore use a modestly higher factor.

While the experience analysis was done based on analysis of fair value impacts, Real Estate is reported at depreciated cost in the Statutory statements. The difference in values impacts the risk to statutory surplus. Therefore, an adjustment is made to the factor based on the difference between fair value and statutory carrying value on a property-by-property basis. The adjustment is defined as

$$\text{Adj Factor} = \text{RE Factor} * (1 - [\text{factor}] * (MV - BVg) / BVg)$$

factor is 0 This zero factor for the fair value adjustment is effective beginning yearend 2021 RBC filings.

The resulting adjusted RBC factor is subject to a minimum of zero. In the RBC calculation, see Figure 7, fair value is taken from Schedule A Column 10 plus encumbrances, or from Schedule BA column 11 plus encumbrances, respectively, while BVg is the net Book Adjusted Carrying Value plus the encumbrance.

Encumbrances have been included in the real estate base since the value of the property is held net of the encumbrance, but the entire value is subject to loss. Encumbrances receive the base real estate factor of 11%, reduced by the average factor for commercial mortgages of 1.75% pre-tax. In the past this was computed as a base factor applied to the net real estate value plus a separate factor applied to the amount of the encumbrance. Beginning in 2021, the equivalent result will be obtained by applying a base factor to the gross statutory value of the property, and a credit provided for the amount of the encumbrance.

The final RBC amount is subject to a minimum of the Baa bond factor 1.30% applied to the BACV, and a maximum of 45% of the BACV.

Specific Instructions for Application of the Formula

Column (1)

Calculations are done on an individual property or joint venture basis in the worksheets and then the summary amounts are entered in this column for each class of real estate investment. Refer to the real estate calculation worksheet (Figure 7) for how the individual property or joint venture calculations are completed.

Line (1) should equal Page 2, Column 3, Line 4.1.

Line (2) should equal Page 2, inside amount, Line 4.1.

Line (4) should equal AVR Equity Component Column 1 Line 20.
Line (5) should equal AVR Equity Component Column 3 Line 20.
Line (7) should equal AVR Equity Component Column 1 Line 19.
Line (8) should equal AVR Equity Component Column 3 Line 19.
Line (14) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (15) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (17) should equal AVR Equity Component Column 1 Line 75.
Line (18) should equal AVR Equity Component Column 1 Line 76.
Line (19) should equal AVR Equity Component Column 1 Line 77.
Line (20) should equal AVR Equity Component Column 1 Line 78.
Line (21) should equal AVR Equity Component Column 1 Line 79.

~~Low-income housing tax credit investments~~ All investments in tax credit structures within the scope of SSAP No. 93 – Investments in Tax Credit Structures are to be reported in Column (1) ~~Low-Income Housing Tax Credit Property Investments.~~

Column (2)

The average factor column is calculated as Column (3) divided by Column (1).

Column (3)

Summary amounts are entered for Column (3) based on calculations done on an individual property or joint venture basis. Refer to Column (8) of the real estate calculation worksheet (Figure 7).

Line (17)

~~Yield~~ Guaranteed ~~State Tax Credit~~ federal low-income housing tax credit (LIHTC) investments are to be included in Line (17). ~~There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.~~

Line (18)

~~Qualifying Federal Tax Credit Investments are to be included in Line (18). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.~~

~~Non-guaranteed federal LIHTC investments with the following risk mitigation factors are to be included in Line (18):~~

- ~~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.~~

Line (19)

~~State LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments~~ Qualifying State Tax Credit Investments are to be included in Line (19). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.

Line (20)

State LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments. Other Tax Credit Investments are to be included in line (20). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit or Investments or qualifying Federal or State Tax Credit Investments are included here.

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

Line (21)

State and federal LIHTC Total Tax Credit investments that do not meet the requirements of sum of lines (17) through (20) would be reported on Line (21).



Company Name

Confidential when Completed

NAIC Company Code

REAL ESTATE

		(1) Book / Adjusted Value	(2) Average Factor	(3) RBC Requirement
	Annual Statement Source			
Real Estate				
(1) Company Occupied Real Estate	AVR Equity Component Column 1 Line 18			
(2) Company Occupied Encumbrances	AVR Equity Component Column 3 Line 18			
(3) Total Company Occupied Real Estate	Line (1) + (2)	X	†	=
(4) Foreclosed Real Estate	AVR Equity Component Column 1 Line 20			
(5) Foreclosed Encumbrances	AVR Equity Component Column 3 Line 20			
(6) Total Foreclosed Real Estate	Line (4) + (5)	X	†	=
(7) Investment Real Estate	AVR Equity Component Column 1 Line 19			
(8) Investment Encumbrances	AVR Equity Component Column 3 Line 19			
(9) Total Investment Real Estate	Line (7) + (8)	X	†	=
(10) Total Real Estate (pre-MODCO/Funds Withheld)	Lines (3) + (6) + (9)			
(11) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(12) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(13) Total Real Estate (including MODCO/Funds Withheld) Schedule BA Real Estate	Lines (10) - (11) + (12)			
(14) Schedule BA Real Estate	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part			
(15) Schedule BA Real Estate Encumbrances	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part			
(16) Total Schedule BA Real Estate Excluding Low-Income-Housing Tax Credits Investments Included Below	Line (14) + (15)	X	†	=
(17) Yield Guaranteed State Tax Credit Investments Federal-Guaranteed-Low-Income-Housing-Tax-Credits	AVR Equity Component Column 1 Line 75	X	0.0014	=
(18) Qualifying Federal Tax Credit Investments Federal-Non-Guaranteed-Low-Income-Housing-Tax-Credits	AVR Equity Component Column 1 Line 76	X	0.0260	=
(19) Qualifying State Tax Credit Investments State-Guaranteed-Low-Income-Housing-Tax-Credits	AVR Equity Component Column 1 Line 77	X	0.0014 0.1500	=
(20) Other Tax Credit Investments State-Non-Guaranteed-Low-Income-Housing-Tax-Credits	AVR Equity Component Column 1 Line 78 Lines (17) + (18) + (19) + (20) AVR Equity Component Column 1 Line 79	X	0.0260	=
(21) Total Tax Credit Investments All-Other-Low-Income-Housing-Tax-Credits	Lines (16) + (17) + (18) + (19) + (20) + (21)	X	0.1500	=
(22) Total Schedule BA Real Estate (pre-MODCO/Funds Withheld)				
(23) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(24) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(25) Total Schedule BA Real Estate (including MODCO/Funds Withheld)	Lines (22) - (23) + (24)			

† Column (2) is calculated as Column (3) divided by Column (1).

‡ The RBC requirement is calculated for each individual property and then summarized on this page. Refer to the worksheet included in the Real Estate portion of the instructions.

Details Eliminated to Conserve Space

LR007

Company Name	Confidential when Completed		NAIC Company Code		
ASSET CONCENTRATION FACTOR	Details Eliminated to Conserve Space				
(1)	(2)	(3)	(4)	(5)	(6)
Asset Type	Book / Adjusted Carrying Value	Factor	Additional RBC	Adjustment/ Subsidiary RBC	RBC Requirement
(31) Farm Mortgages - 90 Days Overdue					
(32) Farm Mortgages - 90 Days Overdue - Cumulative Writedowns	X	‡	=		
(33) Residential Mortgages - 90 Days Overdue					
(34) Residential Mortgages - 90 Days Overdue - Cumulative Writedowns	X	‡	=		
(35) Commercial Mortgages - 90 Days Overdue					
(36) Commercial Mortgages - 90 Days Overdue - Cumulative Writedowns	X	‡	=		
(37) Farm Mortgages in Foreclosure					
(38) Farm Mortgages in Foreclosure - Cumulative Writedowns	X	‡	=		
(39) Residential Mortgages in Foreclosure					
(40) Residential Mortgages in Foreclosure - Cumulative Writedowns	X	‡	=		
(41) Commercial Mortgages in Foreclosure					
(42) Commercial Mortgages in Foreclosure - Cumulative Writedowns	X	‡	=		
(43) Unaffiliated Mortgages with Covenants	X	‡	=		
(44) Unaffiliated Mortgages - Defeased with Government Securities	X	0.0090	=		
(45) Unaffiliated Mortgages - Primarily Senior	X	0.0175	=		
(46) Unaffiliated Mortgages - All Other	X	0.0300	=		
(47) Affiliated Mortgages - Category CM2	X	0.0175	=		
(48) Affiliated Mortgages - Category CM3	X	0.0300	=		
(49) Affiliated Mortgages - Category CM4	X	0.0500	=		
(50) Affiliated Mortgages - Category CM5	X	0.0750	=		
(51) Schedule BA Mortgages 90 Days Overdue					
(52) Schedule BA Mortgages 90 Days Overdue - Cumulative Writedowns	X	‡	=		
(53) Schedule BA Mortgages in Process of Foreclosure					
(54) Schedule BA Mortgages Foreclosed - Cumulative Writedowns	X	‡	=		
(55) Yield Guaranteed State Tax Credit Investments Federal-Guaranteed-Low-Income-Housing-Tax-Credits	X	0.0014	=		
(56) Qualifying Federal Tax Credit Investments Federal-Non-Guaranteed-Low-Income-Housing-Tax-Credits	X	0.0260	=		
(57) Qualifying State Tax Credit Investments State-Guaranteed-Low-Income-Housing-Tax-Credits	X	0.0260 0.0014	=		
(58) Other Tax Credit Investments State-Non-Guaranteed-Low-Income-Housing-Tax-Credits	X	0.1500 0.0260	=		
(59) (60) All Other Low-Income-Housing-Tax-Credits	X	0.1500	=		
(59) (60) NAIC 02 Working Capital Finance Notes	X	0.0163	=		
(60) (61) Other Schedule BA Assets	X	0.1500	=		
(61) (62) Total of Issuer = Sum of Lines (1) through (60) (61)					

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

Details Eliminated to Conserve Space

Company Name	
CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL	
(042)	Unaffiliated Preferred Stock NAIC 5
(043)	Unaffiliated Preferred Stock NAIC 6
(044)	Preferred Stock Reduction-Reinsurance
(045)	Preferred Stock Increase-Reinsurance
(046)	Separate Accounts
(046)	Guaranteed Index
(047)	Nonindex Book Reserve
(048)	Separate Accounts Nonindex-Market Reserve
(049)	Separate Accounts Reduction-Reinsurance
(050)	Separate Accounts Increase-Reinsurance
(051)	Synthetic GICs
(052)	Separate Account Surplus
(053)	Real Estate
(053)	Company Occupied Real Estate
(054)	Foreclosed Real Estate
(055)	Investment Real Estate
(056)	Real Estate Reduction - Reinsurance
(057)	Real Estate Increase - Reinsurance
(058)	Schedule BA
(058)	Sch BA Real Estate Excluding Low-Income Housing Tax Credit Investments
(059)	Guaranteed Low-Income Housing Tax Credit Investments Yield Guaranteed State Tax Credit Investments
(060)	Non-Guaranteed and All Other Low-Income Housing Tax Credit Investments Qualifying and Other Tax Credit Investments
(061)	Sch BA Real Estate Reduction - Reinsurance
(062)	Sch BA Real Estate Increase - Reinsurance
† Denotes lines that are deducted from the total rather than added.	

Confidential when Completed

Details Eliminated to Conserve Space	
LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5)	
+ LR018 Off-Balance Sheet Collateral Column (3) Line (13)	
LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6)	
+ LR018 Off-Balance Sheet Collateral Column (3) Line (14)	
LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)	
LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)	
LR006 Separate Accounts Column (3) Line (1)	
LR006 Separate Accounts Column (3) Line (2)	
LR006 Separate Accounts Column (3) Line (3)	
LR006 Separate Accounts Column (3) Line (5)	
LR006 Separate Accounts Column (3) Line (6)	
LR006 Separate Accounts Column (3) Line (8)	
LR006 Separate Accounts Column (3) Line (13)	
LR007 Real Estate Column (3) Line (3)	
LR007 Real Estate Column (3) Line (6)	
LR007 Real Estate Column (3) Line (9)	
LR007 Real Estate Column (3) Line (11)	
LR007 Real Estate Column (3) Line (12)	
LR007 Real Estate Column (3) Line (16)	
LR007 Real Estate Column (3) Line (17) + Line (19)	
LR007 Real Estate Column (3) Line (18) + Line (19) + Line (20) + Line (21)	
LR007 Real Estate Column (3) Line (23)	
LR007 Real Estate Column (3) Line (24)	
Details Eliminated to Conserve Space	

NAIC Company Code

X	0.1575	-	
X	0.2100	-	
X	0.2100	-	†
X	0.2100	-	
X	0.1575	-	
X	0.1575	-	
X	0.1575	-	†
X	0.2100	-	
X	0.1575	-	
X	0.1575	-	
X	0.2100	-	
X	0.2100	-	†
X	0.2100	-	
X	0.2100	-	
X	0.2100	-	
X	0.0000	-	
X	0.0000	-	
X	0.2100	-	†
X	0.2100	-	

Company Name

Confidential when Completed

NAIC Company Code

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

Details Eliminated to Conserve Space	
Source	(1) RBC Requirement
(32) Synthetic GICs (C-1o)	LR006 Separate Accounts Column (3) Line (8)
(33) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)
(34) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)
(35) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)
(36) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)
(37) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)
(38) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (61) (62) Grand Total Page
(39) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)
(40) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)
(41) Reinsurance	LR016 Reinsurance Column (4) Line (17)
(42) Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)
(43) (C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)
(44) Net (C-1o) - Post-Tax	Line (42) - Line (43)
<u>Insurance Risk (C-2)</u>	
(45) Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)
(46) Group and Credit Life Insurance and FEGUSGLI	LR025 Life Insurance Column (2) Line (12)
(46b) Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)
(47) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)
(48) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)
(49) Total (C-2) - Pre-Tax	$L(47) + L(48) + \text{Greatest of } [\text{Guardrail Factor} * (L(45)+L(46)), \text{Guardrail Factor} * L(46b), \text{Square Root of } [(L(45) + L(46))^2 + L(46b)^2 + 2 * (\text{Correlation Factor} * (L(45) + L(46)) * L(46b))]]$
(50) (C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)
(51) Net (C-2) - Post-Tax	Line (49) - Line (50)
<u>Interest Rate Risk (C-3a)</u>	
(52) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)
(53) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)
(54) Net (C-3a) - Post-Tax	Line (52) - Line (53)
<u>Health Credit Risk (C-3b)</u>	
(55) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)
(56) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)
(57) Net (C-3b) - Post-Tax	Line (55) - Line (56)
Details Eliminated to Conserve Space	

LR031

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 |

DATE: <u>10/7/2024</u>		FOR NAIC USE ONLY	
CONTACT PERSON: <u>Maggie Chang</u>		Agenda Item # <u>2024-24-L MOD</u>	
TELEPHONE: <u>816-783-8976</u>		Year <u>2025</u>	
EMAIL ADDRESS: <u>mchang@naic.org</u>		DISPOSITION	
ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Philip Barlow, Chair</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
TITLE: <u>Associate Commissioner of Insurance</u>		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u>	
AFFILIATION: <u>District of Columbia</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>1050 First Street, NE Suite 801</u>		EXPOSED:	
<u>Washington, DC 20002</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>10-23-2024, 02-21-2025</u>	
		<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 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)

This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes are resulted from adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group.

In addition, certain editorial changes are proposed herein to provide clarifying edits to Life and Fraternal RBC instructions and/or Blanks. These clarifying edits are not necessarily related to the principle-based bond definition project. **All changes are proposed for 2025 RBC filings.**

Additional Staff Comments:

Rationale for the key proposed clarifying edits are as follows:

LR002 – With effect from 2005 RBC filing, Cash Equivalent Bonds are subtracted from LR012 Miscellaneous Asset page and are instructed to be reported on LR002. Proposed clarifying edits in Annual Statement Source column are deemed necessary

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as the current AVR references do not contemplate Cash Equivalent Bonds. Additionally, The proposed presentation aligns with RBC treatment of Cash Equivalent Bonds in Health and P/C formulas.

LR012 – Line (2.2) “Less Cash Equivalent Bonds Already Included with Page LR002 Bonds” no longer requires sourcing data “in part” as Schedule E Part 2 has dedicated line for Cash Equivalent Bonds, which are all supposed to have NAIC Designation Categories and are aggregated by NAIC Designation Categories in footnote to Schedule E, Part 2. Refer to Annual Statement instructions for details.

LR047 & LR048 – Diversity in practice was observed as to how filers interpret the instruction: *The “total” should equal the total amount of the Reduction/ Increase of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.* As such, clarifying edits are proposed to give explicit instructions.

Item #	Commenter	Comments	NAIC’s response
1	ACLI	<i>LR008 (Other Long-Term Assets) blanks:</i> The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?	The newly adopted lines in AVR for capital and surplus notes are added to LR008 page, Line (53.1)
2	ACLI	<i>LR008 (Other Long-Term Assets) instruction:</i> 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)?	Agreed. Deleted Line (49.2) instruction altogether as it is a pull from line (49.1).
3	ACLI	<i>LR009 (Schedule BA Mortgages) instruction:</i> <i>Basis of factors – the spacing in subsections 1 and 4 should be corrected.</i>	Agreed. Formatting corrected.
4	ACLI	<i>LR009 (Schedule BA Mortgages) blanks and/or instructions:</i> 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?	The current structure incorporated ACLI comment letter dated 2/26/2024. RBC is driven by AVR presentation. There is not a designated line for “Sch. BA - <u>Unaffiliated</u> Residential Mortgages in Good Standing.” in AVR Equity Component Table. NAIC staff plan to capture this topic in a dedicated RBC proposal for Working Group discussion in the future.
5	ACLI	<i>LR009 (Schedule BA Mortgages) blanks:</i> 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.	Agreed. Added to the modified proposal. This conforms with adopted Proposal 2023-07-L.
6	ACLI	<i>LR010 (Asset Concentration Factor) instruction:</i>	Comments taken, see edits proposed to LR010 instruction.

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		Specific instructions for application of the formula – does “short-term investments” need to include cash equivalents now that they are part of LR002?	
7	ACLI	<i>LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements) instruction:</i> 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.	Agreed, corrected.
8	ACLI	<i>LR048- Reinsurance Assumed – All Other Assets C-0, C-10 And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):</i> 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.	Agreed, corrected.
9	ACLI	<i>LR002 (Short Term and Cash Equivalent Bonds) blanks:</i> 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.	Agreed. Cash Equivalent reference added to LR002 Line (22).
10	ACLI	<i>LR017 blanks:</i> Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.	Agreed, text removed.
11	Pacific Life	<i>LR009 (Schedule BA Mortgages) Instructions and Blanks</i>	Comments that are not addressed within this modified proposal will be addressed in a dedicated RBC proposal for Working Group discussion in the future. See # 4 above.
12	ACLI	Asset Concentration Factor LR010 for non-bond debt securities reported on Schedule BA.	Refer to Proposal 2025-05-L

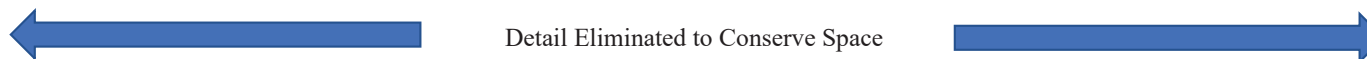
MKC 2/14/2025 – This modified proposal incorporated changes in response to interested parties’ comments as detailed above. Given certain investment-related agendas at Statutory Accounting Principles (E) Working Group and Proposal #2024-19BWG have not been fully adopted at NAIC Blanks (E) Working Group at the time of this draft, **proposed edits are subject to changes based on corresponding adoption(s)/action(s) at SAPWG and Blanks WG. Proposed edits that are new in this modified proposal are highlighted in YELLOW.**

- 10-23-2024: Proposal was exposed with comments due 01-06-2025 – Comments received from ACLI (KO)
- 02-21-2025: Proposal was modified and re-exposed with comments due 03-23-2025 – No comment letter received (KO)
- 05-1-2025: Proposal was modified to incorporate changes resulted from deferral of Blank proposal 2024-19BWG to 2026. **Changes highlighted in Green (KO)**

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

Revised 2-2023

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Detail Eliminated to Conserve Space

BONDS

LR002

Basis of Factors

The bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by designation category and that year’s economic environment. When a default takes place, the actual loss considers the expected principal loss by category, the time until the sale actually occurs and the assumed tax consequences.

Actual surplus needs are reduced by incorporating anticipated annual contributions to the asset valuation reserve (AVR) as offsetting cash flow. Required surplus for a given trial is calculated as the amount of initial surplus funds needed so that the accumulation with interest of this initial amount and subsequent cash flows will not become negative at any point throughout the modeling period. The factors chosen for the proposed formula produce a level of surplus at least as much as needed in 92% of the trials by category and a 96% level for the entire bond portfolio.

The factor for NAIC 6 bonds recognizes that the book/adjusted carrying value of these bonds reflects a loss of value upon default by being marked to market.

Specific Instructions for Application of the Formula

Lines (1) through (7)

The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For long-term bonds, these classifications are found on Lines 1 through 7 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (8)

The total should equal long-term bonds and other fixed-income instruments reported on Page 2, Column 3, Line 1 plus Schedule DL Part 1, Column 6, Line ~~2009999999~~ ~~2509999999~~ of the annual statement.

Lines (9) through (15)

The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For short-term bonds, these classifications are found on Lines 18 through 24 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (16)

The total should equal short-term bonds reported on Schedule DA, Part 1, **Column 6** Line ~~0509999999~~ ~~2509999999~~ plus Schedule DL Part 1, Column 6, Line 9509999999 plus **Schedule E, Part 2, Column 7, Line 0509999999** ~~LR012 Miscellaneous Assets Column (1) Line (2.2)~~.

Line (22)

Class 1 bonds (highest quality) issued by a U.S. government agency that are not backed by the full faith and credit of the U.S. government should be reported on this line. The loan-backed securities of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) would be examples of the securities reported on this line. Line (22) should not be larger than the sum of Lines (2) and (10). Exempt obligations should not be included on this line.

Line (24)

Bonds should be aggregated by issuer (the first six digits of the CUSIP number can be used). Exempt U.S. government bonds and bonds reported on Line (22) are not counted in determining the size factor. The RBC for those bonds will not be included in the base to which the size factor is applied. If this field is left blank, the maximum size factor adjustment of 2.40 will be used.

Line (25)

The size factor reflects the higher risk of a bond portfolio that contains relatively fewer bonds. The overall factor decreases as the portfolio size increases. ~~Portfolios with more than 1,300 issuers will receive a discount.~~ The size factor is based on the weighted number of issuers. (The calculation shown below will not appear on the RBC filing software but will be calculated automatically.)

Line (25)	Source	(a) Number of Issuers				(b) Weighted Issuers
First 50	Company Records		X	2.40	=	
Next 50	Company Records		X	1.53	=	
Next 100	Company Records		X	0.85	=	
Next 300	Company Records		X	0.85	=	
Over 500	Company Records		X	0.82	=	
Total Number of Issuers from Line (23)						
Total Weighted Issuers						
Size Factor = Total Weighted Issuers Divided by Total Number of Issuers						



Detail Eliminated to Conserve Space

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds.

Unaffiliated Common Stock

~~Non-government money market mutual funds are more like cash than common stock; therefore, it is appropriate to use the same factor as for cash.~~
Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16. Column (2) should equal Schedule D Summary by Country, Column 1, Line ~~22~~ ~~18~~ less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in ~~the book/adjusted carrying value of Schedule D Summary by Country, Line 25, Column 1~~ (Line (11) of this page).

Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

Line (17)

Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line ~~29 25~~ less Schedule D Summary by Country, Column 1, Line ~~28 24~~ less line (13).

Lines (19) and (20)

To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.



Detail Eliminated to Conserve Space



OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (49.1)

Schedule BA affiliated common stock – all others should be included in C-1cs. Specifically this means that all subs with an affiliate code ~~9 13~~ in the current life-based framework and “holding company in excess of indirect subsidiaries” or subsidiaries with affiliate code ~~3 7~~ are to be included in C-1cs.

Line (49.2)

New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)

Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (21) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

SCHEDULE BA MORTGAGES
LR009

Basis of Factors

For Affiliated Mortgages, Line ~~1299999 and~~ 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated Mortgages, Line ~~1199999 and~~ 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line ~~(3) (2)~~ for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), ~~(2), (13) (42), and (17) (46)~~, calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines ~~1199999, 1299999~~, 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Notes to Financials 5S, **Column 1**, line **7a and 7b**.

Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)

No longer used. Place "XXX" in any blanks for this column.

Column (5)

For Line (1), the pre-tax factor is 0.0014.

For Line (2), the pre-tax factor is 0.0068.

For Line (3), the average factor column is calculated as Column (6) divided by Column (3).

For Line (4), the pre-tax factor is 0.0090.

For Line (5), the pre-tax factor is 0.0175.

For Line (6), the pre-tax factor is 0.0300.
For Line (7), the pre-tax factor is 0.0090.
For Line (8), the pre-tax factor is 0.0175.
For Line (9), the pre-tax factor is 0.0300.
For Line (10), the pre-tax factor is 0.0500.
For Line (11), the pre-tax factor is 0.0750.
For Line (13), the pre-tax factor is 0.0027.
For Lines (14) through (15), the pre-tax factor is 0.1100.
For Line (17), the pre-tax factor is 0.0054.
For Lines (18) through (19), the pre-tax factor is 0.1300.

Column (6)

For Lines (1) **and (2)**, (4) through (11), (13) through (15) and (17) through (19), the RBC subtotal in Column (3) is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Line (3), **summary amounts are entered for** Column (6) based on calculations done on an individual mortgage basis as determined in the company developed worksheet Figure (10).

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheet (Figure10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure and in an unaffiliated structure where there are covenants. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are **included in Line (1), (13), or (17) as appropriate classified as Category CM1**. The following factors are used for each category of mortgages:

Schedule BA Mortgage Factors		
LR009 Line Number		Factor
(4)	Unaffiliated – defeased with government securities	0.0090
(5)	Unaffiliated investments comprised primarily of Senior Debt	0.0175
(6)	Unaffiliated – all other unaffiliated mortgages	0.0300
(7)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM1	0.0090
(8)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM2	0.0175
(9)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM3	0.0300
(10)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM4	0.0500
(11)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM5	0.0750
(13)	90 Days Past Due - Insured or Guaranteed	0.0027
(14)	90 Days Past Due (CM6) - Unaffiliated with Covenants	0.1100
(15)	90 Days Past Due (CM6) – Affiliated	0.1100

(17)	In Process of Foreclosure - Insured or Guaranteed	0.0054
(18)	In Process of Foreclosure (CM7) - Unaffiliated with Covenants	0.1300
(19)	In Process of Foreclosure (CM7) – Affiliated	0.1300



Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~4-5.1~~ (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.



ASSET CONCENTRATION FACTOR

LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~NAIC 1 Hybrids~~, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, ~~and~~ cash ~~and certain cash equivalents and~~ short-term investments).

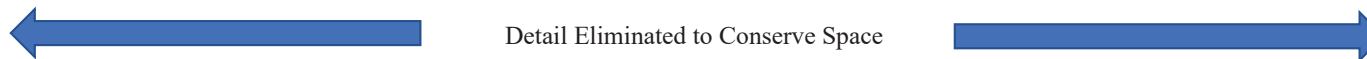
In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA partnerships should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~NAIC 1 Hybrids~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. The RBC filing software automatically allows for an overall 45% RBC cap.



COMMON STOCK CONCENTRATION FACTOR

LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, investment companies (mutual funds) and common trust funds, that are diversified with the meaning of the Investment Company Act, and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code **3 7** on **LR044 LR042** (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code **9 13** (other subsidiaries), the total stock investment including both preferred and common stock should be used.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

MISCELLANEOUS ASSETS
LR012

Basis of Factors

Lines (1) through (3.3)

The pre-tax factor for cash is 0.39%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.39% pre-tax factor, equivalent to a NAIC 1 bond, reflects the short-term nature of this risk.

With effect from 2005, Line (2.2) was added to LR012 Miscellaneous Assets to subtract cash equivalents bonds from cash equivalents. This change was made due to a change in the Annual Statement instructions indicating that cash equivalent bonds should be included as bonds in Schedule D, Part 1A.

~~The short-term investments to be included here are those not reflected elsewhere in the formula. Commercial paper, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest only and principal only certificates (IOs and POs), and equipment trust certificates should be included in appropriate bond classifications (NAIC 1 through NAIC 6) on LR002 Bonds and should be excluded from short-term investments.~~

Line (3.1) should include all short-term investments reported on Schedule DA as permitted under SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments. Line (3.2) should reflect issuer credit obligations pursuant to SSAP No. 26—Bonds that qualify as short-term investments under SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments. Bonds reported as asset-backed securities are not permitted to be reported as short-term investments and shall not be captured in line (3.1) or (3.2). The 0.39% pre-tax factor is equal to the factor for cash.

Lines (4) through (7)

Premium notes, ~~receivables for securities~~ and write-ins for invested assets are generally a small proportion of total portfolio value. A pre-tax factor of 6.8% is consistent with other risk-based capital formulas studied by the working group. The total amount of derivatives cash collateral receivable (pledged to counterparty and/or central clearinghouse) included in Line (6.1) (from Page 2, Line 11, ~~page 2~~) should be included on Line (6.2) resulting in Line (6.3) including no derivative collateral receivable amounts. Pledged collateral is reported in LR017, Off-Balance Sheet and Other Items.

Receivables for securities are subject to factors periodically updated by the NAIC, based on a weighted average calculation of bonds, common and preferred stock receivables.

Lines (8) through (16)

The collateral from Schedule DB Part D Section 1 Column 4 Line 0999999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.39%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line (9) will be assessed RBC based on their characteristics as an asset elsewhere in the RBC instructions.

Derivative instrument book/adjusted carrying value exposure net of collateral held on the balance sheet from Schedule DB Part D Section 1 Column 8 7 Line 0999999999, for each NAIC designation, is subject to the bond RBC factor for that category to reflect the amount held on the balance sheet exposed to loss upon default of the Over the Counter (OTC-bilateral) counterparty, central clearinghouse or exchange. ~~Starting For~~ 2015, derivative balances subject to central clearing are to be included in Line (10) regardless of the category they are included in for the AVR. Acceptable collateral is subject to an RBC charge at the same level as NAIC 1 Bonds. ~~The collateral from Schedule DB Part D Section 1 Column 4 Line 09999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.4%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line 9 will be assessed RBC based on their~~

~~characteristics as an asset elsewhere in the RBC instructions.~~ “Acceptable collateral” means cash, cash equivalents, securities issued or guaranteed by the United States or Canadian governments or their government-sponsored enterprises, publicly traded obligations designated 1 by the NAIC, government money market mutual funds, and such other items as may be defined as acceptable collateral in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.



OFF-BALANCE SHEET AND OTHER ITEMS

LR017

Line (2)

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

Lines (3) through (14)

Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (12.1) and (13) include assets pledged as collateral reported in the General Interrogatories Part 1 Line ~~26.30 25.30~~ and ~~26.31 25.31~~ other than assets related to the Federal Reserve’s Term Asset Loan Facility (TALF). For Line (12.2), include all collateral pledged, both cash and securities, to derivative counterparties and/or central clearinghouses for initial margin and variation margin. In addition, include securities collateral pledged as initial margin for futures. Line (12.2) should agree to Schedule DB Part D Section 2 Column 7, Line 0199999999. Line (12.3) should equal Line (12.1) minus Line (12.2). For Line (13) column 2 include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Line (13) column 2 also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets. For Line (13) column (4), the Factor will be manually input. In most instances, the Factor will be based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with funding agreement activities exceed 5% of total net admitted assets. If the higher factor is applicable, the Factor for column 4 is calculated as a blended factor prorated such that collateral in column 3 supporting FHLB funding agreement liabilities in excess of the limit is subject to the factor for an NAIC 2 corporate bond (Line 14 Column 4). All other collateral in column 3 is subject to the factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB.

Lines (16) through (23)

The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part D, Section 1, Column ~~13 12~~, Lines 0199999999 through 0899999999. Off-balance sheet exposure is reported for aggregate exchange traded derivatives, OTC – bilateral derivatives aggregated by counterparty brought into each individual NAIC designation 1-6, and aggregated centrally cleared derivatives. ~~Starting For~~ 2015, derivative balances subject to central clearing are to be included in Line (16) regardless of the category they are included in for Schedule DB, Part D, Section 1.



CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

LR031

Basis of Factors

The purpose of the formula is to estimate the risk-based capital levels required to manage losses that can be caused by a series of catastrophic financial events. However, it is remote that all such losses will occur simultaneously. The covariance adjustment states that the combined effect of the C-1o, C-1cs, C-2 and C-3 and a portion of the C-4 risks are not equal to their sum but are equal to the square root calculation described below. It is statistically assumed that the C-1o risk and a portion of the C-3 risk are correlated, while the C-1cs risk, the C-2 risk, the balance of the C-3 risk and a portion of the C-4 risk are independent of both. The split of the C-3 and C-4 risks allows for general consistency with the health RBC formula. This assumption provides a reasonable approximation of the capital requirements needed at any particular level of losses.

The covariance formula is applied on Line (69) on LR031 before adding operational risk and Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII:

$$\text{RBC after Covariance Before Operational Risk} = C0 + C4a + \text{Square Root of } [(C1o + C3a)^2 + (C-1cs + C-3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$$

Operational Risk:

Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories.

A Gross Operational Risk charge will be reported on Line (70) ~~68~~ using a percentage of RBC or “add-on” approach that will apply a risk factor of 3.00% to the amount reported in Line (69) – Total RBC after Covariance Before Operational Risk reported on page LR031. The result will represent an initial value of operational risk. Because the current C-4a risk charge is assumed to include some operational risk, a company’s C-4a – Post Tax reported on Line (65) is offset against operational risk. A further reduction to the operational risk charge equal to the sum of the C-4a offset amounts reported by direct life RBC filing insurance subsidiaries (Page LR031, Lines (65 + 71)), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported on Page LR031 in Line (71).



Detail Eliminated to Conserve Space



CALCULATION OF TOTAL ADJUSTED CAPITAL

(Including Total Adjusted Capital Tax Sensitivity Test)

LR033

The following instructions for the Calculation of Total Adjusted Capital will remain effective independent of the status of the sunset provision, Section 8, of AG 48 in a particular state or jurisdiction. This instruction will be considered for change once the amendment referenced in AG 48, Section 8, regarding credit for reinsurance, is adopted by the NAIC.

Basis of Factors

In determining the C-1 risk factors, availability of the AVR and voluntary investment reserves to absorb specific losses was not assumed. Therefore, the AVR is counted as capital for the purposes of the formula although it represents a liability and is not usable against general contingencies. The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. Voluntary investment reserves were eliminated from Total Adjusted Capital for the 1997 risk-based capital formula.

The annual statement provision for future dividends can provide a general cushion against potentially adverse future experience. As a reflection of this possible cushion, 50% of the annual statement dividend liability is included. However, when a block is reinsured, such credit to Total Adjusted Capital will not be allowed to either company unless the company has total control over the dividend decision and the full benefit of a change in the dividend scale flows to the company. A factor of 25% of the dividend liability is used in sensitivity testing.

Subsidiary amounts other than the carrying value of Alien Insurance Subsidiaries – Other, are included as appropriate recognizing that this surplus is included within the surplus of the parent. The carrying value of Alien Insurance Subsidiaries – Other should be excluded from the surplus of the parent for purposes of computing Total Adjusted Capital. Property and casualty subsidiaries should subtract all non-tabular discounts from surplus to arrive at the adjusted surplus figure. This adjustment to surplus was phased in over a five-year period by subtracting 20% of the non-tabular discount the first year and an additional 20% each year thereafter. Beginning with the 1998 risk-based capital formula, the adjustment to surplus is 100%. The same adjustment is made to the surplus of a life company having ownership of a property and casualty subsidiary.

The laws of certain states allow insurers to issue a form of capital instrument called a “capital note.” A credit is allowed to Total Adjusted Capital for a capital note that satisfies all of the following conditions:

1. In a liquidation, the capital note ranks with surplus notes and is subordinate to the claims of policyholders, claimants and general creditors.
2. The form and content of the capital note was approved by the commissioner of the insurer’s state of domicile.
3. At the time of issuance of the capital note, the aggregate principal amount did not exceed 25% of the Total Adjusted Capital (including the aggregate principal amount of outstanding capital and surplus notes) as of the end of the immediately preceding calendar year less the aggregate principal amount of outstanding capital and surplus notes.
4. The term of the capital note is not less than five years.
5. At the time of issuance of the capital note:
 - a) The total principal amount of capital notes maturing in any one year did not exceed 5% of Total Adjusted Capital (measured at the time of issuance); and
 - b) The total principal amount of capital notes maturing in any three-year period did not exceed 12% of Total Adjusted Capital (measured at the time of issuance).
6. Payment of interest, dividend or principal of the capital note is deferred if it would have caused:
 - a) The insurer’s Total Adjusted Capital to drop below its Company Action Level Risk-Based Capital; or
 - b) The insurer’s Total Adjusted Capital to drop below 125% of its Company Action Level Risk-Based Capital, and there is a negative trend on the Trend Test.However, upon request by the insurer, the commissioner of the insurer’s state of domicile may approve such payment if, in the commissioner’s judgment, the financial condition of the insurer warrants it.
7. The commissioner of the insurer’s state of domicile may halt all payments on the capital note if the insurer’s Total Adjusted Capital drops below three times

- the principal amount of the capital and surplus notes the insurer has outstanding.
8. The capital note is treated as a liability in the computation of statutory surplus.
 9. The insurer issuing the capital note is obligated to supply to the commissioner of the insurer's state of domicile an informational filing in a manner approved by the commissioner at the same time the insurer files its annual statement, and at such other times as the commissioner determines necessary. The filing shall include and be based on the following guidelines:
 - a) The filing shall display the financial results of the criteria used to determine whether payments on the insurer's capital notes need be approved by the commissioner or may be halted by the commissioner. Further, it shall specifically identify those results that either necessitate commissioner approval of the payment or give the commissioner the option to halt payment.
 - b) The insurer shall notify the Commissioner for informational purposes of each forthcoming payment under a capital note not less than ten business days prior to the date of payment, nor more than 30 business days prior to the date of payment.
 - c) Whenever an insurer declares its intention to exercise the option to call or redeem a capital note prior to the scheduled maturity, the Commissioner shall be notified within five business days following the declaration, and not less than 10 business days prior to the declared redemption date. The 10-day period should be measured from the date of the commissioner's receipt of the notice.

The credit for a capital note is reduced as the note approaches maturity (as calculated on LR032 Capital Notes before Limitation). The aggregate credit for capital notes is limited so that the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-third of Total Adjusted Capital.

Total Adjusted Capital is to be reduced by the amount of all XXX/XXXX reinsurance RBC shortfalls.

Specific Instructions for Application of the Formula

Lines ~~11.1 10.1-11.4 10.4, 14 13, 15 14 and 19 18~~ are not applicable to Fraternal Benefit Societies.



Detail Eliminated to Conserve Space



AFFILIATED/SUBSIDIARY STOCKS

LR042, LR043 and LR044

Basis of Factors

There are ten categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those ten categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
 - a. Health Insurance Company or Health Entity
 - b. Property and Casualty Insurance Company
 - c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
 - a. Health Insurance Companies and Health Entities Not Subject to RBC
 - b. Property and Casualty Insurance Companies Not Subject to RBC
 - c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
 - a. Entities with a capital requirement imposed by a regulatory body
 - b. Other Financial Entities without regulatory capital requirements
 - c. Non-financial entities
10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

Enter applicable items for each affiliate/subsidiary in the Details for Affiliated/Subsidiary Stocks worksheet. The program will automatically calculate the risk-based capital charge for each affiliate/subsidiary. When the data is uploaded to the NAIC database, it will be cross-checked and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The RBC report will display the number of affiliates/subsidiaries. These numbers should be reviewed to ensure that all affiliates/subsidiaries are appropriately reported.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 4409999999 plus Schedule D, Part 2, Section 2, Line 5979999999 and should also equal Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999.

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer. Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

Directly owned insurance and health entity affiliates/subsidiaries are affiliates/subsidiaries in which the reporting company owns the stock of the affiliate/subsidiary. Indirectly owned insurance affiliates/subsidiaries and health entities are those where the reporting company owns stock in a holding company, which in turn owns the stock of the insurance affiliate/subsidiary or health entity. Note that there could be multiple holding companies that control the downstream insurance company.

Enter the book/adjusted carrying value of: the common stock in Column (5), the preferred stock in Column (7), the total outstanding common stock in Column (6) and the total outstanding preferred stock of that affiliate/subsidiary in Column (8) of the appropriate worksheet. The percentage of ownership is calculated by summing the book/adjusted carrying values of the owned preferred stock and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

Insurance Affiliate/Subsidiaries that are Subject to RBC

1. Directly Owned U.S. Affiliates/Subsidiaries:

The risk-based capital requirement for the reporting company for those insurance affiliates/subsidiaries that are subject to a risk-based capital requirement is based on the Total Risk-Based Capital After Covariance of the affiliate/subsidiary, prorated for the percent of ownership of that affiliate/subsidiary.

For purposes of Subsidiary Risk all references to Total Risk-Based Capital After Covariance of the affiliate/subsidiary means:

- a. For a Health affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (XR024, Line (41));
- b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (60)); and
- c. For a Life affiliate/subsidiary RBC filing, the sum of
 - (a) Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (69)); and
 - (b) Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

For RBC purposes, the reporting insurer must determine the carrying value and the RBC requirement of directly owned RBC filing affiliate/subsidiary company, even if the RBC filing affiliate/subsidiary is non-admitted. The value reported in annual statement Schedule D, Part 6, Section 1 should be used for RBC purposes. In addition to RBC, the carrying value of the RBC filer must be reported in total adjusted carrying value for RBC purposes, in order to appropriately balance the numerator with the addition of the denominator value. Enter the carrying value of the insurer as an additional amount in line (8) ~~(6)~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. as the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*. For those insurance Affiliates/Subsidiaries of the reporting company that are reported under the equity method, the C₀ charge of the ownership of the common and preferred stock in these Affiliates/Subsidiaries is limited to the lesser of:

- (a) the Total RBC After Covariance of the affiliate/subsidiary times the percentage of ownership, which is the total of common stock and preferred stock; or
- (b) the common and preferred stock book/adjusted carrying value at which the affiliate/subsidiary is carried.

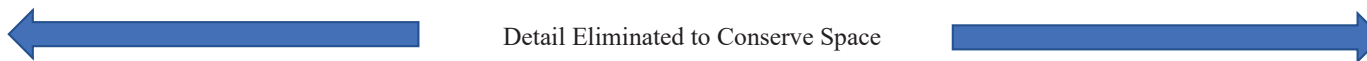
Market Value (including discounted market value) Insurance Affiliates/Subsidiaries (See SSAP No. 97, paragraph 8.a.): See 10 below.

2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries

For Indirectly Owned U.S. Insurance Affiliates/Subsidiaries, the carrying value and RBC is calculated in the same manner as for directly owned U.S. Insurance Affiliates/Subsidiaries. The RBC for the indirect affiliates/subsidiaries must be calculated prior to completing this RBC report.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned RBC filer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an RBC filer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must “look-through” all intermediate holding and subsidiary companies to determine the carrying value and the RBC requirement of indirectly owned RBC filing affiliate/subsidiary company. This involves drilling down to the first RBC filing insurance affiliate/subsidiary and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both RBC and carrying value of the RBC filer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line (8) ~~XXX~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value for each indirect insurance affiliate/subsidiary is established based on company records using the statutory value of the insurer as reported in the NAIC annual financial statement blank submitted by the affiliate/subsidiary or market value when applicable, and the RBC requirement as determined in its RBC Report adjusted for the ownership percentages (both the percentage of the indirectly owned RBC filing affiliate/subsidiary that is owned by the directly held downstream holding company and the reporting insurer’s ownership percentage in that downstream entity). The value reported by the downstream holding company for the U.S. RBC filing insurer is the same as the statutory value established for the insurer on a look-through basis.



10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

The risk-based capital for a publicly traded insurance affiliate/subsidiary held at market value after any “discount,” is calculated in two parts. First, calculate and report the risk-based capital of the affiliate/subsidiary according to the relevant instructions above for Insurance Affiliates/Subsidiaries that are Subject to a RBC-look-through Calculation. Second, calculate the additional risk-based capital charge as 34.6% pre-tax of any excess of the market (statement) value over the book value of the affiliate/subsidiary. The result of the second calculation will be added to the C-1o component.

Report information regarding any publicly traded insurance affiliate/subsidiary held at market value. The reported market value of common stock should be the same as shown Schedule D, Part 2, Section 2, Column **7 8**, Line 5919999999 plus Line 5929999999. The market value of preferred stock should be the same as shown in Schedule D, Part 2, Section 1, Column **8 40**, line 4319999999 plus 4329999999. The reported book value of common stock should be the same as shown in Schedule D, Part 2, Section 2, Column **5 6**, Line 5919999999 plus Line 5929999999. The reported book value of preferred stock should be the same as Schedule D, Part 2, Section 1, Column **6 8**, Line 4319999999 plus 4329999999.

APPENDIX A 3— EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column **6 9**) by the percentage of ownership (found in Schedule D – Part 6 –Section 1, Column **10 12**). For example:

<u>Subsidiary Insurance Company</u>	<u>Owner's Book / Adjusted Carrying Value</u>	<u>Percentage Ownership</u>	<u>Total Stock Outstanding</u>
Subsidiary #1	\$1,000,000	100%	\$1,000,000
Subsidiary #2	\$1,000,000	75%	\$1,333,333
Subsidiary #3	\$1,000,000	50%	\$2,000,000
Subsidiary #4	\$1,000,000	25%	\$4,000,000
Subsidiary #5	\$1,000,000	10%	\$10,000,000



Detail Eliminated to Conserve Space



MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

LR045, LR046, LR047 and LR048



MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

Reinsurance Ceded - Bonds C-1o

LR045

Column 4

Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The “total” should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

Reinsurance Assumed - Bonds C-1o

LR046

Column 4

Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The “total” should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs

LR047

Column 4

Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The “total” should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR047 Column (4), Line (9999999) should equal the sum of LR002 Column (2) Line (19), LR004 Column (6) Line (29), LR005 Column (5) Line (8) and (19), LR006 Column (3) Line (5), LR007 Column (3) Line (11) and (23), LR008 Column (5) Line (9), Line (19), Line (29), Line (39), Line (45) and Line (55), LR009 Column (6) Line (22), LR012 Column (2) Line (19) and LR017 Column (5) Line (28).**

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs

LR048

Column 4

Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The “total” should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR048 Column (4), Line (9999999) should equal the sum of LR002 Column (2) Line (20), LR004 Column (6) Line (30), LR005 Column (5) Line (9) and (20), LR006 Column (3) Line (6), LR007 Column (3) Line (12) and (24), LR008 Column (5) Line (10), Line (20), Line (30), Line (40), Line (46) and Line (56), LR009 Column (6) Line (23), LR012 Column (2) Line (20) and LR017 Column (5) Line (29).**



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BONDS			(1)		(2)
	SVO Bond	Annual Statement Source	Book / Adjusted	Factor	RBC
	Designation Category		Carrying Value		Requirement
<u>Long Term Bonds</u>					
(1)	Exempt Obligations	AVR Default Component Column 1 Line 1	X	0.0000	=
(2.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 2.1	X	0.00158	=
(2.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 2.2	X	0.00271	=
(2.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 2.3	X	0.00419	=
(2.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 2.4	X	0.00523	=
(2.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 2.5	X	0.00657	=
(2.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 2.6	X	0.00816	=
(2.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 2.7	X	0.01016	=
(2.8)	Subtotal NAIC 1	Sum of Lines (2.1) through (2.7)			
(3.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 3.1	X	0.01261	=
(3.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 3.2	X	0.01523	=
(3.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 3.3	X	0.02168	=
(3.4)	Subtotal NAIC 2	Sum of Lines (3.1) through (3.3)			
(4.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 4.1	X	0.03151	=
(4.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 4.2	X	0.04537	=
(4.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 4.3	X	0.06017	=
(4.4)	Subtotal NAIC 3	Sum of Lines (4.1) through (4.3)			
(5.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 5.1	X	0.07386	=
(5.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 5.2	X	0.09535	=
(5.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 5.3	X	0.12428	=
(5.4)	Subtotal NAIC 4	Sum of Lines (5.1) through (5.3)			
(6.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 6.1	X	0.16942	=
(6.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 6.2	X	0.23798	=
(6.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 6.3	X	0.30000	=
(6.4)	Subtotal NAIC 5	Sum of Lines (6.1) through (6.3)			
(7)	NAIC 6	AVR Default Component Column 1 Line 7	X	0.30000	=
(8)	Total Long-Term Bonds	Sum of Lines (1) + (2.8) + (3.4) + (4.4) + (5.4) + (6.4) + (7)			
(Column (1) should equal Page 2 Column 3 Line 1 + Schedule DL Part 1 Column 6 Line 2009999999 2500000000)					

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		Short-Term and Cash Equivalent Bonds		
(9)	Exempt Obligations	AVR Default Component Column 1 Line 18 + Schedule E, Part 2, Column 7, Line 0019999999	_____ X 0.00000	= _____
(10.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 19.1 + Schedule E, Part 2, Footnote L.000001 A, Amount 1 - Schedule E, Part 2, Column 7, Line 0019999999	_____ X 0.00158	= _____
(10.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 19.2 + Schedule E, Part 2, Footnote L.000001 A, Amount 2	_____ X 0.00271	= _____
(10.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 19.3 + Schedule E, Part 2, Footnote L.000001 A, Amount 3	_____ X 0.00419	= _____
(10.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 19.4 + Schedule E, Part 2, Footnote L.000001 A, Amount 4	_____ X 0.00523	= _____
(10.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 19.5 + Schedule E, Part 2, Footnote L.000001 A, Amount 5	_____ X 0.00657	= _____
(10.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 19.6 + Schedule E, Part 2, Footnote L.000001 A, Amount 6	_____ X 0.00816	= _____
(10.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 19.7 + Schedule E, Part 2, Footnote L.000001 A, Amount 7	_____ X 0.01016	= _____
(10.8)	Subtotal NAIC 1	Sum of Lines (10.1) through (10.7)	=====	=====
(11.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 20.1 + Schedule E, Part 2, Footnote L.000001 B, Amount 1	_____ X 0.01261	= _____
(11.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 20.2 + Schedule E, Part 2, Footnote L.000001 B, Amount 2	_____ X 0.01523	= _____
(11.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 20.3 + Schedule E, Part 2, Footnote L.000001 B, Amount 3	_____ X 0.02168	= _____
(11.4)	Subtotal NAIC 2	Sum of Lines (11.1) through (11.3)	=====	=====
(12.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 21.1 + Schedule E, Part 2, Footnote L.000001 C, Amount 1	_____ X 0.03151	= _____
(12.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 21.2 + Schedule E, Part 2, Footnote L.000001 C, Amount 2	_____ X 0.04537	= _____
(12.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 21.3 + Schedule E, Part 2, Footnote L.000001 C, Amount 3	_____ X 0.06017	= _____
(12.4)	Subtotal NAIC 3	Sum of Lines (12.1) through (12.3)	=====	=====
(13.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 22.1 + Schedule E, Part 2, Footnote L.000001 D, Amount 1	_____ X 0.07386	= _____
(13.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 22.2 + Schedule E, Part 2, Footnote L.000001 D, Amount 2	_____ X 0.09535	= _____
(13.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 22.3 + Schedule E, Part 2, Footnote L.000001 D, Amount 3	_____ X 0.12428	= _____
(13.4)	Subtotal NAIC 4	Sum of Lines (13.1) through (13.3)	=====	=====
(14.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 23.1 + Schedule E, Part 2, Footnote L.000001 E, Amount 1	_____ X 0.16942	= _____
(14.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 23.2 + Schedule E, Part 2, Footnote L.000001 E, Amount 2	_____ X 0.23798	= _____
(14.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 23.3 + Schedule E, Part 2, Footnote L.000001 E, Amount 3	_____ X 0.30000	= _____
(14.4)	Subtotal NAIC 5	Sum of Lines (14.1) through (14.3)	=====	=====
(15)	NAIC 6	AVR Default Component Column 1 Line 24 + Schedule E, Part 2, Footnote L.000001 F, Amount 1	_____ X 0.30000	= _____
(16)	Total Short-Term and Cash Equivalent Bonds (Column (1) should equal Schedule DA Part 1 Column 6 7 Line 0509999999 2509999999 + Schedule DL Part 1 Column 6 Line 9509999999 + Schedule E Part 2 Column 7 Line 0509999999 L.R012-Miscellaneous-Assets-Column (1)-Line (2.2))	Sum of Lines (9) + (10.8) + (11.4) + (12.4) + (13.4) + (14.4) + (15) Line (8) + (16)	=====	=====
(17)	Total Long-Term and Short-Term Bonds (pre-MODCO/Funds Withheld)		=====	=====
(18)	Credit for Hedging	LR014 Hedged Asset Bond Schedule Column 13 Line (03999999)		=====
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	LR045 Modco or Funds Withheld Reinsurance Ceded - Bonds C-1o Column (4) Line (99999999)		=====
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	LR046 Modco or Funds Withheld Reinsurance Assumed - Bonds C-1o Column (4) Line (99999999)		=====
(21)	Total Long-Term and Short-Term Bonds (including MODCO/Funds Withheld and Credit for Hedging adjustments.)	Lines (17) - (18) - (19) + (20)	=====	=====
(22)	Non-exempt U.S. Government Agency Bonds	Schedule D Part 1 Section 1 and Section 2, and Schedule DA Part 1 and Schedule E, Part 2, in part	_____ X 0.00158	= _____
(23)	Bonds Subject to Size Factor	Line (21) - Line (1) - Line (9) - Line (22)		=====
(24)	Number of Issuers	Company Records		=====
(25)	Size Factor for Bonds			=====
(26)	Bonds Subject to Size Factor after the Size Factor is Applied	Line (23) x Line (25)		=====
(27)	Total Bonds	Line (22) + Line (26)		=====

LR002

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† Only investments in U.S. Government agency bonds previously reported in Lines (2.8) and (10.8), net of those included on Line (19), plus the portion of Line (20) attributable to ceding companies' Lines (2.8) and (10.8) should be included on Line (22). No other bonds should be included on this line. Exempt U.S. Government bonds shown on Lines (1) and (9) should not be included on Line (22). Refer to the bond section of the risk-based capital instructions for more clarification.

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

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NAIC Company Code

UNAFFILIATED PREFERRED AND COMMON STOCK

		(1) Book / Adjusted Carrying Value	(2) Less Affiliated Preferred Stock Without AVR	(3) RBC Subtotal	(4) Factor	(5) RBC Requirement
<u>Unaffiliated Preferred Stock</u>						
(1) Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10			X 0.0039	=	
(2) Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11			X 0.0126	=	
(3) Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12			X 0.0446	=	
(4) Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13			X 0.0970	=	
(5) Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14			X 0.2231	=	
(6) Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15			X 0.300	=	
(7) Total Unaffiliated Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (6)					
(Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16.)						
(Column (2) should equal Schedule D Summary by Country Column 1 Line 22 48 less Asset Valuation Reserve Default Component Column 1 Line 16.)						
(8) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(9) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(10) Total Unaffiliated Preferred Stock (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					
<u>Unaffiliated Common Stock</u>						
(11) Total Common Stock	Schedule D Summary Column 1 Line 29 25					
(12) Less Affiliated Common Stock	Schedule D Summary Column 1 Line 28 24-					
(13) Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records					
(14) Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3			X 0.011	=	
(15) Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2			X 0.300	=	
(16) Net Other Unaffiliated Public Common Stock	Lines (11) - (12) - (13) - (14) - (15)			X †	=	
(17) Total Admitted Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Lines (14) + (15) + (16)					
(Column 1 should equal Schedule D Summary by Country Column 1 Line 29 25 less Line 28 24 less Line (13))						
(18) Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line (0299999)					
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21) Total Admitted Unaffiliated Common Stock (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

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

LR005

Company Name	Confidential when Completed	NAIC Company Code				
OTHER LONG-TERM ASSETS						
	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Schedule BA - Fixed Income - Bonds</u>						
(1) Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000	=
(2) Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039	=
(3) Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126	=
(4) Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446	=
(5) Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970	=
(6) Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231	=
(7) Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000	=
(8) Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11) Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
<u>Schedule BA - Fixed Income - Preferred Stock</u>						
(12.1) Asset NAIC 4	AVR Equity Component Column 1 Line 30					
(12.2) Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes	Column (1) Line (22) + Column (1) Line (32)					
(12)						
(12.3) Net-Asset NAIC 1	AVR Equity Component Column 1 Line 30 Line (12.1) - (12.2)				X 0.0039	=
(13) Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126	=
(14) Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446	=
(15) Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970	=
(16) Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231	=
(17) Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000	=
(18) Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21) Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

LR008

Company Name	Confidential when Completed	NAIC Company Code				
OTHER LONG-TERM ASSETS (CONTINUED)						
	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Rated Surplus Notes Classified by Designation Equivalent</u>						
(22) Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.0039	=	
(23) Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.0126	=	
(24) Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.0446	=	
(25) Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.0970	=	
(26) Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.2231	=	
(27) Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X 0.3000	=	
(28) Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)					
(29) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(30) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(31) Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)					
<u>Rated Capital Notes Classified by Designation Equivalent</u>						
(32) Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.0039	=	
(33) Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.0126	=	
(34) Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.0446	=	
(35) Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.0970	=	
(36) Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.2231	=	
(37) Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X 0.3000	=	
(38) Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)					
(39) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(40) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(41) Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

Company Name	Confidential when Completed	NAIC Company Code				
OTHER LONG-TERM ASSETS (CONTINUED)		(1)	(2)	(3)	(4)	(5)
	Annual Statement Source	Book / Adjusted Carrying Value	Unrated Items ‡	RBC Subtotal †	Factor	RBC Requirement
<u>Schedule BA - Unaffiliated Common Stock</u>						
(42) Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X \$	=
(43) Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000	=
(44) Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47) Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
<u>Schedule BA - All Other</u>						
(48.1) BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2) BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3) Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000	=
(49.1) BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2) Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)				X 0.3000	=
(50) Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 3199999 + Line 3299999, in part				X 0.0680	=
(51) Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92				X 0.4500	=
(52.1) NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 100 443				X 0.0050	=
(52.2) NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 101 444				X 0.0163	=
(52.3) Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1) Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line 99 + 102 445					
(53.2) Less NAIC 1 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) (23) through (27) + Column (1) Lines (32) (33) through (37)					
(53.3) Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000	=
(54) Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57) Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58) Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

LR008

Company Name

Confidential when Completed

NAIC Company Code

SCHEDULE BA MORTGAGES

		(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡	(5) Average Factor	(6) RBC Requirement
<u>In Good Standing</u>	<u>Annual Statement Source</u>						
(1) Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX X	0.0014	=
(2) Affiliated Mortgages - Residential - All Other	AVR Equity Component Column 1 Line 44				XXX X	0.0068	=
(3) Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX X	*	=
(4) Unaffiliated Mortgages - Deceased with Government Securities	AVR Equity Component Column 1 Line 58				XXX X	0.0090	=
(5) Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX X	0.0175	=
(6) Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX X	0.0300	=
(7) Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX X	0.0090	=
(8) Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX X	0.0175	=
(9) Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX X	0.0300	=
(10) Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX X	0.0500	=
(11) Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX X	0.0750	=
(12) Total In Good Standing	Sum of Lines (1) through (11)						
<u>90 Days Overdue, Not in Process of Foreclosure</u>							
(13) Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX X	0.0027	=
(14) All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX X	0.1100	=
(15) All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 46 + Line 48 + Line 50				XXX X	0.1100	=
(16) Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)						
<u>In Process of Foreclosure</u>							
(17) Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX X	0.0054	=
(18) All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX X	0.1300	=
(19) All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 51 + Line 53 + Line 55				XXX X	0.1300	=
(20) Total In Process of Foreclosure	Lines (17) + (18) + (19)						
(21) Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)						
(22) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(23) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(24) Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)						

† 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).

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

LR009

Company Name

Confidential when Completed

NAIC Company Code

MISCELLANEOUS ASSETS

	Annual Statement Source	(1) Book / Adjusted Carrying Value	Factor	(2) RBC Requirement
<u>Miscellaneous</u>				
(1) Cash	Page 2 Line 5, inside amount 1		X 0.0039 =	
(2.1) Cash Equivalents	Page 2 Line 5, inside amount 2			
(2.2) Less Cash Equivalent Bonds Already Included with Page LR002 Bonds	Schedule E Part 2 Column 7 Line 0509999999, in part			
(2.3) Less Exempt Money Market Mutual Funds	Sch E, Part 2, Column 7, L8209999999			
(2.4) Net Cash Equivalents	Line (2.1) - Line (2.2) - Line (2.3)	X 0.0039 =		
(3.1) Short-Term Investments	Page 2 Line 5, inside amount 3			
(3.2) Less Short-Term Bonds	Schedule DA Part 1 Column 6-7 Line 0509999999 2509999999			
(3.3) Net Short-Term Investments	Lines (3.1) - (3.2)	X 0.0039 =		
(4) Premium Notes	Page 2 Line 6 first inside amount	X 0.068 =		
(5) Receivable for Securities	Page 2 Column 3 Line 9	X 0.016 =		
(6.1) Aggregate Write-ins for Invested Assets	Page 2 Column 3 Line 11			
(6.2) Less Derivative Collateral Receivable	Page 2 Column 3 Line 11, Derivatives Collateral Receivable reported as part of total			
(6.3) Net Write-ins for Invested Assets	Line (6.1) - Line (6.2)	X 0.068 =		
(7) Total Miscellaneous Excluding Derivative Instruments	Lines (1) + (2.4) + (3.3) + (4) + (5) + (6.3)			
<u>Derivative Instruments</u>				
(8) Collateral – Off Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part	X 0.0039 =		
(9) Collateral – On Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part	X 0.000 =		
(10) Exchange Traded and Centrally Cleared	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.0039 =		
(11) Over the Counter NAIC 1	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.0039 =		
(12) Over the Counter NAIC 2	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.0126 =		
(13) Over the Counter NAIC 3	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.0446 =		
(14) Over the Counter NAIC 4	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.0970 =		
(15) Over the Counter NAIC 5	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.2231 =		
(16) Over the Counter NAIC 6	Asset Valuation Reserve Default Component Column 1 Line 33, in part	X 0.3000 =		
(17) Total Derivative Instruments	Sum of Lines (8) through (16)			
(18) Total Miscellaneous Assets (pre-MODCO/Funds Withheld)	Lines (7) + (17)			
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(21) Total Miscellaneous Assets (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)			

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

LR012

Company Name

Confidential when Completed

NAIC Company Code

OFF-BALANCE SHEET AND OTHER ITEMS

		(1)	(2) Less Noncontrolled Assets Funding Guaranteed Separate Accounts,	(3)	(4)	(5)	(6)
			Synthetic GICs and Certain FHLB Liabilities	Subtotal	Factor	Requirement	Response
Noncontrolled Assets	Annual Statement Source	Statement Value					
(1) Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04			X	0.0020	=	
(2) Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05			X	0.0126	=	
(3) Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21			X	0.0126	=	
(4) Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22			X	0.0126	=	
(5) Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23			X	0.0126	=	
(6) Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24			X	0.0126	=	
(7) Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25			X	0.0126	=	
(8) Letter Stock or Other Securities Restricted as to sale - excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26			X	0.0126	=	
(9) FHLB Capital Stock	General Interrogatories Part 1 Line 26.27			X	0.0126	=	
(10) On Deposit with States	General Interrogatories Part 1 Line 26.28			X	0.0126	=	
(11) On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29			X	0.0126	=	
(12.1) Pledged as Collateral - excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30						
(12.2) Less Derivative Collateral Pledged	Schedule DB Part D Section 2 Column 7, Line 0199999999			X	0.0039	=	
(12.3) Pledged as Collateral - excluding Collateral Pledged to an FHLB Less Derivatives Collateral Pledged	Line (12.1) - (12.2)			X	0.0126	=	
(13) Pledged as Collateral to FHLB - including Assets Backing Funding Agreements	General Interrogatories Part 1 Line 26.31		†	X	#	=	
(14) Other	General Interrogatories Part 1 Line 26.32			X	0.0126	=	
(15) Total Noncontrolled Assets	Sum of Lines (1) through (11) Plus Lines (12.2) through (14)						
Derivative Instruments							
(16) Exchange Traded and Centrally Cleared	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.0039	=	
(17) Off-Balance Sheet Exposure NAIC 1	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.0039	=	
(18) Off-Balance Sheet Exposure NAIC 2	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.0126	=	
(19) Off-Balance Sheet Exposure NAIC 3	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.0446	=	
(20) Off-Balance Sheet Exposure NAIC 4	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.0970	=	
(21) Off-Balance Sheet Exposure NAIC 5	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.2231	=	
(22) Off-Balance Sheet Exposure NAIC 6	Schedule DB Part D Section 1 Column 13-43, Line 0999999999, in part			X	0.3000	=	
(23) Total Derivative Instruments Off-Balance Sheet Exposure	Sum of Lines (16) through (22)						
(24) Guarantees for Affiliates	Notes to Financial Statements Number 14A3c1			X	0.0126	=	
(25) Contingent Liabilities	Notes to Financial Statements Number 14A1			X	0.0126	=	
(26) Long Term Leases	Notes to Financial Statements Number 15A2a1			X	0.0000	=	
(27) Total Off-Balance Sheet Items (pre-MODCO/Funds Withheld)	Lines (15) + (23) + (24) + (25) + (26)						
(28) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(29) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(30) Total Off-Balance Sheet Items (including MODCO/Funds Withheld.)	Lines (27) - (28) + (29)						
Other Items							
(31) Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer a regulated insurance company?	"Yes", "No" or "N/A" in Column (6)						
(32) SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements Item 9A2(a)			X	‡	=	
(33) SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements Item 9A2(b)			X	0.0100	=	
(34) Total Off-Balance Sheet and Other Items	Line (30) + Line (32) + Line (33)						

† For Column (2) Line (13), include assets pledged as collateral other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Column (2) include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Column (2) also include an amount equal to the lesser of Statement Value of FHLB liabilities subject to C3PI Cash Flow Testing or 5% of total net admitted assets.

‡ If Line (31) Column (6) is "Yes", then the factor is 0.005. If Line (31) Column (6) is "No", then the factor is 0.010. If Line (31) Column (6) is "N/A", then the factor is 0.000.

In most instances, apply a factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with spread-lending activities exceed 5% of total net admitted assets. This higher factor shall equal the factor for a Bas corporate bond asset factor (Line 14 Column 4). If the higher factor is applicable, the blended factor for column 4 shall be prorated based on the collateral in column 3 subject to the typical factor (i.e. liquidity and spread-lending below the limit) and the higher factor (only spread-lending above the limit).

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

LR017

Company Name

Confidential when Completed

NAIC Company Code

BUSINESS RISK

		(1) Statement Value	(2) RBC Requirement
	<u>Annual Statement Source</u>	<u>Factor</u>	
	<u>Life Insurance Premiums</u>		
(1)	Total Life Premiums		
(2)	Less American Samoa Life Premiums		
(3)	Less Guam Life Premiums		
(4)	Less Puerto Rico Life Premiums		
(5)	Less U.S. Virgin Islands Life Premiums		
(6)	Less Northern Mariana Islands Life Premiums		
(7)	Less Canada Life Premiums		
(8)	Less Other Alien Life Premiums		
(9)	Subtotal Net Life Premiums		
(10)	Plus Foreign Variable and Other Life Premiums		
(11)	Less Total Variable and Other Life Premiums		
(12)	Net Life Premiums		
		X 0.0253	=
	<u>Annuity Considerations</u>		
(13)	Total Annuity Considerations		
(14)	Less American Samoa Annuity Considerations		
(15)	Less Guam Annuity Considerations		
(16)	Less Puerto Rico Annuity Considerations		
(17)	Less U.S. Virgin Islands Annuity Considerations		
(18)	Less Northern Mariana Islands Annuity Considerations		
(19)	Less Canada Annuity Considerations		
(20)	Less Other Alien Annuity Considerations		
(21)	Subtotal Net Annuity Considerations		
(22)	Plus Foreign Variable and Other Annuity Considerations		
(23)	Less Total Variable and Other Annuity Considerations		
(24)	Net Annuity Considerations		
		X 0.0253	=
	<u>Accident and Health Premiums</u>		
(25)	Total Accident and Health Premiums		
(26)	Less American Samoa Accident and Health Premiums		
(27)	Less Guam Accident and Health Premiums		
(28)	Less Puerto Rico Accident and Health Premiums		
(29)	Less U.S. Virgin Islands Accident and Health Premiums		
(30)	Less Northern Mariana Islands Accident and Health Premiums		
(31)	Less Canada Accident and Health Premiums		
(32)	Less Other Alien Accident and Health Premiums		
(33)	Subtotal Net Accident and Health Premiums		
(34)	Plus Foreign Variable and Other A&H Premiums		
(35)	Less Total Variable and Other A&H Premiums		
(36)	Net Accident and Health Premiums		
		X 0.0063	=

† Enter amounts only if included in Schedule T Column 2 (life), Column 3 (annuity) or Column 4 (accident and health).
Denotes items that must be manually entered on the filing software.

LR029

Company Name

Confidential when Completed

NAIC Company Code

BUSINESS RISK (CONTINUED)

		(1)	(2)
	<u>Annual Statement Source</u>	<u>Statement Value</u>	<u>RBC Requirement</u>
	<u>Separate Account Liabilities</u>		
(37) Total Liabilities from Separate Accounts Statement	Page 3 Column 1 Line 27		
(38) Transfers to Separate Accounts Due or Accrued	Page 3 Column 1 Line 13		
(39) Total Separate Account Liabilities	Line (37) plus Line (38)	X 0.0006 =	
(40) Business Risk (C-4a)	Lines (12) + (24) + (36) + (39)		
	<u>Administrative Expenses for Certain A&H Coverages</u>		
(41) Total Accident and Health Premiums	LR019 Health Premiums Column (1) Line (33)		
(42) Accident and Health Premiums from Underwriting Risk	LR020 Underwriting Risk Column (5) Line (1.3)		
(43) Accident and Health Premiums Factor	Line (42) / Line (41)		
(44) Exhibit 2 Administrative Expenses for Health Insurance	Exhibit 2 Column 2 + Column 3 Line 10		
(45) Exhibit 3 Administrative Expenses for Health Insurance	Exhibit 3 Column 2 Line 7		
(46) Less Administrative Expenses for Administrative Service Contracts (ASC)	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2		
(47) Less Administrative Expenses for Administrative Services Only (ASO) Business	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2		
(48) Less Administrative Expenses for Commissions and Premium Taxes	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2		
(49) Net Administrative Expenses	Lines (44) + (45) - (46) - (47) - (48) (7% of Line (42) up to \$25 million + 4% of any in excess of \$25 million)/Line (42)		
(50) Composite Health Administrative Expense Risk Factor	Line (49) x factor Line (43) x factor Line (50)		
(51) Administrative Expense Component for Health			
	<u>Health ASO/ASC</u>		
(52) Administrative Expenses for ASC Business	Company Records§	X 0.0200 =	
(53) Administrative Expenses for ASO Business	Company Records§	X 0.0200 =	
(54) ASC Claims Reported as Incurred Claims	Company Records	X 0.0100 =	
(55) Other Medical Costs Paid through ASC Arrangements	Company Records	X 0.0100 =	
(56) Fee-for-Service Received from Health Entities	Company Records	X 0.0100 =	
(57) Business Risk (C-4b)	Column (2) Lines (51) + (52) + (53) + (54) + (55) + (56)		

§ Line (52) should be greater than or equal to Line (46). Line (53) should be greater than or equal to Line (47).

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

LR029

Company Name		Confidential when Completed		NAIC Company Code	
CALCULATION OF TOTAL ADJUSTED CAPITAL (Including Total Adjusted Capital Tax Sensitivity Test)					
		(1)		(2)	
	Annual Statement Source	Statement Value	Factor	Adjusted Capital	
<u>Company Amounts</u>					
(1)	Capital and Surplus	Page 3 Column 1 Line 38	X 1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §	X 1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part	X 0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part	X 0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records	X -1.000	=	
<u>Life Subsidiary Company Amounts†</u>					
(6)	Asset Valuation Reserve	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ §	X 1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡	X 0.500	=	
(8)	Carrying Value of Non-Admitted Insurance Affiliates	Included in LR044 Columns (5) and (7)	X 1.000	=	
<u>Property and Casualty and Other Non-U.S. Affiliated Amounts</u>					
(9)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 6 + § Line 0599999 and Line 1499999, in part	X 1.000	=	
(10)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (8) less Line (9)			
<u>Credit for Capital Notes</u>					
(11.1)	Surplus Notes	Page 3 Column 1 Line 32			
(11.2)	Limitation on Capital Notes	0.5 x [Line (10) - Line (11.1)] - Line (11.1), but not less than 0			
(11.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)			
(11.4)	Credit for Capital Notes	Lesser of Column (1) Line (11.2) or Line (11.3)			
(12)	XXX/XXXX Reinsurance RBC Shortfall	LR037 XXX/XXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)			
(13)	Total Adjusted Capital	Line (10) + Line (11.4) - Line (12)			
<u>Tax Sensitivity Test</u>					
<u>Company Amounts</u>					
(14)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2	X -1.000	=	
(15)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2	X 1.000	=	
<u>Subsidiary Amounts</u>					
(16)	Deferred Tax Asset (DTA) Value	Company Records	X -1.000	=	
(17)	Deferred Tax Liability (DTL) Value	Company Records	X 1.000	=	
(18)	Tax Sensitivity Test: Total Adjusted Capital	Line (13)+(14)+(15)+(16)+(17)			
<u>Ex DTA ACL RBC Ratio Sensitivity Test</u>					
(19)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2	X 1.000	=	
(20)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (13) less Line (19)			
(21)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)	X 1.000	=	
(22)	Ex DTA ACL RBC Ratio	Line (20) / Line (21)			0.000%
† Including subsidiaries owned by holding companies.					
‡ Multiply statement value by percent of ownership.					
§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.					
Denotes items that must be manually entered on the filing software.					

LR033

Company Name	Confidential when Completed	NAIC Company Code
ADDITIONAL INFORMATION REQUIRED		
		(1)
	<u>Source</u>	<u>Statement Value</u>
(1.2) Other Affiliates: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (8) and Line (17)	
(2.2) Noncontrolled Assets: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15)	
(3.2) Guarantees for Affiliates: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1	
(4.2) Contingent Liabilities: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1	
(5.2) Long Term Leases: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1	
(7.11) Total Affiliated Investments: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 50	
(7.12) Less Affiliated Common Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 46	
(7.13) Less Affiliated Preferred Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 45	
(7.14) Net Affiliated Investments: Company	Lines (7.11) - (7.12) - (7.13)	
(7.2) Affiliated Investments: Subsidiaries	Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 50 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 48 Less Lines 43 and 44	
(9.1) Surplus Notes: Company	Company's Annual Statement Page 3 Column 1 Line 32	
(9.2) Surplus Notes: Subsidiaries	Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33	
(10.11) Capital Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 50.1	
(10.12) Surplus Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 51.1	
(10.13) Total Current Year's Capital Contributions: Company	Line (10.11) + Line (10.12)	
(10.2) Current Year's Capital Contributions: Subsidiaries	Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1	
(11.1) Total Residual Tranches or Interests	Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line 92 93	

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

LR038

Company Name

Confidential when Completed

NAIC Company Code

CROSSCHECKING FOR AFFILIATED/SUBSIDIARY STOCKS

Affiliated Preferred Stock

		(1)	(2)	(3)
	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	Annual Statement Total Preferred Stock†	Total from Life and Fraternal Risk-Based Capital Report‡ Difference
(1)	Parent	0199999		
(2)	U.S. Property and Casualty Insurer	0299999		
(3)	U.S. Life Insurer	0399999		
(4)	U.S. Health Entity	0499999		
(5)	Alien Insurer	0599999		
(6)	Non-Insurer Which Controls Insurer	0699999		
(7)	Investment Subsidiary	0799999		
(8)	Other Affiliates	0899999		
(9)	Total (Sum of Lines (1) through (8))			

Affiliated Common Stock

		(1)	(2)	(3)
	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	Annual Statement Total Common Stock†	Total from Life and Fraternal Risk-Based Capital Report§ Difference
(10)	Parent	1099999		
(11)	U.S. Property and Casualty Insurer	1199999		
(12)	U.S. Life Insurer	1299999		
(13)	U.S. Health Entity	1399999		
(14)	Alien Insurer	1499999		
(15)	Non-Insurer Which Controls Insurer	1599999		
(16)	Investment Subsidiary	1699999		
(17)	Other Affiliates	1799999		
(18)	Total (Sum of Lines (10) through (17))			

† Column (1) Lines (1) through (8) and (10) through (17) come from Schedule D Part 6 Section 1 Column 6 7 of the annual statement.

‡ Column (2) Lines (1) through (8) come from LR044 Details for Affiliated Investments Column (7).

§ Column (2) Lines (10) through (17) come from LR044 Details for Affiliated Investments Column (5).

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

LR043

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 |

DATE: <u>02/21/2025</u>		FOR NAIC USE ONLY	
CONTACT PERSON: <u>Paul Navratil</u>		Agenda Item # <u>2025-01-L</u>	
TELEPHONE: _____		Year <u>2025</u>	
EMAIL ADDRESS: <u>PNavratil64@massmutual.com</u>		DISPOSITION	
ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Philip Barlow, Chair</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
TITLE: <u>Associate Commissioner of Insurance</u>		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u>	
AFFILIATION: <u>District of Columbia</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>1050 First Street, NE Suite 801</u>		EXPOSED:	
<u>Washington, DC 20002</u>		<input type="checkbox"/> TASK FORCE (TF) _____	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>02-21-2025</u>	
		<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 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:

- 02-21-2025: Proposal was exposed with comments due 03-23-2025 – No comment letter received (KO)

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

Revised 2-2023

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 95th 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 95th 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



Company Name		Confidential when Completed		NAIC Company Code	
LIFE INSURANCE			(1)	(2)	
		Annual Statement Source	Statement Value	Factor	RBC Requirement
<u>Individual & Industrial Life Net Amount at Risk</u>					
(1)	Total Individual & Industrial Life Net Amount at Risk	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)]			
(2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	Company Records General Interrogatories Part 2, Column 1, Line 10.08			
(3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	Company Records General Interrogatories Part 2, Column 1, Line 10.14			
(4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)			
(5)	Total Individual & Industrial Life	Lines (2) + (3) + (4)			
<u>Group & Credit Life</u>					
(6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	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)]			
(7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	Company Records - General Interrogatories Part 2, Column 1, Line 10.22			
(8)	Group & Credit Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	Company Records - General Interrogatories Part 2, Column 1, Line 10.28			
(9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	Company Records General Interrogatories Part 2, Column 1, Line 10.34			
(10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)			
(11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4, Line 43 and 44 x 1000			
(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.					

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"/> 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 |

DATE: 03-10-2025		<u>FOR NAIC USE ONLY</u>
CONTACT PERSON:	<u>Kazeem Okosun</u>	Agenda Item # <u>2025-04-L MOD</u>
TELEPHONE:	<u>816-783-8981</u>	Year <u>2025</u>
EMAIL ADDRESS:	<u>kokosun@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF:	<u>Life Risk-Based Capital (E) Working Group</u>	ADOPTED:
NAME:	<u>Philip Barlow, Chair</u>	<input type="checkbox"/> TASK FORCE (TF) _____
TITLE:	<u>Associate Commissioner of Insurance</u>	<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u>
AFFILIATION:	<u>District of Columbia</u>	<input type="checkbox"/> SUBGROUP (SG) _____
ADDRESS:	<u>1050 First Street, NE Suite 801</u>	EXPOSED:
	<u>Washington, DC 20002</u>	<input type="checkbox"/> TASK FORCE (TF) _____
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>3/24/2025</u>
		<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 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 checked="" type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal supersedes deferred Proposal 2024-07-L. This proposal seeks to reorganize LR008 – Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/ Funds Withheld Reinsurance Agreement adjustments within LR008.

Should changes proposed for LR008 be adopted, there would be corresponding changes to LR030 and LR031 instructions and/or blanks. Such changes are also incorporated into this proposal.

Additional Staff Comments:

Staff Note: The areas highlighted in gray within the Blank pages are subject to the adoption of Proposals 2024-21-L MOD and 2024-24-L MOD.

The areas highlighted in yellow within the Blank pages in the modified proposal incorporated changes in response to interested parties' comments

- 03-24-2025: Proposal was exposed with comments due 04-23-2025 – Comments received from ACLI (KO)

** This section must be completed on all forms.

Revised 2 2023

OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (44 49.1)

Schedule BA affiliated common stock – all others should ~~be included in C-1es. Specifically this means that~~ all subs with an affiliate code ~~9 13~~ in the current life-based framework and “holding company in excess of indirect subsidiaries” or subsidiaries with affiliate code ~~3 7~~ ~~are to be included in C-1es.~~

Line (49.2)

~~New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).~~

Line (51 50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)

Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (20 24) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

Company Name		Confidential when Completed		NAIC Company Code			
OTHER LONG-TERM ASSETS							
			(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Annual Statement Source						
Schedule BA - Fixed Income - Bonds							
(1)	Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000	=
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039	=
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126	=
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446	=
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970	=
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231	=
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000	=
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
Schedule BA - Fixed Income - Preferred Stock							
(12.1)	Asset NAIC 1	AVR Equity Component Column 1 Line 30					
(12.2)	Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes	Column (1) Line (22) + Column (1) Line (32)					
(12)							
(12.3)	Net Asset NAIC 1	AVR Equity Component Column 1 Line 30 Line (12.1) - (12.2)				X 0.0039	=
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126	=
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446	=
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970	=
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231	=
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000	=
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

LR008

Company Name	Confidential when Completed	NAIC Company Code				
OTHER LONG-TERM ASSETS (CONTINUED)						
	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
<u>Rated Surplus Notes Classified by Designation Equivalent</u>						
(22) Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.0039	=
(23) Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.0126	=
(24) Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.0446	=
(25) Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.0970	=
(26) Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.2231	=
(27) Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part			X	0.3000	=
(28) Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)					
(29) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(30) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(31) Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)					
<u>Rated Capital Notes Classified by Designation Equivalent</u>						
(32) Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.0039	=
(33) Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.0126	=
(34) Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.0446	=
(35) Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.0970	=
(36) Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.2231	=
(37) Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line 2999999+3099999, in part			X	0.3000	=
(38) Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)					
(39) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(40) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(41) Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

LR008

Company Name	Confidential when Completed	NAIC Company Code				
OTHER LONG-TERM ASSETS (CONTINUED)		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Annual Statement Source					
	Schedule BA - Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs)					
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65		X	\$	=
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66		X	0.3000	=
(44)	Schedule BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69		X	0.3000	=
(45)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92		X	0.4500	=
	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs)	Line (42) + (43) + (44) + (45)				
(46) (44)	(pre-MODCO/Funds Withheld)					
(47) (45)	Reduction in RBC for MODCO/Funds Withheld	Company Records (enter a pre-tax amount)				
(48) (46)	Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				
(48) (46)	Increase in RBC for MODCO/Funds Withheld	Company Records (enter a pre-tax amount)				
	Total Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs)	Lines (46) - (47) + (48)-(44)-(45)+(46)				
(49) (47)	(including MODCO/Funds Withheld.)					
	Schedule BA - All Other (C-1o)					
(50.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67				
(50.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68				
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (50.1) + (50.2)-(48.1)+(48.2)-		X	0.3000	=
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69				
(49.2)	Total Sch. BA Affiliated Common Stock - C-1es	Line (49.1)		X	0.3000	=
(51) (50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 3199999 + Line 3299999, in part		X	0.0680	=
(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 92		X	0.4500	=
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 100 443		X	0.0050	=
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 101 444		X	0.0163	=
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)				
(53.1)	Other Schedule BA Assets, including Surplus Notes and Capital Notes	AVR Equity Component Column 1 Line 99 + 102 445				
(53.2)	Less NAIC 1 § thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) (23) through (27) + Column (1) Lines (32) (33) through (37)				
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)		X	0.3000	=
(54)	Total Schedule BA Assets C-1o	Lines (11) + (21) + (31) + (41) + (50.3) (48.3) + (51)-(50)+ (52.3) + (53.3)				
(55)	(pre-MODCO/Funds Withheld)					
(55)	Reduction in RBC for MODCO/Funds Withheld	Company Records (enter a pre-tax amount)				
(56)	Increase in RBC for MODCO/Funds Withheld	Company Records (enter a pre-tax amount)				
(57)	Total Schedule BA Assets C-1o	Lines (54) - (55) + (56)				
(58)	(including MODCO/Funds Withheld.)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49)-(47) + (49.2) + (51) + (57)				

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation

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Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

	Source	(1) RBC Amount	Tax Factor	(2) RBC Tax Effect
ASSET RISKS				
Bonds				
(001) Long-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8)	X	0.1680	=
(002) Long-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4)	X	0.1680	=
(003) Long-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4)	X	0.1680	=
(004) Long-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4)	X	0.1680	=
(005) Long-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4)	X	0.1680	=
(006) Long-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7)	X	0.2100	=
(007) Short-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (10.8)	X	0.1680	=
(008) Short-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (11.4)	X	0.1680	=
(009) Short-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (12.4)	X	0.1680	=
(010) Short-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (13.4)	X	0.1680	=
(011) Short-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (14.4)	X	0.1680	=
(012) Short-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (15)	X	0.2100	=
(013) Credit for Hedging - NAIC 1 Through 5 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (01999999)	X	0.1680	= †
(014) Credit for Hedging - NAIC 6 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (02999999)	X	0.2100	= †
(015) Bond Reduction - Reinsurance	LR002 Bonds Column (2) Line (19)	X	0.2100	=
(016) Bond Increase - Reinsurance	LR002 Bonds Column (2) Line (20)	X	0.2100	=
(017) Non-Exempt NAIC 1 U.S. Government Agency	LR002 Bonds Column (2) Line (22)	X	0.1680	=
(018) Bonds Size Factor	LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21)	X	0.1680	=
Mortgages				
In Good Standing				
(019) Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (1)	X	0.1575	=
(020) Residential Mortgages - Other	LR004 Mortgages Column (6) Line (2)	X	0.1575	=
(021) Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (3)	X	0.1575	=
(022) Total Commercial Mortgages - All Other	LR004 Mortgages Column (6) Line (9)	X	0.1575	=
(023) Total Farm Mortgages	LR004 Mortgages Column (6) Line (15)	X	0.1575	=
90 Days Overdue				
(024) Farm Mortgages	LR004 Mortgages Column (6) Line (16)	X	0.1575	=
(025) Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (17)	X	0.1575	=
(026) Residential Mortgages - Other	LR004 Mortgages Column (6) Line (18)	X	0.1575	=
(027) Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (19)	X	0.1575	=
(028) Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (20)	X	0.1575	=
In Process of Foreclosure				
(029) Farm Mortgages	LR004 Mortgages Column (6) Line (21)	X	0.1575	=
† Denotes lines that are deducted from the total rather than added.				
Denotes items that must be manually entered on the filing software.				

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

	Source	(1)		(2)	
		RBC Amount	Tax Factor	RBC Tax Effect	
(030) Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X 0.1575	=	
(031) Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X 0.1575	=	
(032) Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X 0.1575	=	
(033) Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X 0.1575	=	
(034) Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X 0.1575	=	
(035) Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X 0.1575	=	
(036) Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X 0.2100	=	
(037) Mortgage Increase - Reinsurance	LR004 Mortgages Column (6) Line (30)		X 0.2100	=	†
Preferred Stock					
(038) Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X 0.1575	=	
(039) Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X 0.1575	=	
(040) Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X 0.1575	=	
(041) Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X 0.1575	=	
(042) Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X 0.1575	=	
(043) Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X 0.2100	=	
(044) Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X 0.2100	=	†
(045) Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X 0.2100	=	
Separate Accounts					
(046) Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X 0.1575	=	
(047) Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X 0.1575	=	
(048) Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X 0.1575	=	
(049) Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X 0.2100	=	†
(050) Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X 0.2100	=	
(051) Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X 0.1575	=	
(052) Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X 0.1575	=	
Real Estate					
(053) Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X 0.2100	=	
(054) Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X 0.2100	=	
(055) Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X 0.2100	=	
(056) Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X 0.2100	=	†
(057) Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X 0.2100	=	
Schedule BA					
(058) Sch BA Real Estate Excluding Low-Income	LR007 Real Estate Column (3) Line (16)		X 0.2100	=	
Housing-Tax Credits Investments					
(059) Guaranteed-Low-Income-Housing-Tax-Credits Yield Guaranteed State Tax Credit Investments	LR007 Real Estate Column (3) Line (17) +Line (14)		X 0.0000	=	
(060) Non-Guaranteed and All Other Low-Income Housing-Tax-Credits Qualifying and Other Tax Credit Investments	LR007 Real Estate Column (3) Line (18) + Line (19) + Line (20) +Line (21)		X 0.0000	=	
(061) Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X 0.2100	=	†
(062) Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X 0.2100	=	

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

	Source	(1)		(2)	
		RBC Amount	Tax Factor	RBC Tax Effect	
(063) Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)		X 0.1575	=	
(064) Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)		X 0.1575	=	
(065) Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)		X 0.1575	=	
(066) Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)		X 0.1575	=	
(067) Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)		X 0.1575	=	
(068) Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)		X 0.2100	=	
(069) BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)		X 0.2100	=	†
(070) BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)		X 0.2100	=	
(071) BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12 12.3)		X 0.1575	=	
(072) BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)		X 0.1575	=	
(073) BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)		X 0.1575	=	
(074) BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)		X 0.1575	=	
(075) BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)		X 0.1575	=	
(076) BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)		X 0.2100	=	
(077) BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)		X 0.2100	=	†
(078) BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)		X 0.2100	=	
(079) Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)		X 0.1575	=	
(080) Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)		X 0.1575	=	
(081) BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (50,3) (48,2)		X 0.2100	=	
(082) BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (51, 60)		X 0.1575	=	
(083) Other Schedule BA Assets	LR008 Other Long-Term Assets Column (5) Line (53.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)		X 0.2100	=	†
(084) Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)		X 0.2100	=	
(085) Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (56)		X 0.1575	=	
(086) BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (12)		X 0.1575	=	
(087) BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (16)		X 0.1575	=	
(088) BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (20)		X 0.1575	=	
(089) Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)		X 0.2100	=	†
(090) Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (23)		X 0.2100	=	
Miscellaneous					
(091) Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page		X 0.1575	=	
(092) Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)		X 0.1575	=	
(093) Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)		X 0.1575	=	
(094) Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)		X 0.1575	=	
(095) Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)		X 0.1575	=	
(096) Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)		X 0.1575	=	
(097) Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)		X 0.1575	=	
(098) Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)		X 0.1575	=	
(099) Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)		X 0.2100	=	
(100) Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)		X 0.2100	=	†
(101) Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)		X 0.2100	=	

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source		(1) RBC Amount	Tax Factor	(2) RBC Tax Effect
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (99999999)		X	0.1575	=
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=
(104)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)		X	0.2100	=
(105)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)		X	0.2100	=
(106)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)		X	0.2100	=
(107)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)		X	0.2100	=
(108)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)		X	0.2100	=
(109)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)		X	0.2100	=
(110)	Subtotal for C-to Assets	Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)				
C-to Affiliated Common Stock						
(111)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=
(112)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=
(113)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=
(114)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)		X	0.2100	=
(115)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)		X	0.2100	=
(116)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)		X	0.2100	=
(117)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)		X	0.2100	=
(118)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)		X	0.2100	=
(119)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)		X	0.2100	=
(120)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)		X	0.0000	=
(121)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)		X	0.0000	=
(122)	Subtotal for C-to Affiliated Common Stock	Lines (111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121)				
Common Stock						
(123)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=
(124)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (02999999)		X	0.2100	=
(125)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=
(126)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=
(127)	Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests Schedule BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (49) (42) - Line (45)		X	0.2100	=
(128)	Total Residual Tranches or Interests Schedule BA Common Stock Affiliated - C-ies	LR008 Other Long-Term Assets Column (5) Lines (40-2) + (434) (45)		X	0.2100	=
(129)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=
(130)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)		X	0.1575	=
(131)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)		X	0.1575	=
(132)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)		X	0.2100	=
(133)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)		X	0.2100	=
(134)	Total for C-ies Assets	Lines (123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133)				
Insurance Risk						
(135)	Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)		X	0.2100	=
†	Denotes lines that are deducted from the total rather than added.					
	Denotes items that must be manually entered on the filing software.					

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

			(1)		(2)	
			RBC Amount	Tax Factor	RBC Tax Effect	
(136)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	X	0.2100	=	
(137)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (5)	X	0.2100	=	
(138)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (12)	X	0.2100	=	
(138b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)	X	0.2100	=	
(139)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	X	0.2100	=	
(140)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	X	0.0000	=	
(141)	Total C-2 Risk	$L(135) + L(136) + L(139) + L(140) + \text{Greatest of } [\text{Guardrail Factor} * (L(137)+L(138)), \text{Guardrail Factor} * L(138b), \text{Square Root of } [(L(137) + L(138))^2 + L(138b)^2 + 2 * (\text{Correlation Factor}) * (L(137) + L(138)) * L(138b)]]$	X	0.2100	=	
(142)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	X	0.0000	=	
(143)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	X	0.2100	=	
(144)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	X	0.2100	=	
(145)	Business Risk	LR029 Business Risk Column (2) Line (40)	X	0.2100	=	
(146)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	X	0.0000	=	
(147)	Total Tax Effect	Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)				

† Denotes lines that are deducted from the total rather than added.

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

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL		
	Source	(1) RBC Requirement
<u>Insurance Affiliates and Misc. Other Amounts (C-0)</u>		
(1) Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	
(2) Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	
(3) Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	
(4) Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	
(5) Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	
(6) Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	
(7) Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	
(8) Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	
(9) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(10) Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	
(11) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	
(12) Net (C-0) - Post-Tax	Line (10) - Line (11)	
<u>Asset Risk - Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(13) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(14) Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests Schedule BA-Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (49) (47) - (45)	
(15) Total Residual Tranches or Interests Schedule BA-Affiliated Common Stock—C-1cs	LR008 Other Long-Term Assets Column (5) line +(49-2) +(54) (45)	
(16) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(17) Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	
(18) Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	
(19) Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	
(20) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	
(21) Net (C-1cs) - Post-Tax	Line (19) - Line (20)	
<u>Asset Risk - All Other (C-1o)</u>		
(22) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(23) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(24) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(25) Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	
(26) Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	
(27) Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	
(28) Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	
(29) Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	
(30) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	
(31) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	
Denotes items that must be manually entered on the filing software.		

LR031

Company Name	Confidential when Completed	NAIC Company Code
CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)		
		(1) RBC Requirement
(32) Synthetic GICs (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet	
	Collateral Column (3) Line (17) + Line (18)	
(37) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (61) (62)+Grand Total Page	
(39) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory	
	Convertible Securities Column (7) Line (9999999)	
(41) Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(42) Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)	
(43) (C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)	
(44) Net (C-1o) - Post-Tax	Line (42) - Line (43)	
<u>Insurance Risk (C-2)</u>		
(45) Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)	
(46) Group and Credit Life Insurance and FEGLI/SGLI	LR025 Life Insurance Column (2) Line (12)	
(46b) Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(47) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(48) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(49) Total (C-2) - Pre-Tax	$L(47) + L(48) + \text{Greatest of } [\text{Guardrail Factor} * (L(45)+L(46)), \text{Guardrail Factor} * L(46b), \text{Square Root of } [(L(45) + L(46))^2 + 2 * (\text{Correlation Factor}) * (L(45) + L(46)) * L(46b)]]$	
(50) (C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(51) Net (C-2) - Post-Tax	Line (49) - Line (50)	
<u>Interest Rate Risk (C-3a)</u>		
(52) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(53) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(54) Net (C-3a) - Post-Tax	Line (52) - Line (53)	
<u>Health Credit Risk (C-3b)</u>		
(55) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(56) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(57) Net (C-3b) - Post-Tax	Line (55) - Line (56)	
<u>Market Risk (C-3c)</u>		
(58) Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(59) (C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	
(60) Net (C-3c) - Post-Tax	Line (58) - Line (59)	
Denotes items that must be manually entered on the filing software.		

LR031

Company Name	Confidential when Completed	NAIC Company Code
CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)		
	Source	(1) RBC Requirement
<u>Business Risk (C-4a)</u>		
(61) Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	
(62) Liability Component	LR029 Business Risk Column (2) Line (39)	
(63) Subtotal Business Risk (C-4a) - Pre-Tax	Lines (61) + (62)	
(64) (C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (145)	
(65) Net (C-4a) - Post-Tax	Line (63) - Line (64)	
<u>Business Risk (C-4b)</u>		
(66) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	
(67) (C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (146)	
(68) Net (C-4b) - Post-Tax	Line (66) - Line (67)	
<u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u>		
(69) $C-0 + C-4a + \text{Square Root of } [(C-1o + C-3a)^2 + (C-1cs + C-3c)^2 + (C-2)^2 + (C-3b)^2 + (C-4b)^2]$	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE $L(12)+L(65) + \text{Square Root of } [(L(44) + L(54))^2 + (L(21) + L(60))^2 + L(51)^2 + L(57)^2 + L(68)^2]$	
(70) Gross Basic Operational Risk	$0.03 \times L(69)$	
(71) C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(72) Net Basic Operational Risk	Line (70) - (Line (65) + Line (71)) (Not less than zero)	
(73) Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	
(74) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (69) + Line (72) + Line (73)	
<u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u>		
(75) Total Risk-Based Capital After Covariance Times Fifty Percent	Line (74) x 0.50	
<u>Tax Sensitivity Test</u>		
(76) Tax Sensitivity Test: Total Risk-Based Capital After Covariance	$L(10)+L(63) + \text{Square Root of } [(L(42) + L(52))^2 + (L(19) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]$	
(77) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (76) x 0.50	

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

LR031

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;">DATE: <u>2/13/2025</u></p> <p>CONTACT PERSON: <u>Colin Masterson</u></p> <p>TELEPHONE: <u>202-624-2463</u></p> <p>EMAIL ADDRESS: <u>ColinMasterson@acli.com</u></p> <p>ON BEHALF OF: <u>American Council of Life Insurers</u></p> <p>NAME: <u>Colin Masterson</u></p> <p>TITLE: <u>SR. Policy Analyst</u></p> <p>AFFILIATION: <u>American Council of Life Insurers</u></p> <p>ADDRESS: _____</p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2025-05-L</u></p> <p>Year <u>2025</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>02-21-2025</u></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 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)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

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For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively “SVO-designated non-bond debt securities”) are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.

However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these “SVO-designated non-bond debt securities” can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments’ RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
Line 0199999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0299999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Reflect a Creditor Relationship in Substance - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

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Note that similar investments that are NOT designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus is outside of the scope of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

- 02-21-2025: Proposal was exposed with comments due 03-23-2025, a referral was sent to Statutory Accounting Principle (E) Working Group – Comment letter received from SAPWG (KO)

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

Revised 2-2023

ASSET CONCENTRATION FACTOR LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~NAIC 1 Hybrids~~, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash and short-term investments).

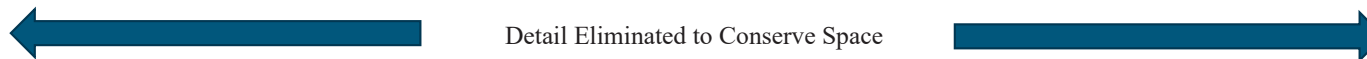
In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table**, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds, ~~or~~ NAIC 1 unaffiliated preferred stock, ~~or NAIC 1 Hybrids~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the ‘Other Invested Assets with Underlying Characteristics of Bonds’ AVR category, use the NAIC Designation and NAIC Designation Modifier from the ‘NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol’ column as reported on Schedule BA – Part 1.** The RBC filing software automatically allows for an overall 45% RBC cap.



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 type="checkbox"/> Life RBC (E) Working Group |
| <input checked="" 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; margin: 0;">DATE: <u>3/24/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u></p> <p>NAME: <u>Wanchin Chou</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Connecticut Department of Insurance</u></p> <p>ADDRESS: <u>153 Market St., Hartford CT 06103</u></p>	<p style="text-align: center; margin: 0;">FOR NAIC USE ONLY</p> <p>Agenda Item #<u>2025-06-CR</u></p> <p>Year <u>2025</u></p> <hr/> <p style="text-align: center; margin: 0;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>5/2/25</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>3/24/25</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) <u>3/24/25</u></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 type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input checked="" 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)

To clarify the information companies provided should reflect in annual basis.

Additional Staff Comments:

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

Revised 2-2023

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DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE
PR027BI, PR027BII, PR027BIII, PR027BIV, PR027CI, PR027CII, PR027CIII, PR027CIV

These disclosures aim at collecting the impact of climate related risks on the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. These disclosures will be effective for YE 2024, YE 2025 and YE 2026 reporting. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge. The information provided should reflect the annual loss dollars for the given reporting year.



Detail Eliminated To Conserve Space



Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <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>11/18/24</u>		FOR NAIC USE ONLY
CONTACT PERSON: <u>Derek Noe</u>		Agenda Item # <u>2024-25-CA</u>
TELEPHONE: <u>816-783-8973</u>		Year <u>2025</u>
EMAIL ADDRESS: <u>dnoe@naic.org</u>		<u>DISPOSITION</u>
ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u>		ADOPTED:
NAME: <u>Tom Botsko</u>		<input type="checkbox"/> TASK FORCE (TF) _____
TITLE: <u>Chair</u>		<input type="checkbox"/> WORKING GROUP (WG) _____
AFFILIATION: <u>Ohio Department of Insurance</u>		<input type="checkbox"/> SUBGROUP (SG) _____
ADDRESS: <u>50 West Town Street, Suite 300</u>		EXPOSED:
<u>Columbus, OH 43215</u>		<input checked="" type="checkbox"/> TASK FORCE (TF) <u>11/18/24, 3/25/25</u>
		<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 checked="" type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input checked="" type="checkbox"/> Health RBC Instructions | <input checked="" 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)

This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes resulted from the adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group. Changes are expected to take effect for year-end 2025.

This proposal also includes an update to PR009 to pull non-admitted collateral loans from the Notes to the Financial Statement 55 from adoption 2024-09BWG Modified.

Additional Staff Comments:

The Task Force Re-expose this proposal for a 30-day public comment period ending April 24.

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

Revised 2-2023

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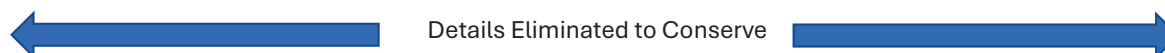
PR009 – Miscellaneous Assets

Collateral loans and write-ins for invested assets are generally a small proportion of total portfolio value. A factor of 5% is consistent with other risk-based capital formulas studied by the working group.

The factor for cash is 0.3%. 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.

If the book/adjusted carrying value of Aggregate Write-Ins for Invested Assets (Page 2, Line 11, Column 3 of the annual statement) is less than zero, the RBC amount will be zero.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount entered for short-term bonds should equal the total short-term investments found in Schedule DA Part 1 C76 L02509999999. This amount is subtracted from the total of short-term investments as they are captured with bonds on PR006.



PR007 – Unaffiliated Preferred and Common Stock

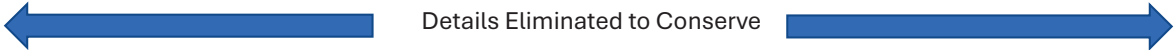
Unaffiliated Preferred Stock

Detailed information on unaffiliated preferred stocks is found in Schedule D Part 2 Section 1 of the annual statement. The preferred stocks must be broken out by NAIC Designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines of the RBC software. The total amount of unaffiliated preferred stock reported should equal annual statement P2 L2.1 C3 less any affiliated preferred stock in Schedule D-Summary by Country C1 L2248.

Unaffiliated Common Stock

The factor for other unaffiliated common stock is based on studies that indicate a 10% to 12% factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a one-year future period. The higher factor of 15% contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

The total of all unaffiliated common stock reported should be equal to the total value of common stock in Schedule D-Summary by Country C1 L2925 less the sum of Schedule D-Summary by Country C1 L2824 and PR007, Column 1, Line 108.



APPENDIX 3 – EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 67) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 102). For example:

<u>Subsidiary Insurance Company</u>	<u>Owner's Book/Adjusted Carrying Value</u>	<u>Percentage Ownership</u>	<u>Total Stock Outstanding</u>
Subsidiary #1	\$1,000,000	100%	\$1,000,000
Subsidiary #2	\$1,000,000	75%	\$1,333,333
Subsidiary #3	\$1,000,000	50%	\$2,000,000
Subsidiary #4	\$1,000,000	25%	\$4,000,000
Subsidiary #5	\$1,000,000	10%	\$10,000,000

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), (3), or (43). 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), (3), and (34) will be calculated in Column (54). The RBC requirement will be automatically calculated in Column (65).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3%. 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% factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) should equal Schedule DA, Part 1, Column 67; Line 02509999999.)

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5%, 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% factor (Line (16) and Line (22)).

- Collateral Loans reported on Line (13) receive a factor of 5%, 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 (14) and (15), 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 (17). 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 (18):
 - a) A level of leverage below 50%. 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 (19).
 - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (20).
 - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).



EQUITY ASSETS XR010

Unaffiliated Preferred Stocks

Detailed information on unaffiliated preferred stock reported in Column (1) are found in Schedule D, Part 2, Section 1 not including affiliated preferred stock. The preferred stocks must be broken out by asset designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines. The total amount of unaffiliated preferred stock reported should equal annual statement Page 2, Column 3, Line 2.1, less any affiliated preferred stock in Schedule D Summary by Country, Column 1, Line 2248.



APPENDIX 3 – EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 67) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 104). For example:

<u>Subsidiary Insurance Company</u>	<u>Owner's Book/Adjusted Carrying Value</u>	<u>Percentage Ownership</u>	<u>Total Stock Outstanding</u>
Subsidiary #1	\$1,000,000	100%	\$1,000,000
Subsidiary #2	\$1,000,000	75%	\$1,333,333
Subsidiary #3	\$1,000,000	50%	\$2,000,000
Subsidiary #4	\$1,000,000	25%	\$4,000,000
Subsidiary #5	\$1,000,000	10%	\$10,000,000

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SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES

Affiliated Preferred Stock			(1)	(2)	(3)
			<u>Annual Statement</u>		
			<u>Total</u>	<u>Total From RBC</u>	
Schedule D Part 6 Section 1 C7 C6			<u>Preferred Stock</u>	<u>Report</u>	<u>Difference</u>
Annual Statement Line Number					
(1)	Parent	0199999			
(2)	U.S. P&C Insurer	0299999			
(3)	U.S. Life Insurer	0399999			
(4)	U.S. Health Insurer	0499999			
(5)	Alien Insurer	0599999			
(6)	Non-Insurer Which Controls Insurer	0699999			
(7)	Investment Subsidiary	0799999			
(8)	Other Affiliates	0899999			
(9)	Subtotal	0999999			

Affiliated Common Stock			(1)	(2)	(3)
			<u>Annual Statement</u>		
			<u>Total</u>	<u>Total From RBC</u>	
Schedule D Part 6 Section 1 C7 C6			<u>Common Stock</u>	<u>Report</u>	<u>Difference</u>
Annual Statement Line Number					
(10)	Parent	1099999			
(11)	U.S. P&C Insurer	1199999			
(12)	U.S. Life Insurer	1299999			
(13)	U.S. Health Insurer	1399999			
(14)	Alien Insurer	1499999			
(15)	Non-Insurer Which Controls Insurer	1599999			
(16)	Investment Subsidiary	1699999			
(17)	Other Affiliates	1799999			
(18)	Subtotal	1899999			

XR004

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OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS

		(1)	(2)	(3)		(4)
	Asset Category	Annual Statement Source	Off-Balance Sheet Collateral Book/Adjusted Carrying Value	Schedule DL, Part 1 Book/Adjusted Carrying Value	Subtotal	Factor
						RBC Requirement
<u>Fixed Income Assets</u>						
<u>Bonds</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)	Company Records				0.000
(2)	NAIC Designation Category 1.A Bonds	Company Records				0.003
(3)	NAIC Designation Category 1.B Bonds	Company Records				0.005
(4)	NAIC Designation Category 1.C Bonds	Company Records				0.008
(5)	NAIC Designation Category 1.D Bonds	Company Records				0.011
(6)	NAIC Designation Category 1.E Bonds	Company Records				0.014
(7)	NAIC Designation Category 1.F Bonds	Company Records				0.016
(8)	NAIC Designation Category 1.G Bonds	Company Records				0.019
(9)	Total NAIC 01 Bonds	Sum of Lines (1) through (8)				
(10)	NAIC Designation Category 2.A Bonds	Company Records				0.022
(11)	NAIC Designation Category 2.B Bonds	Company Records				0.025
(12)	NAIC Designation Category 2.C Bonds	Company Records				0.031
(13)	Total NAIC 02 Bonds	Sum of Lines (10) through (12)				
(14)	NAIC Designation Category 3.A Bonds	Company Records				0.069
(15)	NAIC Designation Category 3.B Bonds	Company Records				0.076
(16)	NAIC Designation Category 3.C Bonds	Company Records				0.083
(17)	Total NAIC 03 Bonds	Sum of Lines (14) through (16)				
(18)	NAIC Designation Category 4.A Bonds	Company Records				0.089
(19)	NAIC Designation Category 4.B Bonds	Company Records				0.097
(20)	NAIC Designation Category 4.C Bonds	Company Records				0.110
(21)	Total NAIC 04 Bonds	Sum of Lines (18) through (20)				
(22)	NAIC Designation Category 5.A Bonds	Company Records				0.123
(23)	NAIC Designation Category 5.B Bonds	Company Records				0.137
(24)	NAIC Designation Category 5.C Bonds	Company Records				0.151
(25)	Total NAIC 05 Bonds	Sum of Lines (22) through (24)				
(26)	Total NAIC 06 Bonds	Company Records				0.300
(27)	Total Bonds	Line (9) + (13) + (17) + (21) + (25) + (26)				
<u>Equity Assets</u>						
<u>Preferred Stock - Unaffiliated</u>						
(28)	NAIC 01 Unaffiliated Preferred Stock	Company Records				0.003
(29)	NAIC 02 Unaffiliated Preferred Stock	Company Records				0.010
(30)	NAIC 03 Unaffiliated Preferred Stock	Company Records				0.020
(31)	NAIC 04 Unaffiliated Preferred Stock	Company Records				0.045
(32)	NAIC 05 Unaffiliated Preferred Stock	Company Records				0.100
(33)	NAIC 06 Unaffiliated Preferred Stock	Company Records				0.300
(34)	Total Unaffiliated Preferred Stock	Sum of Lines (28) through (33)				
(35)	Unaffiliated Common Stock	Company Records				0.150
(36)	Real Estate and Property & Equipment Assets	Company Records				0.100
(37)	Other Invested Assets	Company Records				0.200
(38)	Mortgage Loans on Real Estate	Company Records				0.050
(39)	Cash, Cash Equivalents and Short-Term Investments (Not reported on Bonds above)	Company Records				0.003
(40)	Total	Lines (27) + (34) + (35) + (36) + (37) + (38) + (39)				

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

XR006

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FIXED INCOME ASSETS - BONDS

		(1)	(2)	(3)	(4)	(5)	(6)
		Long-Term Bonds - Issuer Credit Obligations Owed Schedule D, Part 1 Section 1 Book/Adjusted Carrying Value L(3) thru (26) = Sch D Pt 1 Sn 1F	Asset-Backed Securities Owned Schedule D, Part 1 Section 2 Book/Adjusted Carrying Value L(3) thru (26) = Sch D Pt 1 Sn 2E	Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L(3) thru (26) = Sch DA Pt 1F	Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L(3) thru (26) = Sch E Pt 2F	Subtotal C(1) + C(2) + C(3) + C(4)	Factor RBC Requirement
	Annual Statement Source						
BONDS							
(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, Sn 1, C44, L0109999999 C8, L0019999999 C(2) = Sch D, Pt 1, Sn 2, C8, L0019999999 C(3) = Sch DA, Pt 1, C7, L0109999999 C6, L0019999999 C(4) = Sch E, Pt 2, C7, L0109999999 L0019999999 C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) C(3)=Footnote Amt 1 L000001A - L(1) C(4)=Footnote Amt 1 L000001A - Sch E, Pt2, C7, L0109999999 L0019999999				0.000	
(2)	NAIC Designation Category 1.A Bonds						
(3)	NAIC Designation Category 1.B Bonds	Footnote Amt 2 L000001A				0.003	
(4)	NAIC Designation Category 1.C Bonds	Footnote Amt 3 L000001A				0.005	
(5)	NAIC Designation Category 1.D Bonds	Footnote Amt 4 L000001A				0.008	
(6)	NAIC Designation Category 1.E Bonds	Footnote Amt 5 L000001A				0.011	
(7)	NAIC Designation Category 1.F Bonds	Footnote Amt 6 L000001A				0.014	
(8)	NAIC Designation Category 1.G Bonds	Footnote Amt 7 L000001A				0.016	
(9)	Total NAIC 01 Bonds	Sum of Lines (1) through (8)				0.019	
(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)				0.069	
(14)	NAIC Designation Category 3.A Bonds	Footnote Amt 1 L000001C				0.076	
(15)	NAIC Designation Category 3.B Bonds	Footnote Amt 2 L000001C				0.083	
(16)	NAIC Designation Category 3.C Bonds	Footnote Amt 3 L000001C				0.089	
(17)	Total NAIC 03 Bonds	Sum of Lines (14) through (16)				0.097	
(18)	NAIC Designation Category 4.A Bonds	Footnote Amt 1 L000001D				0.110	
(19)	NAIC Designation Category 4.B Bonds	Footnote Amt 2 L000001D				0.123	
(20)	NAIC Designation Category 4.C Bonds	Footnote Amt 3 L000001D				0.137	
(21)	Total NAIC 04 Bonds	Sum of Lines (18) through (20)				0.151	
(22)	NAIC Designation Category 5.A Bonds	Footnote Amt 1 L000001E				0.300	
(23)	NAIC Designation Category 5.B Bonds	Footnote Amt 2 L000001E					
(24)	NAIC Designation Category 5.C Bonds	Footnote Amt 3 L000001E					
(25)	Total NAIC 05 Bonds	Sum of Lines (22) through (24)					
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F					
(27)	Total Bonds RBC	Lines (9) + (13) + (17) + (21) + (25) + (26)					

XR007

FIXED INCOME ASSETS - MISCELLANEOUS

		(1) Bk/Adj Carrying Value	(2) Factor	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 0509999999			
(4) Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5) Net Cash Equivalents	Lines (2) - (3) - (4)		0.0030	
(6) Short-Term Investments	Page 2, Line 5, inside amount 3			
(7) Short-Term Bonds	Schedule DA, Part 1, Column 7 6 , Line 2509999999 0509999999			
(8) Total Other Short-Term Investments	Lines (6) - (7)		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, Residual Tranches or Interests 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 Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4499999 +4599999 + 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 +5699999 +5799999		0.2000	
(23) Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22)			
(24) Derivatives	Page 2, Column 3, Line 7		0.0500	
(25) Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + (23) + (24)			

 Denotes items that must be manually entered on filing software.

XR008

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR005

Affiliated Preferred Stock		(1)	(2)	(3)
Schedule D Part 6 Section 1 E7 C6		<u>Annual Statement Total</u> <u>Preferred Stock</u>	<u>Total From RBC Report</u>	<u>Difference</u>
Annual Statement Line Number				
(1) Parent	0199999	0	0	0
(2) U.S. P&C Insurer	0299999	0	0	0
(3) U.S. Life Insurer	0399999	0	0	0
(4) U.S. Health Insurer	0499999	0	0	0
(5) Alien Insurer	0599999	0	0	0
(6) Non-Insurer Which Controls Insurer	0699999	0	0	0
(7) Investment Subsidiary	0799999	0	0	0
(8) Other Affiliates	0899999	0	0	0
(9) Subtotal	0999999	0	0	0

Affiliated Common Stock		(1)	(2)	(3)
Schedule D Part 6 Section 1 E7 C6		<u>Annual Statement Total</u> <u>Common Stock</u>	<u>Total From RBC Report</u>	<u>Difference</u>
Annual Statement Line Number				
(10) Parent	1099999	0	0	0
(11) U.S. P&C Insurer	1199999	0	0	0
(12) U.S. Life Insurer	1299999	0	0	0
(13) U.S. Health Insurer	1399999	0	0	0
(14) Alien Insurer	1499999	0	0	0
(15) Non-Insurer Which Controls Insurer	1599999	0	0	0
(16) Investment Subsidiary	1699999	0	0	0
(17) Other Affiliates	1799999	0	0	0
(18) Subtotal	1899999	0	0	0

PR005

Attachment Two-G
Capital Adequacy (E) Task Force
8/12/25

BONDS PR006

		(1) Long-Term Bonds - Issuer Credit Obligations Owned Schedule D, Part 1, Section 1 Book/Adjusted Carrying Value L3 thru 26 = Sch D Pt1 Sn1F	(2) Asset-Backed Securities Owned Schedule D, Part 1 Section 2 Book/Adjusted Carrying Value L3 thru 26 = Sch D Pt1 Sn2F	(3) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L3 thru 26 = Sch DA Pt1F	(4) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L3 thru 26 = Sch E Pt2F	(5) Subtotal C(1) + C(2) + C(3) + C(4)	Factor	(6) RBC Requirement
	<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, Sn 1, C41-L0100000000 C8, L0019999999 C(2)=Sch D, Pt 1, Sn 2, C8, L0019999999 C(3)=Sch DA, Pt 1, C7-L01000000000 C6, L0019999999 C(4)=Sch E, Pt 2, C7 L0100000000 L0019999999 + L8209999999	0	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) C(3)=Footnote Amt 1 L000001A - L(1) C(4)=Footnote Amt 1 L000001A - SCE, Pt2, C7 L0100000000 L0019999999	0	0	0	0	0.002	0
(3)	NAIC Designation Category 1.B	Footnote Amt 2 L000001A	0	0	0	0	0.004	0
(4)	NAIC Designation Category 1.C	Footnote Amt 3 L000001A	0	0	0	0	0.006	0
(5)	NAIC Designation Category 1.D	Footnote Amt 4 L000001A	0	0	0	0	0.008	0
(6)	NAIC Designation Category 1.E	Footnote Amt 5 L000001A	0	0	0	0	0.010	0
(7)	NAIC Designation Category 1.F	Footnote Amt 6 L000001A	0	0	0	0	0.013	0
(8)	NAIC Designation Category 1.G	Footnote Amt 7 L000001A	0	0	0	0	0.015	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0	0	0.018	0
(10)	NAIC Designation Category 2.A	Footnote Amt 1 L000001B	0	0	0	0	0.021	0
(11)	NAIC Designation Category 2.B	Footnote Amt 2 L000001B	0	0	0	0	0.025	0
(12)	NAIC Designation Category 2.C	Footnote Amt 3 L000001B	0	0	0	0	0.025	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0	0	0.055	0
(14)	NAIC Designation Category 3.A	Footnote Amt 1 L000001C	0	0	0	0	0.060	0
(15)	NAIC Designation Category 3.B	Footnote Amt 2 L000001C	0	0	0	0	0.066	0
(16)	NAIC Designation Category 3.C	Footnote Amt 3 L000001C	0	0	0	0	0.066	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0	0	0.071	0
(18)	NAIC Designation Category 4.A	Footnote Amt 1 L000001D	0	0	0	0	0.077	0
(19)	NAIC Designation Category 4.B	Footnote Amt 2 L000001D	0	0	0	0	0.087	0
(20)	NAIC Designation Category 4.C	Footnote Amt 3 L000001D	0	0	0	0	0.087	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0	0	0.098	0
(22)	NAIC Designation Category 5.A	Footnote Amt 1 L000001E	0	0	0	0	0.109	0
(23)	NAIC Designation Category 5.B	Footnote Amt 2 L000001E	0	0	0	0	0.120	0
(24)	NAIC Designation Category 5.C	Footnote Amt 3 L000001E	0	0	0	0	0.300	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0	0	0	0
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F	0	0	0	0	0	0
(27)	Subtotal - Bonds Subject to Bond Size Factor	L(9) - L(1) + L(13) + L(17) + L(21) + L(25) + L(26)	0	0	0	0	6.800	0
(28)	Number of Issuers		0	0	0	0		0
(29)	Bond Size Factor							0
(30)	Bond Size Factor RBC	C(5)L(27) x C(5)L(29)						0
(31)	Total Bonds RBC	L(27) + L(30)						0

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

PR006

UNAFFILIATED PREFERRED AND COMMON STOCK PR007

		(1) <u>Book/Adjusted</u> <u>Carrying Value</u>		(2) <u>RBC Requirement</u>
Unaffiliated Preferred Stock	Annual Statement Source		<u>Factor</u>	
(1) NAIC 01 Preferred Stock	Sch D Pt 2 Sn 1	0	0.003	0
(2) NAIC 02 Preferred Stock	Sch D Pt 2 Sn 1	0	0.010	0
(3) NAIC 03 Preferred Stock	Sch D Pt 2 Sn 1	0	0.020	0
(4) NAIC 04 Preferred Stock	Sch D Pt 2 Sn 1	0	0.045	0
(5) NAIC 05 Preferred Stock	Sch D Pt 2 Sn 1	0	0.100	0
(6) NAIC 06 Preferred Stock	Sch D Pt 2 Sn 1	0	0.300	0
(7) TOTAL - UNAFFILIATED PREFERRED STOCK	Sum of Ls (1) through (6)	0		0
(should equal P2 L2.1 C3 less Sch D-Sum C1 L2248)				
Unaffiliated Common Stock				
(8) Total Common Stock	Sch D - Summary C1 L2925	0		
(9) Affiliated Common Stock	Sch D - Summary C1 L2824	0		
(10) Non-Admitted Unaffiliated Common Stock	P2 C2 L2.2 - Sch D Pt6 Sn1 C89 L1899999	0		
(11) Admitted Unaffiliated Common Stock	L(8) - L(9) - L(10)	0	0.150	0
(12) Market Value Excess Affiliated Stocks	PR003 C(13) L(9999999)			0
(13) Total Unaffiliated Common Stock and Market Value Excess Affiliated Stocks	L(11) + L(12)	0		0

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

PR007

OTHER LONG-TERM ASSETS PR008

		(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	(2) <u>Factor</u>	<u>RBC Requirement</u>	
		Annual Statement Source			
(1)	Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2)	Encumbrances	P2 L4.1, inside item	0	0.100	0
(3)	Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4)	Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5)	Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6)	Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7)	Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8)	Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9)	Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10)	Total Mortgage Loans	L(8) + L(9)	0		0
(11)	Schedule BA Assets - Total	P2 L8 C3	0		
(12)	Less: Collateral Loans	PR009 L(13)	0		
(13)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0014	0
(16)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.0260	0
(17)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(18)	Working Capital Finance Investments	L(21)+L(22)	0		
(19)	Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4499999 + 4599999 + 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 -5699999 + 5799999	0	0.2000	0
(20)	Schedule BA Assets Excluding Collateral Loans, LIHTC, WCFI, & Residual Tranches or Interests	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)-L(19)	0	0.2000	0
(21)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(22)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(23)	Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)+L(19)+L(20)+L(21)+L(22)	0		0

PR008

MISCELLANEOUS ASSETS PR009

	Annual Statement Source	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
(1) Receivable for Securities	P2C3L9	0	0.025	0
(2) Aggregate W/I for Invest Assets	P2C3 L11	0	0.050	0
(3) Cash	P2 L5, inside amt 1	0	0.003	0
(4) Cash Equivalents	P2 L5, inside amt 2	0		
(5) Less: Cash Equivalents, Total Bonds	Sch E Pt 2 C7 L2509999999 L0509999999	0		
(6) Less: Exempt Money Market Mutual Funds as Identified by SVO	Sch E Pt 2 C7 L8209999999	0		
(7) Net Cash Equivalents	L(4)-L(5)-L(6)	0	0.003	0
(8) Short-Term Investments	P2 L5, inside amt 3	0		
(9) Short-Term Bonds	Sch DA Pt 1 C6 L2509999999 L0509999999	0		
(10) Total Other Short-Term Investments	L(8)-L(9)	0	0.003	0
(11) Collateral Loans	Sch BA Pt1 C12 L3199999+L3299999 L2999999+3099999	0		
(12) Less: Non-Admitted Collateral Loans	Notes to Financial Statement Item 5S C3 L11 P2-L8- C2 in part	0		
(13) Net Admitted Collateral Loans	L(11) - L(12)	0	0.050	0
(14) Derivatives	P2C3 L7	0	0.050	0
(15) Total Miscellaneous Assets	L(1)+L(2)+L(3)+L(7)+L(10)+L(13)+L(14)	0		0

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

PR009

OFF-BALANCE SHEET COLLATERAL AND SCHEDULE DL, PART 1 ASSETS PR015

Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	(4) Factor	RBC Requirement
Fixed Income Assets						
Bonds						
(1) NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money	Company Records	0	0	0	0.000	0
Market Fund List (Refer to A/S Instructions)						
(2) NAIC Designation Category 1.A	Company Records	0	0	0	0.002	0
(3) NAIC Designation Category 1.B	Company Records	0	0	0	0.004	0
(4) NAIC Designation Category 1.C	Company Records	0	0	0	0.006	0
(5) NAIC Designation Category 1.D	Company Records	0	0	0	0.008	0
(6) NAIC Designation Category 1.E	Company Records	0	0	0	0.010	0
(7) NAIC Designation Category 1.F	Company Records	0	0	0	0.013	0
(8) NAIC Designation Category 1.G	Company Records	0	0	0	0.015	0
(9) Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0		0
(10) NAIC Designation Category 2.A	Company Records	0	0	0	0.018	0
(11) NAIC Designation Category 2.B	Company Records	0	0	0	0.021	0
(12) NAIC Designation Category 2.C	Company Records	0	0	0	0.025	0
(13) Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0		0
(14) NAIC Designation Category 3.A	Company Records	0	0	0	0.055	0
(15) NAIC Designation Category 3.B	Company Records	0	0	0	0.060	0
(16) NAIC Designation Category 3.C	Company Records	0	0	0	0.066	0
(17) Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0		0
(18) NAIC Designation Category 4.A	Company Records	0	0	0	0.071	0
(19) NAIC Designation Category 4.B	Company Records	0	0	0	0.077	0
(20) NAIC Designation Category 4.C	Company Records	0	0	0	0.087	0
(21) Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0		0
(22) NAIC Designation Category 5.A	Company Records	0	0	0	0.098	0
(23) NAIC Designation Category 5.B	Company Records	0	0	0	0.109	0
(24) NAIC Designation Category 5.C	Company Records	0	0	0	0.120	0
(25) Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0		0
(26) Total NAIC 06 Bonds	Company Records	0	0	0	0.300	0
(27) Total Bonds	L(9) + (13) + (17) + (21) + (25) + (26)	0	0	0		0
Equity Assets						
Preferred Stock - Unaffiliated						
(28) NAIC 01 Unaffiliated Preferred Stock	Company Records			0	0.003	0
(29) NAIC 02 Unaffiliated Preferred Stock	Company Records			0	0.010	0
(30) NAIC 03 Unaffiliated Preferred Stock	Company Records			0	0.020	0
(31) NAIC 04 Unaffiliated Preferred Stock	Company Records			0	0.045	0
(32) NAIC 05 Unaffiliated Preferred Stock	Company Records			0	0.100	0
(33) NAIC 06 Unaffiliated Preferred Stock	Company Records			0	0.300	0
(34) Total Unaffiliated Preferred Stock	Sum of Ls (28) through (33)	0	0	0		0
(35) Unaffiliated Common Stock	Company Records			0	0.150	0
(36) Real Estate and Schedule BA - Other Invested Assets	Company Records			0	0.200	0
(37) Other Invested Assets	Company Records			0	0.200	0
(38) Mortgage Loans on Real Estate	Company Records			0	0.050	0
(39) Cash, Cash Equivalents and Short-Term Investments (Not reported as Bonds above)	Company Records			0	0.003	0
(40) Total	L(27)+L(34)+L(35)+L(36)+L(37)+L(38)+L(39)	0	0	0		0

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

PR015

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Subsidiary Insurance Companies and Misc. Other Amounts		PRBC O&I Reference	RBC Amount
(1)	Directly Owned Property and Casualty Insurance Affiliates	PR004 L(2)C(2)	0
(2)	Indirectly Owned Property and Casualty Insurance Affiliates	PR004 L(5)C(2)	0
(3)	Directly Owned Life Insurance Affiliates	PR004 L(3)C(2)	0
(4)	Indirectly Owned Life Insurance Affiliates	PR004 L(6)C(2)	0
(5)	Directly Owned Health Insurance Companies or Health Entities	PR004 L(1)C(2)	0
(6)	Indirectly Owned Health Insurance Companies or Health Entities	PR004 L(4)C(2)	0
(7)	Directly Owned Alien Insurance Companies or Health Entities	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Indirectly Owned Alien Insurance Companies or Health Entities	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27) C(5) C(6)	0
(16)	Bond Size Factor RBC	PR006 L(30) C(5) C(6)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long-Term Assets - Mortgage Loans, LIHTC, & WCFI, & Residual Tranches or Interests	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+L(19)+L(21)+L(22)C(2)	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(21)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

PR030

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <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>11/18/24</u>		FOR NAIC USE ONLY
CONTACT PERSON: <u>Derek Noe</u>		Agenda Item # <u>2024-26-CA</u>
TELEPHONE: <u>818-783-8973</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>Tom Botsko</u>		<input type="checkbox"/> TASK FORCE (TF) _____
TITLE: <u>Chair</u>		<input type="checkbox"/> WORKING GROUP (WG) _____
AFFILIATION: <u>Ohio Department of Insurance</u>		<input type="checkbox"/> SUBGROUP (SG) _____
ADDRESS: <u>50 West Town Street, Suite 300</u>		EXPOSED:
<u>Columbus, OH 43215</u>		<input checked="" type="checkbox"/> TASK FORCE (TF) <u>11/18/24, 3/25/25</u>
		<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 checked="" type="checkbox"/> Health RBC Blanks | <input checked="" type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life and Fraternal RBC Blanks |
| <input checked="" type="checkbox"/> Health RBC Instructions | <input checked="" 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)

This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 –Investments in Tax Credit Structures and SSAP No. 94R – State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

This proposal addresses the structural and instructional changes adopted as per 2024-11BWG and does not address the potential factor change resulted from the expansion of the scope of accounting guidance in SAPWG Ref # 2022-14 and the expansion of the types of tax credit investments captured in the guidance.

This proposal also adds lines to XR008 to align Health with P/C on collateral loans. This includes pulling the total amount from Schedule BA and pulling the non-admitted amount from Note to the Financial Statement 5S added by proposal 2024-09BWG Modified.

Additional Staff Comments:

The Task Force Re-expose this proposal for a 30-day public comment period ending April 24.

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Line 33 on PR011 description updated to TOTAL - ISSUER #1 (L21+~~L32 L33~~)
Line 26 on XR012 description updated to Total of Issuer = Lines (1) through (~~2526~~)

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

Revised 2-2023

PR008 – Other Long-Term Assets

Real Estate

The Property & Casualty Risk-Based Capital (E) Working Group adopted the factor of 10% developed for the Life RBC formula. Encumbrances have been included in the real estate base since the value of the property subject to loss would include encumbrances.

The total book/adjusted carrying value of real estate reported should equal the total of Lines 4.1, 4.2 and 4.3, Column 3 on Page 2 of the annual statement plus the insert amounts on the same lines.

Mortgage Loans on Real Estate

The Property & Casualty Risk-Based Capital Working Group adopted a factor of 5% based upon the factors developed by the Life RBC formula, which ranged from 3% to 20%.

The book/adjusted carrying value of mortgage loans reported should equal Page 2, Line 3.1, Column 3 + Page 2, Line 3.2, Column 3 of the annual statement.

Schedule BA Assets (Other Invested Assets – excluding collateral loans, ~~low-income-housing~~ tax credits ~~investments~~ and Working Capital Finance Investments)

Other Invested Assets are those that are listed in Schedule BA and are somewhat more speculative and risky than most other investments. The factor for Schedule BA assets excluding collateral loans, ~~low-income-housing~~ tax credits ~~investments~~, and working capital finance investments is 20%.

The book/adjusted carrying value of total Schedule BA assets (including collateral loans, ~~low-income-housing~~ tax credits ~~investments~~ and Working Capital Finance Investments) should equal Page 2, Line 8, Column 3 of the annual statement.

~~Low-Income Housing~~ Tax Credits ~~Investments~~

Report in Column (1) all investments in tax credit structures ~~accordance within the scope of SSAP No. 93—Low-Income Housing Tax Credit Property Investments in Tax Credit Structures.~~

~~Federal~~Yield Guaranteed ~~State low-income-housing-Tax Credit-(LIHTC)~~ Investments are to be included in Line (13). There must be an all-inclusive guarantee from an ~~AROCPR~~-rated entity that guarantees the yield on the investment. ~~This reporting line is only allowed for tax credit investments which issue state tax credits.~~

~~Qualifying Federal Non-guaranteed LIHTC Tax Credit Investments with the following risk mitigation factors are to be included in Line (14):. Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.~~

~~a) A level of leverage below 50%. 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.~~

~~Qualifying State LIHTC Tax Credit Investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (15). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.~~

~~State LIHTC Other Tax Credit Investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included in Line (16). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit Investment, or qualifying Federal or State Tax Credit Investments are included here.~~

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

State and federal LIHTC investments that do not meet the requirements of lines (13) through (16) would be reported on Line (17).



PR011 – Asset Concentration

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an issuer of a security or a mortgage borrower, etc.). The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30%) of the 10 largest asset exposures excluding various low-risk categories or categories which already have a 30% factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the 10 largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and preferred stock, affiliated common stock, affiliated preferred stock, property and equipment, U.S. government guaranteed bonds, NAIC 1.A to 1.G bonds, or NAIC 01 unaffiliated preferred stock, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting company is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the Investment Company Act and provide this information upon request of the commissioner, director or superintendent of the department of insurance. The reporting company is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the commissioner, director or superintendent upon request.

The assets that ARE INCLUDED in the calculation are divided into two categories – Fixed Income Assets and Equity Assets. The following asset types should be aggregated to determine the 10 largest issuers:

FIXED INCOME ASSETS

Bonds –NAIC Designation Category 2.A
Bonds – NAIC Designation Category 2.B
Bonds – NAIC Designation Category 2.C
Bonds –NAIC Designation Category 3.A
Bonds –NAIC Designation Category 3.B
Bonds –NAIC Designation Category 3.C
Bonds –NAIC Designation Category 4.A
Bonds –NAIC Designation Category 4.B
Bonds –NAIC Designation Category 4.C
Bonds –NAIC Designation Category 5.A

EQUITY ASSETS

Unaffiliated Preferred Stock –NAIC 02
Unaffiliated Preferred Stock –NAIC 03
Unaffiliated Preferred Stock –NAIC 04
Unaffiliated Preferred Stock –NAIC 05

Unaffiliated Common Stock
Investment Real Estate

Bonds –NAIC Designation Category 5.B	Encumbrances on Inv. Real Estate
Bonds –NAIC Designation Category 5.C	Schedule BA Assets (excluding Collateral Loans)
Collateral Loans	Receivable for Securities
Mortgage Loans	Aggr Write-Ins for Invested Assets
Working Capital Finance Investments – NAIC 02	Derivatives
Yield Guaranteed State Tax Credit Investments	Federal Guaranteed Low-Income Housing Tax Credits —
Qualifying Federal Tax Credit Investments	Federal Non-Guaranteed Low-Income Housing Tax Credits —
Qualifying State Tax Credit Investments	State Guaranteed Low-Income Housing Tax Credits —
Other Tax Credit Investments	State Non-Guaranteed Low-Income Housing Tax Credits
All Other Low-Income Housing Tax Credits	

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in C(2) Ls (01) through (20) for fixed income assets and C(2), Ls (22) through (32) for equity assets. Aggregate all similar asset types before entering the amount in C(2). For instance, if you own five separate \$1,000,000 NAIC 3.A bonds from Issuer #1, enter \$5,000,000 in C(2)L(04) – NAIC 3.A Unaffiliated Bonds.

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3%. 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% factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) 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%, 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% factor (Line (16) and Line (22)).

- Collateral Loans reported on Line (13) receive a factor of 5%, 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 (14) and (15), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.
- ~~Low-income housing tax credit~~ All investments in tax credit structures within the scope of *SSAP No. 93—Investments in Tax Credit Structures* 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)~~ Yield Guaranteed State Tax Credit investments are to be included in Line (1917). There must be an all-inclusive guarantee from an AROCPR-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.
 - ~~Qualifying Federal Tax Credit Non-Guaranteed LIHTC~~ Investments with the following risk mitigation factors are to be included in Line (2048): Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
 - ~~a) A level of leverage below 50%. 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.~~
 - ~~Qualifying State Guaranteed LIHTC Tax Credit~~ Investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (2149). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
 - ~~State Non-Guaranteed LIHTC Other Tax Credit~~ Investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (220). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit Investment, or qualifying Federal or State Tax Credit Investments are included here.

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. The Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~○ All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).~~



ASSET CONCENTRATION XR012

The purpose of the asset concentration calculation is to reflect the additional risk of high concentrations of certain types of assets in single exposures, termed “issuers.” An issuer is a single entity, such as IBM or the Ford Motor Company. When the reporting entity has a large portion of its asset portfolio concentrated in only a few issuers, there is a heightened risk of insolvency if one of those issuers should default. An issuer may be represented in the reporting entity’s investment portfolio by a single security designation, such as a large block of NAIC Designation Category 2.A bonds, or a combination of various securities, such as common stocks, preferred stocks, and bonds. The additional RBC for asset concentration is applied to the ten largest issuers.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the ten largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and unaffiliated preferred stock; affiliated common stock; affiliated preferred stock; property and equipment; U.S. government full faith and credit, Other U.S. government obligations, and NAIC U.S. government money market fund list securities; NAIC 01 bonds and unaffiliated preferred stock; any other asset categories with risk-based capital factors less than 1%, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting entity is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the federal Investment Company Act and providing this information upon request of the Commissioner, Director or Superintendent of the Department of Insurance. The reporting entity is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the Commissioner, Director or Superintendent upon request.

The assets that **ARE INCLUDED** in the calculation when determining the 10 largest issuers are as follows:

- NAIC Designation Category 2.A-2.C Bonds
- NAIC Designation Category 3.A-3.C Bonds
- NAIC Designation Category 4.A-4.C Bonds
- NAIC Designation Category 5.A-5.C Bonds
- Collateral Loans
- Mortgage Loans
- NAIC 02 Unaffiliated Preferred Stock
- NAIC 03 Unaffiliated Preferred Stock
- NAIC 04 Unaffiliated Preferred Stock

NAIC 05 Unaffiliated Preferred Stock
Other Long-Term Assets
NAIC 02 Working Capital Finance Investments
~~Yield Guaranteed State Tax Credit Investments~~ ~~Federal Guaranteed Low-Income Housing Tax Credits~~
~~Qualifying Federal Tax Credit Investments~~ ~~Federal Non-Guaranteed Low-Income Housing Tax Credits~~
~~Qualifying State Tax Credit Investments~~ ~~State Guaranteed Low-Income Housing Tax Credits~~
~~Other Tax Credit Investments~~ ~~State Non-Guaranteed Low-Income Housing Tax Credits~~
~~All Other Low-Income Housing Tax Credits~~
Unaffiliated Common Stock

The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30%) for assets held in the 10 largest issuers. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in Column (2), Lines (1) through (26). Aggregate all similar asset types before entering the amount in Column (2). To determine the 10 largest issuers, first pool all of the assets subject to the concentration factor. From this pool, aggregate the various securities by issuer. The aggregate book/adjusted carrying values for the assets are computed, and the 10 largest are subject to the concentration factor. For example, an organization might own \$6,000,000 in NAIC Designation Category 2.A bonds of IBM plus \$4,000,000 in NAIC Designation Category 2.C plus \$5,000,000 of common stock. The total investment in that issuer is \$15,000,000. If that is the largest issuer, then the identifier ("IBM Corporation") would be entered in the space allowed for the first Issuer Name, and the \$6,000,000 would be entered under the book/adjusted carrying value column for Line (1) (NAIC Designation Category 2.A bonds), \$4,000,000 would be entered on Line (3) (NAIC Designation Category 2.C Bonds) and the \$5,000,000 would be entered on Line (22) (unaffiliated common stock).

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

FIXED INCOME ASSETS - MISCELLANEOUS

	Annual Statement Source	(1) Bk/Adj Carrying Value	(2) Factor 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	Lines (2) - (3) - (4)		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	Lines (6) - (7)		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	Schedule BA Part 1, Column 12 Lines 3199999 + 3299999 Included in Page 2, Column 3, Line 8		0.0500
(14) Less: Non-Admitted Collateral Loans	Notes to the Financial Statement 5S, Column 3 Line 11		
(15) Net Collateral Loans	Lines (13) - (14)		0.0500
(16) NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038
(17) NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125
(18) Other Long-Term Invested Assets Excluding Collateral Loans, Tax Credit Investments, Residual Tranches or Interests and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000
(19) Yield Guaranteed State Tax Credit Investments Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014
(20) Qualifying Federal Tax Credit Investments Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260
(21) Qualifying State Tax Credit Investments Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0260
(22) All Other Tax Credit Investments State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.1500
(21) All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500
(23) Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999		0.2000
(24) Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) + (22) + (23)		
(25) Derivatives	Page 2, Column 3, Line 7		0.0500
(26) Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + (23) + (24) + (25)		

Denotes items that must be manually entered on filing software.

XR008

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ASSET CONCENTRATION

(1)		(2)		(3)	
Issuer Name		Bk/Adj Carrying Value	Factor	Additional RBC	
(1) NAIC Designation Category 2.A Bonds			0.0220		
(2) NAIC Designation Category 2.B Bonds			0.0250		
(3) NAIC Designation Category 2.C Bonds			0.0310		
(4) NAIC Designation Category 3.A Bonds			0.0690		
(5) NAIC Designation Category 3.B Bonds			0.0760		
(6) NAIC Designation Category 3.C Bonds			0.0830		
(7) NAIC Designation Category 4.A Bonds			0.0890		
(8) NAIC Designation Category 4.B Bonds			0.0970		
(9) NAIC Designation Category 4.C Bonds			0.1100		
(10) NAIC Designation Category 5.A Bonds			0.1230		
(11) NAIC Designation Category 5.B Bonds			0.1370		
(12) NAIC Designation Category 5.C Bonds			0.1490		
(13) Collateral Loans			0.0500		
(14) Mortgages			0.0500		
(15) NAIC 02 Unaffiliated Preferred Stock			0.0100		
(16) NAIC 03 Unaffiliated Preferred Stock			0.0200		
(17) NAIC 04 Unaffiliated Preferred Stock			0.0450		
(18) NAIC 05 Unaffiliated Preferred Stock			0.1000		
(19) Other Long-Term Invested Assets			0.1000		
(20) NAIC 02 Working Capital Finance Investments			0.0125		
Yield Guaranteed State Tax Credit Investments Federal-					
(21) Guaranteed Low Income Housing Tax Credits			0.0014		
Qualifying Federal Tax Credit Investments-Non-Guaranteed-					
(22) Low Income Housing Tax Credits			0.0260		
Qualifying State Tax Credit Investments-Guaranteed Low-					
(23) Income Housing Tax Credits			0.0260 0.0014		
Other Tax Credit Investments-State Non-Guaranteed Low-					
(24) Income Housing Tax Credits			0.1500 0.0260		
{25} All Other Low Income Housing Tax Credits			0.1500		
(25)(26) Unaffiliated Common Stock			0.1500		
(26)(27) Total of Issuer = Lines (1) through (2526)					

Note: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

Denotes items that must be manually entered on filing software.

XR012

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

		(1) RBC Amount
H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS		
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)
(2)	Directly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (1)
(3)	Directly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (2)
(4)	Directly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (3)
(5)	Indirectly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (4)
(6)	Indirectly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (5)
(7)	Indirectly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (6)
(8)	Affiliated Alien Insurers - Directly Owned	XR003, Affiliates Page, Column (2), Line (9) + (10) + (11)
(9)	Affiliated Alien Insurers - Indirectly Owned	XR003, Affiliates Page, Column (2), Line (12) + (13) + (14)
(10)	Total H0	Sum Lines (1) through (9)
H1 - ASSET RISK - OTHER		
(11)	Holding Company in Excess of Indirect Subs	XR003, Affiliates Page, Column (2), Line (7)
(12)	Investment Subsidiary	XR003, Affiliates Page, Column (2), Line (8)
(13)	Investment in Upstream Affiliate (Parent)	XR003, Affiliates Page, Column (2), Line (15)
(14)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (16)
(15)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (17)
(16)	Directly Owned Life Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (18)
(17)	Affiliated Non-Insurer	XR003, Affiliates Page, Column (2), Line (19) + (20) + (21)
(18)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR007, Fixed Income Assets - Bonds, Line (27) + XR008, Fixed Income Assets - Miscellaneous, Line (25) (26)
(19)	Replication & Mandatory Convertible Securities	XR009, Replication/MCS Page, Line (9999999)
(20)	Unaffiliated Preferred Stock	XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7)
(21)	Unaffiliated Common Stock & Market Value Excess Affiliated Stocks	XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (13)
(22)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9)
(23)	Asset Concentration	XR012, Grand Total Asset Concentration Page, Line (27) (26)
(24)	Total H1	Sum Lines (11) through (23)
H2 - UNDERWRITING RISK		
(25)	Net Underwriting Risk	XR013, Underwriting Risk Page, Line (21)
(26)	Other Underwriting Risk	XR015, Underwriting Risk Page, Line (25.3)
(27)	Disability Income	XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3)
(28)	Long-Term Care	XR016, Underwriting Risk Page, Line (41)
(29)	Limited Benefit Plans	XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44)
(30)	Premium Stabilization Reserve	XR017, Underwriting Risk Page, Line (45)
(31)	Total H2	Sum Lines (25) through (30)

Denotes items that must be manually entered on filing software.

XR024

OTHER LONG-TERM ASSETS PR008

	Annual Statement Source	(1) <u>Book/Adjusted</u> <u>Carrying Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
(1) Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2) Encumbrances	P2 L4.1, inside item	0	0.100	0
(3) Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4) Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5) Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6) Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7) Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8) Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9) Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10) Total Mortgage Loans	L(8) + L(9)	0		0
(11) Schedule BA Assets - Total	P2 L8 C3	0		
(12) Less: Collateral Loans	PR009 L(13)	0		
Yield Guaranteed State Tax Credit Investments Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
Qualifying Federal Tax Credit Investments Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
Qualifying State Tax Credit Investments Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0260 0.0014	0
Other Tax Credit Investments State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.1500 0.0260	0
(17) All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(17)(18) Working Capital Finance Investments	L(20)+L(21)+L(22)	0		
(18)(19) Total Residual Tranches or Interests	Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999	0	0.2000	0
(19)(20) Schedule BA Assets Excluding Collateral Loans, Tax Credit Investments LHTC, & WCFL, & Residual Tranches or Interests	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)-L(19)	0	0.2000	0
(20)(21) NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(21)(22) NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(22)(23) Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)	0		0

PR008

ASSET CONCENTRATION PR011

(1)		(2)	(3)
ISSUER #1			
		Book/Adjusted Carrying Value	Factor
			Additional RBC
(1)	NAIC Designation Category 2.A Bonds	0	0.0180
(2)	NAIC Designation Category 2.B Bonds	0	0.0210
(3)	NAIC Designation Category 2.C Bonds	0	0.0250
(4)	NAIC Designation Category 3.A Bonds	0	0.0550
(5)	NAIC Designation Category 3.B Bonds	0	0.0600
(6)	NAIC Designation Category 3.C Bonds	0	0.0660
(7)	NAIC Designation Category 4.A Bonds	0	0.0710
(8)	NAIC Designation Category 4.B Bonds	0	0.0770
(9)	NAIC Designation Category 4.C Bonds	0	0.0870
(10)	NAIC Designation Category 5.A Bonds	0	0.0980
(11)	NAIC Designation Category 5.B Bonds	0	0.1090
(12)	NAIC Designation Category 5.C Bonds	0	0.1200
(13)	Collateral Loans	0	0.0500
(14)	Mortgage Loans	0	0.0500
(15)	NAIC 02 Working Capital Finance Investments	0	0.0125
(16)	Yield Guaranteed State Tax Credit Investments Federal-Guaranteed Low-Income Housing Tax Credits	0	0.0014
(17)	Qualifying Federal Tax Credit Investments Federal-Non-Guaranteed Low-Income Housing Tax Credits	0	0.0260
(18)	Qualifying State Tax Credit Investments State-Guaranteed Low-Income Housing Tax Credits	0	0.0260
(19)	Other Tax Credit Investments State-Non-Guaranteed Low-Income Housing Tax Credits	0	0.1500
(20)	All Other Low-Income Housing Tax Credits	0	0.1500
(20)(21)	SUBTOTAL - FIXED INCOME	0	0
(21)(22)	NAIC 02 Unaffiliated Preferred Stock	0	0.0100
(22)(23)	NAIC 03 Unaffiliated Preferred Stock	0	0.0200
(23)(24)	NAIC 04 Unaffiliated Preferred Stock	0	0.0450
(24)(25)	NAIC 05 Unaffiliated Preferred Stock	0	0.1000
(25)(26)	Property Held For Production of Income or For Sale Excluding Home Office	0	0.1000
(26)(27)	Property Held For Production of Income or For Sale Encumbrances Excluding Home Office	0	0.1000
(27)(28)	Schedule BA Assets	0	0.1000
(28)(29)	Receivable for Securities	0	0.0250
(29)(30)	Aggregate Write-Ins for Invested Assets	0	0.0500
(30)(31)	Derivatives	0	0.0500
(31)(32)	Unaffiliated Common Stock	0	0.1500
(32)(33)	SUBTOTAL - EQUITY	0	0
(33)(34)	TOTAL - ISSUER #1 (L21+L32 L33)	0	0

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

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

PR011

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Subsidiary Insurance Companies and Misc. Other Amounts		PRBC O&I Reference	RBC Amount
(1)	Directly Owned Property and Casualty Insurance Affiliates	PR004 L(2)C(2)	0
(2)	Indirectly Owned Property and Casualty Insurance Affiliates	PR004 L(5)C(2)	0
(3)	Directly Owned Life Insurance Affiliates	PR004 L(3)C(2)	0
(4)	Indirectly Owned Life Insurance Affiliates	PR004 L(6)C(2)	0
(5)	Directly Owned Health Insurance Companies or Health Entities	PR004 L(1)C(2)	0
(6)	Indirectly Owned Health Insurance Companies or Health Entities	PR004 L(4)C(2)	0
(7)	Directly Owned Alien Insurance Companies or Health Entities	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Indirectly Owned Alien Insurance Companies or Health Entities	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27)C(5)	0
(16)	Bond Size Factor RBC	PR006 L(30)C(5)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long-Term Assets - Mortgage Loans, Tax Credit Investments L(44)C(4) , &-WCFI, & Residual Tranches or Interests	PR008	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(20)+L(24)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

PR030

Calculation of Total Risk-Based Capital After Covariance PR031 R2-R3

		(1)	
R2 - Asset Risk - Equity		PRBC O&I Reference	RBC Amount
(27)	Common & Preferred- Affiliate Investment Subsidiary	PR004 L(8)C(2)	0
(28)	Common & Preferred- Affiliate Holding Company in excess of Indirect Subs	PR004 L(7)C(2)	0
(29)	Common & Preferred- Investment in Parent	PR004 L(15)C(2)	0
(30)	Common & Preferred- Aff'd US P&C Not Subj to RBC	PR004 L(17)C(2)	0
(31)	Common & Preferred- Affil US Life Not Subj to RBC	PR004 L(18)C(2)	0
(32)	Common & Preferred- Affil US Health Insurer Not Subj to RBC	PR004 L(16)C(2)	0
(33)	Common & Preferred- Aff'd Non-insurer	PR004 L(19)+L(20)+L(21)C(2)	0
(34)	Unaffiliated Preferred Stock	PR007 L(7)C(2)+PR015 L(34)C(4)	0
(35)	Total Unaffiliated Common Stock and Fair Value Excess Affiliated Stocks	PR007 L(13)C(2)+PR015 L(35)C(4)	0
(36)	Other Long -Term Assets - Real Estate	PR008 L(7)C(2)	0
(37)	Other Long -Term Assets - Schedule BA Assets	PR008 L(19)+L(20)C(2)+PR015 L(36)+L(37)C(4)	0
(38)	Misc Assets - Receivable for Securities	PR009 L(1)C(2)	0
(39)	Misc Assets - Aggregate Write-ins for Invested Assets	PR009 L(2)C(2)	0
(40)	Misc Assets - Derivatives	PR009 L(14)C(2)	0
(41)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(42)	Asset Concentration RBC - Equity	PR011 L(32)+L(33)C(3) Grand Total Page	0
(43)	Total R2	L(27)+L(28)+L(29)+L(30)+L(31)+L(32)+L(33)+L(34)+L(35)+L(36)+L(37)+L(38)+L(39)+L(40)+L(41)+L(42)	0
R3 - Asset Risk - Credit			
(44)	Other Credit RBC	PR012 L(8)-L(1)-L(2)C(2)	0
(45)	One half of Rein Recoverables	0.5 x (PR012 L(1)+L(2)C(2))	0
(46)	Other half of Rein Recoverables	If R4 L(50)>(R3 L(44) + R3 L(45)), 0, otherwise, R3 L(45)	0
(47)	Health Credit Risk	PR013 L(12)C(2)	0
(48)	Total R3	L(44) + L(45) + L(46) + L(47)	0

PR031

```
=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")))))
```

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Sincerely,

Colin Masterson

CC: Eva Yeung, NAIC

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <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>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Derek Noe</u>	Agenda Item # <u>2025-07-CA MOD</u>
TELEPHONE: <u>816-783-8973</u>	Year <u>2025</u>
EMAIL ADDRESS: <u>DNOE@NAIC.ORG</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u>	ADOPTED:
NAME: <u>Mike Yanacheak</u>	<input checked="" type="checkbox"/> TASK FORCE (TF) <u>5/15/25</u>
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 checked="" 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 align with the corresponding instructions.

Additional Staff Comments:

DN 5/2/2025 – The proposal was modified in response to ACLI comment letter dated April 22, 2025. Changes summarized as follows and highlighted in yellow in the modified proposal:

- Reordered Life instructions so “Company Action Level-Trend Test” is above “None”.
- Added “Company Action Level-Trend Test” Instructions to Health and PC instructions to maintain consistency.
- Changed code 0 in Health to “None” to maintain consistency.

Original proposal exposed March 3/25/25

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

Revised 2-2023

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
Company Action Level RBC – Trend Test
None

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		Cocode: 00000
Company Name		
RISK-BASED CAPITAL LEVEL OF ACTION (Including Tax Sensitivity Test)		
	Source	(1) RBC Amount
(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 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.		

=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")))))

LR034

TREND TEST		
Company Name		
TREND TEST		
	Source	(1) Amount
<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</u> (only if applicable†)		
(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.		

LR035

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).

Company Action Level – Trend Test requires the company to prepare and submit an RBC Plan to the commissioner of the 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. Refer to Instructions for PR033 for details on the Trend Test.

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.~~

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**

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.

Company Action Level – Trend Test 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.

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.

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.

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <input checked="" 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"/> 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>FOR NAIC USE ONLY</u>	
CONTACT PERSON: <u>Derek Noe</u>		Agenda Item # <u>2025-03-CA</u>	
TELEPHONE: <u>816-783-8973</u>		Year <u>2025</u>	
EMAIL ADDRESS: <u>dnoe@naic.org</u>		<u>DISPOSITION</u>	
ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Group</u>		ADOPTED:	
NAME: <u>Steve Drutz</u>		<input checked="" type="checkbox"/> TASK FORCE (TF) <u>06/30/2025</u>	
TITLE: <u>Chief Financial Analyst/Chair</u>		<input type="checkbox"/> WORKING GROUP (WG) _____	
AFFILIATION: <u>WA Office of Insurance Commissioner</u>		<input type="checkbox"/> SUBGROUP (SG) _____	
ADDRESS: <u>5000 Capital Blvd SE</u>		EXPOSED:	
<u>Tumwater, WA 98501</u>		<input checked="" type="checkbox"/> TASK FORCE (TF) <u>05/15/2025</u>	
		<input checked="" type="checkbox"/> WORKING GROUP (WG) <u>03/24/2025</u>	
		<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 checked="" type="checkbox"/> REFERRED TO OTHER NAIC GROUP	
		<input type="checkbox"/> (SPECIFY) <u>CADTF 4/30/25</u>	

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

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

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision for the investment income adjustment.

Update the Underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision on pages XR013, LR019, LR020, PR019, and PR020 for the investment income adjustment.

Additional Staff Comments:

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

Revised 2-2023

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2025 Investment Yield for Investment Income Adjustment

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

Date	1 Mo	1.5 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2025	4.45	N/A	4.36	4.36	4.31	4.25	4.17	4.25	4.29	4.38	4.47	4.57	4.86	4.79
01/03/2025	4.44	N/A	4.35	4.34	4.31	4.25	4.18	4.28	4.32	4.41	4.51	4.60	4.88	4.82
01/06/2025	4.43	N/A	4.36	4.35	4.31	4.24	4.17	4.28	4.30	4.42	4.52	4.62	4.91	4.85
01/07/2025	4.42	N/A	4.35	4.35	4.31	4.24	4.19	4.30	4.33	4.46	4.57	4.67	4.97	4.91
01/08/2025	4.41	N/A	4.34	4.35	4.31	4.25	4.19	4.28	4.31	4.45	4.56	4.67	4.97	4.91
01/09/2025	4.44	N/A	4.36	4.35	4.31	4.24	4.16	4.27	4.31	4.46	4.57	4.68	4.98	4.92
01/10/2025	4.42	N/A	4.35	4.36	4.33	4.27	4.25	4.40	4.46	4.59	4.70	4.77	5.04	4.96
01/13/2025	4.42	N/A	4.36	4.37	4.34	4.30	4.24	4.40	4.49	4.61	4.71	4.79	5.05	4.97
01/14/2025	4.42	N/A	4.35	4.36	4.33	4.29	4.22	4.37	4.46	4.59	4.70	4.78	5.06	4.98
01/15/2025	4.40	N/A	4.34	4.35	4.32	4.26	4.19	4.27	4.34	4.45	4.55	4.66	4.95	4.88
01/16/2025	4.43	N/A	4.36	4.34	4.32	4.26	4.18	4.23	4.29	4.39	4.50	4.61	4.91	4.84
01/17/2025	4.43	N/A	4.35	4.34	4.32	4.28	4.21	4.27	4.33	4.42	4.52	4.61	4.91	4.84
01/21/2025	4.42	N/A	4.35	4.36	4.33	4.28	4.21	4.29	4.33	4.40	4.49	4.57	4.87	4.80
01/22/2025	4.42	N/A	4.35	4.36	4.32	4.28	4.20	4.29	4.34	4.43	4.51	4.60	4.89	4.82
01/23/2025	4.45	N/A	4.36	4.36	4.32	4.27	4.18	4.29	4.35	4.45	4.55	4.65	4.92	4.87
01/24/2025	4.45	N/A	4.36	4.35	4.32	4.25	4.17	4.27	4.33	4.43	4.53	4.63	4.91	4.85
01/27/2025	4.44	N/A	4.36	4.32	4.30	4.25	4.13	4.17	4.24	4.32	4.43	4.53	4.82	4.76
01/28/2025	4.44	N/A	4.35	4.31	4.30	4.26	4.14	4.19	4.25	4.33	4.43	4.55	4.84	4.78
01/29/2025	4.43	N/A	4.34	4.31	4.34	4.27	4.17	4.21	4.27	4.35	4.44	4.55	4.85	4.79
01/30/2025	4.37	N/A	4.38	4.30	4.33	4.27	4.16	4.18	4.24	4.31	4.41	4.52	4.81	4.76
01/31/2025	4.37	N/A	4.37	4.31	4.33	4.28	4.17	4.22	4.27	4.36	4.47	4.58	4.88	4.83



February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
High Tier (i.e., less than \$3Million (M) or less than \$25M)			
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
Low Tier			
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

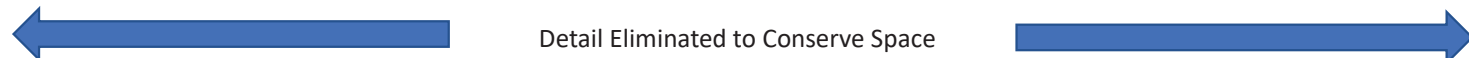
Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

Health Instructions

Page XR013, Line 13



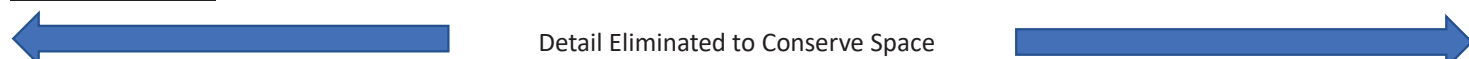
Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 54.5%.

	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond ([U.S. Department of the Treasury](#)) on each Monday through the month of January and determine if further modifications to the 54.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions

Page PR020, Line 10



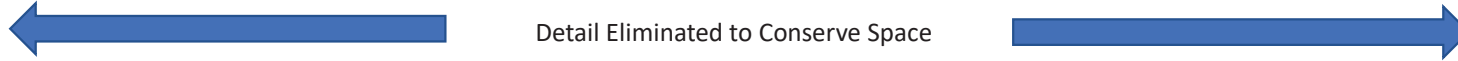
Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Life Instructions

LR020, Line 10



Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	\$0 - \$3 Million	\$3 - \$25 Million	Over \$25 Million
Comprehensive Medical	0.144027	0.144027	0.084432
Medicare Supplement	0.098773	0.0609596	0.0609596
Dental & Vision	0.115343	0.071606	0.071606
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

UNDERWRITING RISK

Experience Fluctuation Risk

		(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non- Health	(7) Total
(1)	† Premium							
(2)	† Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3)	† Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4)	† Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7)	† Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10)	† Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17)	† Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX {Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non- Health
\$0 - \$3 Million	0.144027	0.09873	0.115343	0.251	0.130	0.130
\$3 - \$25 Million	0.144027	0.0609596	0.071606	0.251	0.130	0.130
Over \$25 Million	0.084432	0.0609596	0.071606	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	\$50,000	N/A
	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 2 x Maximum Individual Risk	or 6 x Maximum Individual Risk	or 2 x Maximum Individual Risk	

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	<u>Comprehensive</u>	<u>Medicare</u>		<u>Stand-Alone</u>	
	<u>Medical</u>	<u>Supplement</u>	<u>Dental & Vision</u>	<u>Medicare Part D</u>	<u>TOTAL</u>
	<u>Coverage</u>				
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3) Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4) Other Health Risk Revenue†	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3) Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge£	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum
	or	or	or	or	of
	2 x Maximum	2 x Maximum	2 x Maximum	6 x Maximum	Columns
	Individual Risk	Individual Risk	Individual Risk	Individual Risk	(1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)
------------	---	--	--	---	---

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

PETER GOULD

May 5, 2025

Capital Adequacy (E) Task Force
NAIC

Re: Risk Based Capital Proposal 2024-16-CA
https://content.naic.org/sites/default/files/inline-files/2024-16-CA_0.pdf

Dear Members of the CATF:

I am a retiree and annuity contract owner. I depend on annuities for a considerable portion of my retirement income. I purchased annuities as a source of retirement income I would not outlive - not as speculative investments.

As an annuity owner, the insurer's obligations to me are spelled out in my contracts. However, there are no provisions in my contracts that protect me or provide me with rights to prevent my insurer from becoming insolvent or unable to meet their contractual obligations to me. As a result, consumers like me, as well as the insurance professionals who serve them, who ignore the financial stability and claims-paying ability of an insurer do so to their own detriment.

As an annuity owner with skin in the game, I'm uniquely qualified to share my strong opposition to the above-referenced proposal. I'm astounded that a regulator, charged with protecting consumers, would even think of suppressing RBC information.

After carefully studying the proposal and initial comment letters, it's clear to me that:

1. The change in the preamble is a thinly veiled attempt to remove RBC data from publicly available annual statutory statements. This would deprive stakeholders (including consumers, policy owners, investors, insurance professionals, researchers, journalists, academics and others) of information that is vital to the selection and monitoring of insurers.
2. Stakeholders have had access to this information for 30+ years. The information is useful for a variety of reasons - helping regulators identify weakly capitalized companies, providing stakeholders a general and consistent way to evaluate an insurer's condition. There's no compelling (or minor) reason to change the current policy and hide the information from stakeholders.
3. Transparency is important in the regulation of insurers and evaluation of their solvency. This is made clear in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 20.10. In a similar manner, transparency is required under GAAP Accounting Standard ASC 944-505-50-1, for reporting on a company's 10-K. The proposal would be a glaring deviation from both US GAAP accounting requirements and from international regulatory best practices - to the detriment of all stakeholders.

P.O. Box 8815 Bloomington, IN 47407-8815

Capital Adequacy (E) Task Force
May 5, 2025
Page 2

Rather than work against stakeholders, CATF's energy should be directed toward improved consumer protection and greater transparency. To that end, I propose the following:

1. Reject proposal 2024-16-CA
2. Improve transparency by adding the statutory statement RBC information to the NAIC website as part of the Consumer Information Search Financial Overview Report, so that it's easily searchable and accessible to all stakeholders.

In closing, the rationale for the proposal is severely flawed - it's just an attempt to mask the real problem - the toxic mixture of non-existent guardrails and weak enforcement, that would allow a company's RBC to go from 600 to negative 20,000 in one year (A-Cap). If the objective is to bury and ignore the problem, simply drop all references to RBC in the Model Code and eliminate the Capital Adequacy (E) Task Force.

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould

Peter Gould



May 8, 2025

Mike Yanacheak
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: [Proposal 2024-16-CA](#) (Revised Preamble)

Dear Chair Yanacheak,

On behalf of the Risk Management and Financial Reporting Practice Council's Prudential Regulation Committee (the Committee) of the American Academy of Actuaries,¹ I appreciate the opportunity to provide input to the Capital Adequacy Task Force (CADTF) on the re-exposed revisions to the Risk-Based Capital Preamble, 2024-16-CA (the Re-exposure). The Academy's mission is to serve the public and the U.S. actuarial profession. As part of that mission, the Academy has historically closely collaborated with the NAIC and state regulators in updating components of the NAIC's risk-based capital (RBC) framework to maintain it as an appropriate solvency monitoring tool. The Committee provided comments on the initial 2024-16-CA exposure in 2024, and this letter reiterates those comments and responds to the additional questions in the Re-exposure.

The Use of RBC Information

The Committee appreciates the edits in the Re-exposure regarding certain misuses of RBC, such as use for ranking individual companies or for detailed comparisons. While we recognize that there are instances in which public data can be used for purposes that are not appropriate, the edits to the Preamble, in our view, go too far in critiquing nonregulator use of publicly available RBC information and in critiquing any use beyond identifying potentially weakly capitalized companies.

We understand and agree with the additions made in section E about RBC being developed and calibrated for its primary use. However, we disagree with the implication that any nonregulator use of RBC is inappropriate, including the use of RBC information outside of specific RBC action levels. For example, excess capital above the defined Authorized Control Level RBC provides useful information for company management and is regularly used by those focused on financial management and solvency risk, including actuaries. Part of sound risk management involves an assessment of statutory-required and available capital levels in baseline and stressed conditions which can inform risk-based decision making. In addition, some companies can reasonably use RBC as their primary capital management tool to the extent that they have performed an analysis and determined that it effectively captures their solvency risks. Finally, the public at large may also benefit from understanding to what extent a given company's capitalization exceeds a regulatory action level.

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We also observe that RBC is utilized within other regulatory review tools such as Own Risk Solvency Assessment (ORSA) and Group Capital Calculation (GCC), and the added language in Section E appears inconsistent with this practice of regulators using RBC for broader purposes. For GCC specifically, the excess relative ratio scaling approach adopted by the NAIC indicates that capital levels above minimum requirements are relevant for understanding group solvency. As such, we believe the emphasis on RBC as solely identifying potentially weakly capitalized companies is too narrow, and we recommend tempering the language in Section E.

Question 2 of the Re-exposure requests examples of how RBC ratios are used beyond their primary purpose for regulators to identify potentially weakly capitalized companies. As noted earlier, companies use RBC ratios in baseline and stressed conditions to inform risk-based decision making, and some companies use RBC as their primary capital management tool. From our perspective, these examples are reasonable uses of RBC information, and the edits to the preamble could be interpreted to dissuade such uses.

The Benefits of RBC

We also observe that the proposed edits emphasize some of the misuses of RBC without fully highlighting the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general. The proposed changes to paragraphs 11 and 14 and the new Section E may be interpreted by some readers as critical of RBC generally. While we understand the purpose of these paragraphs in terms of outlining RBC's limitations, they may call into question the perceived validity and reliability of RBC when it has worked well for its purpose for many years.

Question 1 of the Re-exposure asks whether there are any objections to adopting the proposed edits as-is. In addition to acknowledging the other valid uses of RBC noted earlier, we suggest the CADTF include in Section E (paragraphs 18-21) a presentation that identifies the value that RBC has provided to date alongside critiques that have been raised regarding other uses of RBC. For example, the overarching statements in paragraphs 18 (e.g., "Any other application of RBC would be inappropriate...") and 20 (e.g., "RBC requirements are not appropriate to evaluate the relative or absolute level of risk...") could be replaced by statements that better communicate and/or balance the strength of the RBC framework to external stakeholders.

The Importance of Public RBC Disclosures

While we understand that the Re-exposure does not include edits to the 5-year Historical Data page in the Annual Statement Blanks, the past discussion at the CADTF and the proposed edits to the Preamble could be interpreted to advocate for the potential removal of public RBC disclosures. We emphasize that a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime. RBC, in addition to assisting regulators in identifying weakly capitalized companies, has also provided a general and consistent way for other stakeholders to obtain a high-level understanding of a company's solvency position, which promotes public confidence in the insurance system in the United States. In effect, we believe the public disclosure of the RBC level of individual insurance companies has been beneficial to policyholders, consumers, and other external stakeholders.

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's Risk Management and Financial Reporting policy project manager, at behnke@actuary.org.

Sincerely,

Dana Hunt MAAA, FSA

Chairperson, Prudential Regulation Committee

American Academy of Actuaries



Colin Masterson
Sr. Policy Analyst
202-624-2463
ColinMasterson@acli.com

May 9, 2025

Mike Yanacheak
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Tom Botsko,
Vice Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: Re-Exposure of Proposal 2024-16-CA (Revised Preamble)

Dear Chair Yanacheak and Vice Chair Botsko:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional feedback on Proposal 2024-16-CA which aims to revise the Risk-Based Capital (RBC) Preamble to clarify that a company's RBC and adjusted reports should not be used to rank insurers. This was an item that we previously commented on in May 2024 and we are grateful for the work of regulators and NAIC staff alike in bringing back this issue for further consideration following the 2025 Spring National Meeting in Indianapolis.

ACLI supports regulators' ability to maintain RBC as a tool with which they can identify potentially weakly capitalized companies in order to facilitate regulatory actions designed to ensure that policyholders will receive their promised benefits. This aligns with a goal of our organization that every American have the opportunity to purchase products that provide them guaranteed financial security.

While we appreciate the re-exposure of the proposed Preamble edits from last year, we remain concerned with the language as drafted. In accordance with the structure of the document itself, we offer the following commentary which elaborates on our general position stated above within the context of the included consideration questions:

1. *As it is currently drafted, the proposed edits in Proposal 2024-16-CA do not include any edits to the 5-year Historical Data page in Annual Statement Blanks. Are there any comments/objections adopting the proposed edits to preamble "as is"?*
- While ACLI is supportive of the NAIC's treatment of the 5-year Historical Data page in the Annual Statement Blanks as a separate issue, we do not support adopting the proposal as it is currently written. The edits do not adequately reflect the uses of insurance capital which have evolved considerably since the original adoption of the NAIC RBC For Insurers

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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

Model Act (#312, hereafter “Model Act”). The ability of companies to share their RBC ratio in public forums has also significantly strengthened public perceptions of the U.S. state-based regulatory system of insurance companies, especially during such times as the 2008 Financial Crisis and the COVID-19 pandemic. Further, different regulatory regimes, rating agencies, and other parties have required disclosure of information of company capital positions that highlight the importance of RBC transparency, including:

- GAAP Accounting Standard ASC 944-505-50-1, which states: “Insurance entities shall disclose in their financial statements...(t)he amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on the entity's current operations) if significant in relation to the entity's statutory capital and surplus.”.
- Companies have previously received notices from the SEC stating that reporting within the 10-K “above the minimum required RBC levels” is not a sufficient statement.
- Other foreign jurisdictions (e.g., the Canadian Office of the Superintendent of Financial Institutions, Japan ESR, EU & UK Solvency II, IAIS Insurance Capital Standard (ICS), Swiss Solvency Test, et. al.) require some sort of solvency disclosure and removing the publication of the RBC ratio would make the U.S. one of the few jurisdictions that does not.
- The Employment Liability Insurance Report requests TAC and ACL information.
- The Insurance Core Principle (ICP) 20.10 of the International Association of Insurance Supervisors (IAIS) requires that companies publicly disclose the capital available to cover regulatory capital requirements.
- The Moody's Rating Agency's RBC roll forward with their variable annuity and captive survey requests where TAC, CAL and RBC % are shown.
- We also continue to urge the NAIC to adopt the edits suggested in our May 30, 2024 letter (please see Appendix I). Specifically, these were edits to Preamble Sections B.11., D.14., E.18., and E.20.

2. *Please provide examples of ways how risk-based capital ratios are used other than the intended purposes of identifying potentially weakly capitalized companies:*

- While it was not feasible during this exposure period to gather information on the life insurance industry's uses of RBC ratios, ACLI would like to offer further dialogue with our members to regulators and NAIC staff for their consideration. Given the diversity of our companies in terms of size, product mix, and ownership structure, there could be many different uses of risk-based capital data that are not in conflict with the Model Act or with the description of RBC in the current version of the Preamble. We believe that specific and substantive examples of how life companies use RBC information could be incredibly helpful for all parties involved as we attempt to clarify and strengthen the RBC Preamble and ACLI would be more than willing to be the forum where such information is aggregated.

Though we understand regulators' position that a company's RBC and adjusted reports should not be used to rank insurers generally, for all of the reasons stated above, we suggest not adopting the Preamble changes as written and instead suggest the alternatives outlined in our previous comment letter which was included as a part of the current exposure.

If the public disclosure of RBC is a primary concern of regulators, ACLI would also like to reaffirm our willingness to work with the Task Force on drafting a potential disclaimer around the intended purpose of RBC data, as described in the RBC Preamble, for companies to include when they are providing the information in any of the ways described above and elsewhere.

Thank you once again for considering our feedback and we look forward to additional conversation soon at a session of the Capital Adequacy (E) Task Force.

Sincerely,

Colin Masterson

cc: Eva Yeung, NAIC

Appendix 1:

The following is a redline of the proposed edits (as highlighted in yellow in the exposure) that we believe will address our preliminary concerns while providing appropriate clarifications:

Section B 11.

- Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for possible corrective action with respect to the insurer and is not intended or appropriate as a means to rank insurers generally. Therefore—except as otherwise required under the provisions of Risk-Based Capital (RBC) for Insurers Model Act (#312) or the Risk-Based Capital (RBC) for Health Organizations Model Act (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

Because the RBC framework has been developed with certain regulatory needs in mind, state regulators have decided keep some elements of the calculation confidential, as well as any workout plans for companies that have triggered a regulatory action level. Publication of limited RBC disclosures in the Annual Statement accommodates the interests of stakeholders that include policyholders, investors, insurers, and other regulatory authorities, and strikes an appropriate balance between confidentiality and transparency.

Section D 14.

- Because the NAIC formula develops threshold levels of capitalization rather than a target level, it may not be meaningful is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

Section E 18.

- Use of RBC is intended limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

Section E 20.

- RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would

~~not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments.~~ While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

Center for Insurance Research

145 South Main Street. • Haverhill, MA 01835

May 9, 2025

Capital Adequacy Task Force
Commissioner Doug Ommen, Chair
Director Judith L. French, Vice Chair
Eva Yeung, NAIC Staff
NAIC Central Office
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comments on Exposure Proposal 2024-16-CA (Revised Preamble)

Dear Members of the Task Force:

I am writing to offer my comments on the re-exposed draft of 2024-16-CA (Revised Preamble) (dated April 24, 2024). I am one of the members of the NAIC consumer liaison program and the Director of the Center for Insurance Research. I also serve on the Consumer Advisory Committee of the Interstate Insurance Product Regulation Commission. The Center for Insurance Research (CIR) is a nonprofit, 501(c)(3) public policy and advocacy organization founded in 1991 that represents consumers on insurance matters nationally.

I am writing to express my opposition to the Revised Preamble draft to the extent it criticizes the public disclosure of Total Adjusted Capital and the Authorized Control Level in the Five Year Historical page of the Annual Statement Blank. I believe it is vital to maintain public access to these data elements¹ to consumers and consumer intermediaries (such as CIR and academics who research insurance topics) because: 1) RBC disclosures are an important tool for groups like mine, who use these elements for their intended purposes; 2) transparency of the summary RBC results is necessary to meet the objectives of state insurance regulators, the NAIC and consumer intermediaries in maintaining a strong, state-based system of financial oversight; and 3) access

¹ My comments pertain specifically to the summary ACL and TAC data elements as they appear in the current Annual Statement Blanks. The calculation of these numbers involves confidential, non-public information and CIR does not oppose the confidentiality of formula inputs as necessary to protect trade secrets and regulatory decision-making.

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to summary RBC result data is already established in existing state laws and regulations across the country and the contemplated revisions would create gaps and/or conflicts with existing statutory law and complicate the freedom of information obligations of state insurance departments.

As a preliminary matter, I wish to express my agreement with the comments of the industry interested parties:

- *TransAmerica/Aegon* – CIR agrees wholeheartedly that it “is important for investors to have accurate information” and that “Making RBC confidential would make state regulation an outlier and in contravention of international standards.”
- *American Academy of Actuaries* – CIR fully endorses the Academy’s statement that “maintaining public disclosure of the RBC level of individual insurance companies is beneficial to policyholders, consumers, and other external stakeholders” and that “a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime” in accordance with global insurance supervision standards. CIR also agrees that the Exposure does not full highlight “the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general for many years.”
- *American Council of Life Insurers* – CIR concurs the “ability of companies to share their RBC ratio in public forums” strengthens public perceptions of the U.S. state-based insurance regulation system. ACLI is also correct in noting that numerous regulatory and statutory standards² require that RBC data be disclosed, such as GAAP rules, foreign jurisdiction requirements for multi-national companies, and IAIS standards. CIR further agrees that removing the RBC data elements could “lead to a significant lack of transparency into an insurer’s financial health for

² As the ACLI notes, disclosure is expressly contemplated by the NAIC Model Act – which has been enacted as statutory law in many jurisdictions and removing the disclosure from Annual Statements could lead to serious conflict of laws issues and result in public records law violations for insurance departments as discussed further below.

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consumers and policyholders.” Furthermore, ACLI is correct in noting that removing the reported data elements would just result in the use of alternate metrics – ones that are not subject to the design and oversight of state insurance regulators – which would not be available to consumers, consumer intermediaries and academics due to prohibitive costs.³

1) RBC disclosures are an important tool for consumers and consumer intermediaries.

While concern about the potential mis-use of RBC data elements is understandable, it does not justify concealing summary RBC data elements from members of the public. As acknowledged in the Exposure itself, there are already existing prohibitions on the mis-use of reported RBC data elements contained in the NAIC Model Risk-Based Capital Acts (Model Acts no. 312 and 315) that expressly prohibit “the making, publishing, disseminating, circulation or placing before the public, ... an advertisement, announcement or statement ... containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component.” These prohibitions have been enacted as statutory law in jurisdictions across the country, so current state laws expressly allow for the disclosure of certain RBC data elements and provide regulators with the authority to curb abuse.

CIR has never used the RBC data elements reported in statutory annual statements to “rank” insurers or to develop financial strength comparisons for use by consumers. Nor is CIR aware of any other consumer group that has used RBC data elements for these purposes.

³ For example, the A.M. Best Company calculates its own financial solvency score (as do other rating agencies) called BCAR. Based on our review, BCAR seems to produce similar results as the RBC calculation, but is instead a proprietary method owned by a private company that charges tens of thousands of dollars for access to its data. While an expense of that magnitude may be acceptable to corporations (though ultimately paid by policyholder premiums), it is beyond the means of individual consumers, academics and consumer groups. Thus, removing RBC summary results from the annual statement blank will prevent transparency to policyholders and consumers who lack the resources to pay exorbitant sums to private data providers.

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I can state that RBC data elements – and particularly those reported on the 5 Year Historical Page – have been vital in reviewing proposed corporate transactions such as mutual to stock conversions, mergers and acquisitions that impact insurance policyholders. CIR has acquired a certain level of expertise in evaluating corporate reorganizations and how they might impact insurance policyholders through our work on demutualizations and other transactions. As such, we are often consulted by other non-profits across the country about reviewing proposed reorganizations including mergers, MHC reorganizations, mutual to stock conversions, and the acquisition and/or conversion of non-profit health plans (like Blue Cross and Blue Shield plans). Typically, in seeking policyholder approval (and/or customer disclosures distributed to explain the nature of the transaction), a reorganizing company will provide numerous rationales for proposed changes in their corporate or financial structure. Often this includes statements regarding the need for additional capital or financial flexibility because of potential market pressures on current capital resources. In order for policyholders to fairly evaluate these potential benefits (just as investors are entitled to financial transparency as noted by the industry commentators), they must be able review the basic financial data – and the Five Year Historical page of the Annual Statement and the existing RBC disclosures in particular are a valuable resource. By consulting the Five Year Historical exhibit, consumers and consumer intermediaries like myself can get a five year snapshot of the finances of a company. The RBC elements are not being used to compare one company to another, or rank different companies, but instead to monitor and review the trends of a single company which the consumer does business with. If the Five Year Historical exhibit shows a trend in the RBC calculations, it informs consumers that capital flexibility might in fact be an important issue in support of a corporate transaction – but if it does not then policyholders can learn that it is a potential benefit of a transaction, but not the most immediately impactful aspect of a reorganization. This is clearly an appropriate use of summary RBC data elements. Consumers should not be left in the dark about the finances of companies that they rely upon to protect their property and loved ones, particularly in light of the fact that an insurance contract can be a decades long commitment between a policyholder and their insurance carrier.

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2) Transparency of RBC results is necessary to maintain a strong, state-based system of financial oversight as acknowledged by the NAIC.

The NAIC and state regulators have made RBC the centerpiece of the modern state-based financial regulation system. RBC is a crucial component of the Group Capital Calculation (GCC) developed by insurance regulators to provide a state-focused method of solvency regulation comparable to solvency regulation systems in other jurisdictions – particularly the IAIS. This permits industry to operate world-wide without becoming subject to duplicative and unnecessary levels of financial regulation. With the RBC being so vital to the state-based financial solvency system, it is inappropriate (especially in the modern data age) to withhold summary RBC results from the public.

The importance of demonstrating and explaining the RBC system to the public to build confidence in the state based financial regulation system has been recently acknowledged by the NAIC. In February, the Executive Committee created a new task force directly under EX to further enhance and develop the RBC system – the Risk-Based Capital Model Governance (EX) Task Force. On February 9, 2025, the RBC Capital Model Governance Task Force released a memorandum detailing its duties which noted (in relevant part):

- “... as the insurance market has become more global and large insurers have become internationally active, there has been an increase in the need for global insurance supervisors to understand differences across regulatory jurisdictions to effectively supervise these groups. Through these collaborative efforts, U.S. regulators and NAIC staff continue to engage with international stakeholders in efforts to improve understanding and knowledge of the U.S. state-based regulatory system, including the role of RBC. In short, this initiative will not only serve as an opportunity for an update to RBC governance; it is also an opportunity to define and communicate the strengths of the RBC framework to a global audience.”
- “Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.”

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See NAIC Memorandum Re: Risk-Based Capital Model Governance (EX) Task Force (February 9, 2025) (<https://content.naic.org/sites/default/files/inline-files/2025%20Task%20Force%20Memo.pdf>) (emphasis added). This public messaging and education about RBC and the state-based insurance regulation system was also acknowledged in a press release issued by the NAIC and newly formed Task Force later in February about the charges of the Task Force:

- The Task Force will “design a communication campaign highlighting the RBC formulas’ strengths in the U.S. state-based system of financial regulation and solvency oversight.”
- Wisconsin Insurance Commissioner Nathan Houdek was quoted: “The new RBC Task Force will not only serve as an opportunity for state regulators to enhance RBC; it is also an opportunity to reinforce the global competitiveness of the U.S. RBC framework as we educate international stakeholders on these guidance updates.”
- “Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.”

See NAIC Executive Committee Launches Risk Based Capital Task Force to Improve Governance NAIC News Release (Feb. 20, 2025) (<https://content.naic.org/article/naic-executive-committee-launches-risk-based-capital-task-force-improve-governance>) (emphasis added).

Given the importance of the RBC to determination of the GCC and its importance in establishing the ability of the state-based regulatory system to be accepted internationally (so that U.S. based insurers can operate world-wide), and the fact that the Executive Committee of the NAIC has recently formed a new task force expressly charged with developing a public messaging and education system around the use of RBC as the cornerstone of the U.S. state-based financial regulation system, it would be counter-productive for the Capital Adequacy Task Force to recommend removing summary RBC data elements from the annual statement blanks.

If the Task Force has not done so already, any decision on this matter should be delayed pending a potential referral to the new RBC Capital Model Governance (EX) Task Force to ensure such a change would not be undermining

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the work of the newly formed Capital Model Governance Task Force. If the Executive Committee has determined that public messaging and education about the RBC system are necessary for the continuation of the state-based regulatory system, then this Task Force should not be removing RBC information from the public purview.

3) Removing summary RBC data element disclosures is contrary to existing state statutes and could create gaps and/or conflicts that could create unnecessary FOIA compliance work and potential FOIA liability for insurance departments.

As ACLI has noted, the NAIC Model Acts governing RBC (which have been enacted as statutes in accredited states) expressly contemplate public disclosure of summary RBC data elements and rather prohibit misuse of RBC numbers to promote insurers or other communications. This is the law of the land in virtually every jurisdiction, and removing RBC data elements from the annual statement blanks will not alter the laws of each individual state (nor could it), but rather only make it more difficult for insurance departments to comply with open records laws in their states.

In the current environment, a consumer or consumer intermediary need only consult an annual statement to find the summary RBC data elements, many of which are easily accessible through company or department websites without the need to engage in the time-consuming process of submitting a FOIA and spending department resources in responding to information requests. However, if the summary RBC data elements are stripped from the annual statement, organizations like mine will be forced to submit more frequent FOIA requests to departments. Altering the Preamble also creates the specter of a conflict of laws. If the Preamble suggests that summary RBC data elements are non-public, but state law provides they are appropriate for public disclosure (so long as they are not mis-used), then insurance department staff may be placed in the difficult position of choosing which to comply with. And violation of public information laws can have serious consequences for state agencies. Public records laws in many jurisdictions convey strict fines and penalties for non-compliant agencies. There is no need to create this sort of confusion or exposure risk for state insurance departments when it is established law that there are valid uses of summary RBC data elements and when it would undermine the stated goals of the Executive Committee to make the RBC system understood and accepted in the global marketplace.

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For foregoing reasons, I recommend this Task Force reject the proposed revisions to the Preamble that suggest or imply the summary RBC data elements are non-public and should be removed from the annual statement blanks.

Thank you for the consideration of these comments.

Sincerely,

/s/

Brendan Bridgeland
Director
insuranceresearch@comcast.net

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Draft: 6/27/25

Health Risk-Based Capital (E) Working Group
Virtual Meeting
June 20, 2025

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 20, 2025. The following Task Force members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou (CT); Kyle Colins (FL); Tish Becker (KS); William Leung (MO); and Margaret Garrison (NE).

1. Adopted its April 30 and Spring National Meeting Minutes

The Working Group met April 30 and took the following action: 1) discussed the referral regarding *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*; 2) discussed the referral regarding *INT 24-02: Medicare Part D Prescription Payment Plan*; 3) referred proposal 2025-03-CA to the Capital Adequacy (E) Task Force; and 4) exposed the American Academy of Actuaries (Academy) H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health Risk-Based Capital (RBC) Formula Report.

Chou made a motion, seconded by Leung, to adopt the Working Group's April 30 (Attachment Three-A) and March 24 (*see NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force, Attachment Two*) minutes. The motion passed unanimously.

2. Discussed the 2024 Health RBC Statistics

Drutz said the 2024 health RBC statistics were run on June 3 (Attachment Three-B). He said 1,143 health RBC filings were loaded onto the NAIC database, down from 1,146 in 2023. Twenty-one companies triggered an action level in 2024, of which eight were at a company action level, two were at a regulatory action level, seven were at an authorized control level (ACL), and four were at a mandatory control level. Drutz said eighteen companies triggered the trend test, and the ACL and total adjusted control (TAC) increased from 2023 to 2024. Drutz asked if there were any objections to posting the statistics to the Working Group's web page. Hearing none, he directed NAIC staff to post the statistics.

3. Discussed Other Matters

Drutz said that an interested party asked if the exposure of the H2—Underwriting Risk Component and Managed Care Credit Calculation in the health RBC formula report could be extended to June 30. Hearing no objections, the Working Group extended the exposure to June 30.

Drutz reminded attendees that the Health Risk-Based Capital (E) Working Group will not meet at the Summer National Meeting.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-2Summer/HRBC/HRBC_Minutes_06_20_25_TPRd.docx

Draft: 5/21/25

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 30, 2025

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 30, 2025. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou (CT); Kyle Collins (FL); Tish Becker represented by Chut Tee (KS); Danielle Smith (MO); and Margaret Garrison (NE).

1. Discussed the Referral Regarding INT 24-01

Drutz said the first agenda item was to discuss the exposed referral regarding *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*. The referral gave the Working Group notice of an industry comment concerning the moving of some debt investments to Schedule BA as capital notes. The referral was exposed for a 30-day comment period that ended April 23. The Working Group received a comment letter from AHIP. Drutz asked if AHIP would like to address the comment.

Ray Nelson (AHIP) said that AHIP supported the comment from the referral and would support the Working Group taking up the issue to align the health risk-based capital (RBC) treatment of capital notes with the life RBC treatment, which would allow the health companies to use ratings for capital notes.

Drutz said that the RBC procedures would not allow change for 2025, but the Working Group would continue to monitor the capital notes' impact on 2025 filings and review the topic in 2026. Drutz asked if this would address AHIP's comment, and Nelson said it would. Drutz asked NAIC staff to add the capital notes review to the working agenda.

2. Discussed the Referral Regarding INT 24-02

Drutz said the next agenda item was to discuss the exposed referral regarding *INT 24-02: Medicare Part D Prescription Payment Plan*. The referral gave the Working Group notice of statutory accounting guidance for the new Medicare prescription payment plans that went into effect in 2025. The referral was exposed for a 30-day comment period that ended April 23. The Working Group received a joint comment letter from AHIP and the Blue Cross Blue Shield Association (BCBSA). Drutz asked if AHIP or the BCBSA would like to address the comment.

Carl Labus (BCBSA) said the joint comment letter responded to many exposures related to the Medicare Part D prescription payment plans. Labus said that for the health RBC exposure, the comment letter recommends deferring Working Group action until the materiality of the plans can be determined. He said that currently, the payment plans are part of the other healthcare receivables and already receive a risk charge.

Drutz said that the Blanks (E) Working Group's current exposure includes the Medicare Part D prescription payment plans in a note for annual reporting, which can be used to determine materiality and whether future modifications need to be made. Drutz asked Kevin Russell (American Academy of Actuaries—Academy) if this approach would work for the Academy. Russell said it would and added that if a dedicated line in Exhibit 3A is needed in the future, a new line could be added or an existing line could be repurposed. He said that capitations could be a good candidate for repurposing, as they represent about 1% of the value reported on Exhibit 3A.

3. Referred Proposal 2025-03-CA to the Capital Adequacy (E) Task Force

Drutz said the next agenda item was to consider referring proposal 2025-03-CA (UW Risk Factors – Investment Income Adjustment) to the Capital Adequacy (E) Task Force for exposure. This proposal aims to update the underwriting risk factors for the annual investment income adjustment for the Comprehensive Medical, Medicare Supplement and Dental & Vision factors. The Working Group initially exposed this proposal for a 30-day comment period that ended April 23. The Working Group received one comment from AHIP. Drutz asked if AHIP would like to address the comment.

Nelson said AHIP's comment was supportive of moving the proposal forward as it was in line with the update methodology developed by the Working Group and the Academy.

Drutz said that the proposal would need to be referred to the Capital Adequacy (E) Task Force for exposure for all lines of business. Hearing no objections, the proposal was referred.

4. Exposed the Academy's H2—Underwriting Risk Component and Managed Care Credit Calculation in the Health RBC Formula Report

Drutz said the next item was to receive and consider exposure of the Academy's report on the H2—Underwriting Risk Component and Managed Care Credit Calculation. He asked if the Academy would like to address the report.

Steve Guzski (Academy) said that the report contains material updates since the presentation at the Spring National Meeting. The first change is that a long-term care insurance (LTCI) group is being formed at the Academy, and experts from both the health and life academies will work with the Working Group to create a timeline for factor development. He also said the Academy determined that the underwriting risk factors should be updated every five years.

Drutz asked if the Academy could talk about the investment income update for the underwriting factors going forward and what investment rate was utilized in the creation of the factors. Derek Skoog (Academy) said that the Academy's current plan is to update the investment income during the five-year underwriting risk factor review process. Drutz asked if the factors in the report were developed using a specific investment yield. Skoog said that a specific investment yield was used, but he would need to review the model to remember the yield used. Drutz asked if it would be possible to update the investment income annually while maintaining the current investment income update process. Skoog said that the current annual update process could be maintained since the new yield is all that is needed to update the models if the Working Group preferred the current process.

Drutz asked if the Academy had a timeline and process in mind to change the factors to incorporate company-specific experience. Skoog said there is a lot of complexity involved in using company-specific factors. He said the property/casualty (P/C) Academy members have implemented company experience, and the health Academy members would need to study what thresholds are needed for company experience and the duration of risk.

Drutz asked if the historic underwriting risk factors were developed at the 95% confidence level. Skoog and Guzski agreed that the original factors were developed at the 95% confidence interval. Guzski said the original factors were modeled over the medium term, with a three-to-five-year time horizon, and the factors in the report presented were developed at both the 87.5% and 95% confidence intervals, with factors for one, three, and five-year time horizons using 10 years of data. Skoog said the differences in data, model development, and time horizons make direct comparison between the current factors and proposed factors difficult due to the different base data.

Drutz asked if Skoog or Guzski would be part of the Academy's LTCI group once formed. Skoog said that he and Guzski may be involved in a supporting role, but would likely not lead the group to allow the Academy's LTCI experts to lead the group.

Drutz asked if NAIC staff were planning to complete analyses of the impact on the RBC reported results if the structures and factors proposed by the Academy were used. NAIC staff affirmed the plan.

Chou asked about the Academy's plan to approach LTCI. Skoog said he did not speak for the ultimate LTCI group, but the group would have to take a different approach to study LTCI, which is why it was not included in the H2 factor work.

Drutz asked if NAIC staff were working on Exhibit 7 to address the report's recommendation. Derek Noe (NAIC) said that staff were developing a proposal.

The Working Group agreed to expose the report for a 60-day comment period ending June 29.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2025-
2Summer/HRBC/HRBC_Minutes_04_30_2025_TPRd.docx

Attachment Three-B
Capital Adequacy (E) Task Force
8/12/25

**Aggregated Health Risk-Based Capital Data
2024 Data as of 6/3/2025**

	2024	2023	2022	2021	2020	2020	2019	2019
	<u>Health RBC</u>	<u>Health RBC</u>	<u>Health RBC</u>	<u>Health RBC</u>	<u>Health RBC</u> <u>Excluding ACA Fees</u>	<u>Health RBC</u>	<u>Health RBC</u> <u>Excluding ACA Fees</u>	<u>Health RBC</u>
Companies that have an RBC loaded on the database	1143	1146	1143	1095	1067	1067	1,012	1,012
Companies with action levels excluding CAL-Trend Test	21	16	28	12	15	15	31	15
Percentage of total RBC's loaded	1.84%	1.40%	2.45%	1.10%	1.41%	1.41%	3.06%	1.48%
Company Action Level - Trend Test	18	5	13	15	12	12	27	14
Company Action Level	8	4	6	5	4	4	14	3
Regulatory Action Level	2	4	10	2	3	3	5	3
Authorized Control Level	7	3	0	2	2	2	3	2
Mandatory Control Level	4	5	12	3	6	6	9	7
Total H0 (H0 - Asset Risk - Affiliates w/RBC)	6,664,812,697	6,173,504,244	6,291,267,994	6,077,847,595	5,192,392,682	5,192,392,682	4,782,424,393	4,782,424,393
Total H1 (H1 - Asset Risk - Other)	15,296,110,720	15,575,455,266	14,838,262,774	15,015,094,709	11,292,103,225	11,292,103,225	9,743,938,557	9,743,938,557
Total H2 (H2 - Underwriting Risk)	65,691,287,678	60,486,797,414	58,513,470,158	52,350,782,384	45,819,164,666	45,819,164,666	44,037,638,071	44,037,638,071
Total H3 (H3 - Credit Risk)	7,057,569,411	6,586,546,767	5,526,140,601	4,762,549,718	4,199,732,859	4,199,732,859	3,626,933,231	3,626,933,231
Total H4 (H4 - Business Risk)	9,720,659,424	9,128,612,495	8,609,609,597	7,882,405,838	7,481,764,896	7,481,764,896	6,571,143,274	6,571,143,274
Total RBC Before Covariance	104,430,439,930	97,950,916,186	93,778,751,124	86,088,680,244	73,985,158,328	73,985,158,328	68,762,077,526	68,762,077,526
Net Basic Operational Risk	2,364,481,422	2,197,013,488						
Total Adjusted Capital	238,880,653,855	235,574,847,325	220,326,411,094	211,045,740,619	193,852,790,008	193,859,548,232	160,266,143,771	171,305,834,767
ACA Fees					6,758,224		11,039,690,995	
Authorized Control Level RBC *	40,584,351,341	37,756,237,282	36,522,419,595	33,256,637,840	28,853,148,695	28,853,148,695	27,216,649,996	27,216,654,287
Aggregate RBC %	589%	624%	603%	635%	672%	672%	548%	629%
Median RBC %	648%	643%	628%	633%	706%	707%	640%	672%
# of Companies with an RBC Ratio of > 10,000%	134	143	148	121	143	143	156	156
# of Companies with an RBC Ratio of < 10,000% & > 1,000%	265	262	232	243	259	259	202	215
# of Companies with an RBC Ratio of < 1,000% & > 500%	308	327	333	356	320	320	257	282
# of Companies with an RBC Ratio of < 500% & > 300%	364	363	341	301	278	278	267	285
# of Companies with an RBC Ratio of < 300% & > 250%	27	16	35	32	N/A	N/A	N/A	N/A
# of Companies with an RBC Ratio of < 250% & > 200%	24	19	25	28	N/A	N/A	N/A	N/A
# of Companies with an RBC Ratio of < 300% & > 200%	N/A	N/A	N/A	N/A	52	52	99	59
# of Companies with an RBC Ratio of < 200% & <= 0%	19	16	28	12	14	14	31	15
# of Companies with an RBC Ratio of Zero	2	0	1	2	1	1	0	0
Total Companies with RBC	1,143	1,146	1,143	1,095	1,067	1,067	1,012	1,012
Total Revenue	1,161,250,484,760	1,086,198,599,716	998,270,459,614	888,638,436,244	806,712,759,846	806,712,759,846	731,800,228,651	731,800,228,651
Underwriting Deductions	1,162,830,527,950	1,067,113,764,391	973,220,456,829	873,483,482,222	774,563,533,665	774,563,533,665	715,077,656,883	715,077,656,883
Aggregate Premium	340,088,219,385	309,397,623,307	285,669,735,439	278,391,052,611	277,819,028,596	277,819,028,596	268,818,431,635	268,818,431,635
Aggregate Net Incurred Claims	975,056,294,889	885,831,331,032	806,428,955,513	721,841,094,774	622,491,724,778	622,491,724,778	585,439,850,066	585,439,850,066

* Authorized Control Level RBC amount reported in the Health RBC Excluding ACA Fees column is pulled from Line (18), page XR026, and the Authorized Control Level RBC amount reported in the Health RBC column is pulled from Line (4), page XR027.

Draft: 7/2/25

Life Risk-Based Capital (E) Working Group
Virtual Meeting
June 18, 2025

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 18, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sheila Travis (AL); Thomas Reedy (CA); Wanchin Chou (CT); Mike Yanacheak and Kevin Clark (IA); Matt Cheung (IL); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Seong-min Eom (NJ); William B. Carmello (NY); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted its May 1 and Spring National Meeting Minutes

The Working Group met May 1. During this meeting, it took the following action: 1) adopted its 2024 Summer National Meeting minutes; 1) adopted proposal 2024-21-L MOD (Tax Credit Investments); 2) adopted proposal 2024-24-L (Principle-Based Bond project); 3) adopted proposal 2025-01-L (C-2 Mortality Risk); 4) adopted proposal 2025-05-L (Asset Concentration); 5) adopted proposal 2024-04-L (Other Long-Term Assets); 6) received a referral from the Statutory Accounting Principles (E) Working Group on modified coinsurance (modco) reinsurance transactions; 7) heard a presentation from the American Academy of Actuaries (Academy) on C-3 alignment; and 8) heard a presentation from the Academy on covariance.

Slutsker made a motion, seconded by Hemphill, to adopt the Working Group's May 1 (Attachment Four-A) and March 24 (see *NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted its April 9 Minutes

The Working Group met April 9 in joint session with the Life Actuarial (A) Task Force. During the meeting, the Working Group and Task Force took the following action: 1) exposed amendment proposal form (APF) 2025-04; 2) discussed *Valuation Manual* (VM)-20 deterministic reserve (DR) scenario methodology; and 3) discussed the Generator of Economic Scenarios (GOES) (E/A) Subgroup Model Governance Framework.

Leung made a motion, seconded by Yanacheak, to adopt the Working Group and Life Actuarial (A) Task Force's April 9 minutes (see *NAIC Proceedings – Summer 2025, Life Actuarial (A) Task Force*). The motion passed unanimously.

3. Adopted its May 7 Minutes

The Working Group met May 7 in joint session with the Variable Annuities Capital and Reserve (E/A) Subgroup. During the meeting, the Working Group and the Variable Annuities Capital and Reserve (E/A) Subgroup took the following action: 1) heard updates on a request for the NAIC to provide GOES sensitivity scenarios and 2) discussed the GOES (E/A) Subgroup referrals to the Life Risk-Based Capital (E) Working Group and the Variable Annuities Capital and Reserve (E/A) Subgroup.

Slutsker made a motion, seconded by Reedy, to adopt the Working Group and Variable Annuities Capital and Reserve (E/A) Subgroup May 7 minutes (see *NAIC Proceedings – Summer 2025, Life Actuarial (A) Task Force*). The motion passed unanimously.

4. Adopted Proposal 2025-10-L (RBC Asset Credit Modco/FWH)

Barlow said that the proposal resulted from a Statutory Accounting Principles (E) Task Force referral and was exposed on May 1 for a 30-day public comment period that ended May 30. No comments were received. He mentioned that NAIC staff made some editorial changes to LR045/46/47/48 instruction as a result of the adoption of proposal 2025-04-L (LR008) page reorganization. Barlow added that the editorial changes do not require re-exposure.

Chou made a motion, seconded by Carmello, to adopt proposal 2025-10-L (Attachment One-A). The motion passed unanimously.

5. Considered Exposure of Proposal 2025-13-L (Covariance)

Barlow introduced the agenda item, noting that the Academy had presented recommendations on covariance calculation changes during the May 1 meeting. Following that presentation, the Working Group requested a formal risk-based capital (RBC) proposal, which was prepared and included in the meeting materials. He stated that while there was interest in exposing the proposal to solicit feedback, some discussion would be needed before deciding on the appropriate content and approach for exposure.

Paul Navratil (Academy) briefly discussed the proposal. He said the recommendations were based on historical data analysis and intended to illustrate impacts on RBC outcomes. He added that the goal is to provide clarity on the potential range and sensitivities of the proposed covariance changes. Navratil emphasized that the proposal is not intended for imminent adoption and should instead serve as a starting point for further industry input and discussion. The Academy is interested in exposing the work in a way that encourages constructive and focused feedback on specific questions.

Barlow clarified that the intent of the Working Group was not to adopt the proposal hastily but to recognize the value of presenting the work in the form of a draft RBC proposal. He acknowledged that any implementation would require structural changes and a longer review timeline and emphasized the importance of allowing ample time for feedback and thorough vetting.

Slutsker supported the idea of exposing the work for feedback while allowing sufficient time to consider practical implications and suggested that instead of exposing the full instructional text, the group may consider exposing the PowerPoint deck alone initially. He recommended including a cover memo or set of targeted questions to guide stakeholder responses. Navratil agreed with the suggestion to develop targeted questions to accompany the exposure materials and that the Academy will work to prepare such a list to help direct feedback toward key decision areas in the proposal.

Barlow said a formal RBC proposal based on the Academy's May 1 presentation has been developed and that some stakeholders, including the Academy and the industry, suggested not exposing the full proposal at this time. He said other options would be to expose the presentation materials only, along with a cover memo with targeted questions to guide comments, or delay exposure entirely pending further analysis. Barlow emphasized that a formal motion was not necessary for exposure, but the Working Group should weigh the path forward carefully.

Brian Bayerle (American Council of Life Insurers—ACLI) reiterated the ACLI's request to defer formal exposure. He said the current document lacks sufficient discussion or context to warrant formal exposure. Bayerle added that

changes to the covariance structure affect every RBC component and the overall capital ratio more broadly than a single factor revision. He went further to say that the Academy's proposal should be evaluated within the broader context of governance principles being developed by the Risk-Based Capital Model Governance (EX) Task Force and that the industry is heavily occupied with GOES implementation, VM-22 transition, reinsurance asset adequacy testing, and other RBC reforms. He said the stakeholders may be unable to offer the detailed feedback the proposal deserves.

Barlow reaffirmed that the guidance from NAIC leadership is to continue active work and not pause for the Risk-Based Capital Model Governance (EX) Task Force outcomes. He expressed skepticism that proposed covariance changes would directly affect GOES or necessitate changes to individual RBC factors and that the covariance methodology has not had a comprehensive review since the early 1990s and deserves thoughtful reconsideration.

Yanacheak supported exposing the presentation (not the full proposal) with questions and emphasized that the Working Group is charged with advancing projects and not deferring efforts unless conflicting principles emerge. He said that future revisions can be made if the Task Force produces guiding principles that warrant changes. Clark concurred.

Cheung asked whether the industry would have the capacity to review the technical aspects if the presentation were exposed. Bayerle responded that while engagement would be difficult, it might be more productive if tied directly to future GOES outcomes and governance principles.

Barlow asked the Academy to consider whether GOES implementation would impact the proposed covariance structure and whether changes to the covariance calculation would necessitate updates to specific RBC factors. Navratil responded that the Academy had not yet evaluated those interactions but agreed they are worth exploring further.

Bayerle emphasized the need for clarity around the outcomes regulators are seeking from the proposed changes to the covariance structure. He noted that while the existing RBC framework and charges are well established, any proposed changes should be evaluated in terms of their impact on current factors.

Barlow noted that there was general support for exposing the Academy's presentation for comments, and a cover letter with specific questions will be developed, with the Academy invited to contribute. He said the Working Group will not expose the formal proposal or the presentation at this time and that further analysis by the Academy on covariance interactions with GOES and RBC factors is encouraged before revisiting formal proposal exposure.

Bayerle again expressed appreciation for the Academy's efforts on the covariance proposal but formally requested that the Working Group defer exposure of the proposal at this time. His remarks included the following key points: 1) premature formalization—although the proposal was not intended to be adoption-ready, the ACLI believes a formal proposal format is premature. He said from a historical process, significant discussion and feedback from the Working Group have preceded any exposure and recommended following that process in this case; 2) scope and impact—unlike a discrete factor update, the covariance change affects all components of the RBC formula, potentially altering total capital ratios and internal relationships between risks, and the ACLI emphasized this is a system-wide change, not a localized adjustment; 3) overlap with other major projects: a) RBC already faces material changes with the implementation of GOES; b) upcoming projects include C-3 Phase I updates, longevity risk, and field testing in 2026; and c) introducing the covariance project now would divert regulatory and industry attention from more immediate and critical tasks; and 4) governance considerations—the ACLI suggested that such a significant structural change would be best addressed within the broader Risk-Based Capital Model

Governance (EX) Task Force, which is developing principles for holistic and integrated updates. This would ensure governance and stakeholder input are managed appropriately.

Barlow responded to the concerns raised. He reiterated that there is no immediate intent to adopt the proposal and that the Working Group does not view the proposal as ready for adoption, nor is there any rush to push it forward. Barlow noted that prior guidance to the Working Group was to continue pursuing current workstreams and not to pause initiatives while waiting for the Risk-Based Capital Model Governance (EX) Task Force to complete its framework. He acknowledged the heavy workload of the Life Risk-Based Capital (E) Working Group but noted that this is a recurring condition and does not necessarily warrant deferring proposals that are ready for exposure. Yanacheak and Clark reaffirmed that the Working Group is expected to continue its work and not wait on the output of the Risk-Based Capital Model Governance (EX) Task Force unless a direct conflict arises.

Bayerle in response emphasized that exposure itself formally elevates a topic to active project status, which has resource implications and stated that, to date, there has been no material dialogue or feedback on the technical details of the proposal, and as such, the proposal is not yet an “in-flight” initiative for the Working Group.

Barlow proposed the following course of action, which received consensus: 1) no immediate exposure of the covariance proposal or related materials and 2) request the Academy to perform further analysis on two specific questions: a) whether the GOES might affect the current covariance proposal and b) whether the proposed covariance changes would necessitate a review of any existing RBC charges or factors.

Navratil agreed that the request made sense and confirmed that the Academy would review these questions. Bayerle stated that the ACLI is comfortable with the proposed approach, given that no immediate exposure would occur. He emphasized the importance of coordination with GOES outcomes and regulatory expectations for capital levels. He also raised the concern that if changes to covariance result in significantly increased capital, a reevaluation of associated RBC charges would be appropriate.

Eom asked whether the Academy is expected to return with a revised proposal or simply a report of findings. Barlow clarified that this is up to the Academy. If they determine that GOES impacts the proposal, they may revise it. Otherwise, they are expected to report back whether changes to existing RBC charges would be warranted.

Leung inquired about a timeline for the Academy’s follow-up. Barlow responded that, given the broad nature of the request, no firm timeline would be set and that the Working Group will await updates as the Academy makes progress.

Slutsker asked whether the Working Group will consider exposure if the Academy concludes that no changes are needed. Barlow acknowledged that if the Academy reports no material impacts from GOES or factor interactions, the Working Group will likely move forward with exposure.

The Working Group expressed appreciation to the Academy and the ACLI for their input and cooperation. The Working group reached a consensus to pause exposure and proceed as outlined without requiring a formal motion.

6. Discussed 2024 Life RBC Statistics

Barlow noted that the 2024 RBC statistics were as of June 2, 2025. He highlighted that 725 life RBC filings were uploaded to the NAIC database in 2024, which was a slight decline from the 735 filings in 2023. He added that 11

companies triggered an action level in 2024. Specifically, one was at the company action level, two were at the regulatory action level, one was at the authorized control level, and two were at the mandatory control level.

Barlow asked if there were any objections to the Working Group posting the 2024 RBC statistics (Attachment Four-B) on its web page. No objections were received.

7. Discussed its Referral to the Statutory Accounting Principle (E) Working Group

Barlow stated that on May 1, 2025, the Working Group received and discussed a comment letter from the ACLI in response to the exposure of Proposal 2025-04-L Other Long-Term Assets (LR008). He said that the ACLI raised questions regarding asset valuation reserve (AVR) equity reporting lines for common stock in subsidiary, controlled, and affiliated (SCAs) and other affiliates and requested clarifications and updates to the AVR instructions. Barlow added that the Working Group directed NAIC staff to refer the ACLI's comments to the Statutory Accounting Principles (E) Working Group for further review to determine if changes and/or clarifications in annual statement blanks instructions are needed.

Barlow said that the draft referral (Attachment Four-C) was for information only and that it did not require a motion. The Working Group then directed that the referral be forwarded to the Statutory Accounting Principles (E) Working Group for its consideration

8. Received a Referral from the Statutory Accounting Principle (E) Working Group on Collateral Loans

Barlow introduced the next item on the agenda—receipt of a referral from the Statutory Accounting Principles (E) Working Group regarding proposed changes to Schedule BA reporting for collateral loans (Attachment Four-D). Clark said that the Statutory Accounting Principles (E) Working Group has issued a referral to the Life Risk-Based Capital (E) Working Group. This referral is a continuation of prior communications and is expected to be the final referral on this topic, as the Statutory Accounting Principles (E) Working Group has concluded its review of collateral loans. He noted that the Statutory Accounting Principles (E) Working Group initiated its review in 2023 in response to the rapid growth of collateral loans, which had become a significant asset class for certain insurers, comprising up to 25% of total invested assets for some companies as of year-end 2024. Regulators expressed concern that some insurers were structuring investments as collateral loans to benefit from the lower fixed RBC charge (6.8%) rather than the higher charge (30%) typically applied to direct equity investments, without a corresponding reduction in risk.

Clark explained that while some state investment laws impose loan-to-value (LTV) limits requiring overcollateralization, many still permit relatively high LTVs (80–90%). In response, the Statutory Accounting Principles (E) Working Group implemented a footnote disclosure requirement in the 2024 annual statements to collect more granular data on the collateral backing these loans. This data confirmed that approximately 43% of industry collateral loans were supported by *Statement of Statutory Accounting Principles (SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies* equity investments. In March 2025, the Statutory Accounting Principles (E) Working Group adopted a proposal for more detailed reporting lines on Schedule BA, which was subsequently approved by the Blanks (E) Working Group in May 2025, with an effective date of Jan. 1, 2026. The intent is to enable the Life Risk-Based Capital (E) Working Group to apply more granular RBC charges aligned with the risk profile of the underlying collateral.

Clark further noted that mortgage loans constitute the majority of the remaining collateral. An interim provision currently allows such loans to be reported in AVR lines reflecting their underlying characteristics, enabling look-through RBC treatment. He recommended making this provision permanent.

For collateral loans backed by SSAP No. 48 investments, Clark suggested the Working Group consider a similar look-through approach, applying a 30% RBC charge consistent with direct equity investment treatment.

Barlow said the Working Group will work with NAIC staff to determine the best way to address the referral.

9. Discussed Other Matters

Barlow reminded the Working Group that it will not be meeting in-person during the Summer National Meeting. He said the Working Group should watch out for scheduled meetings for other topics. He also mentioned that with the recent adoption of VM 22, the Longevity Risk (E/A) Subgroup may resume its work, and the Working Group might be scheduling something related.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees /E CMTE/CADTF/2025-2-Summer/Life RBC 06-18-25 Minutes TPR'd.docx

Draft: 5/15/25

Life Risk-Based Capital (E) Working Group
Virtual Meeting
May 1, 2025

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 1, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Mike Yanacheak (IA); Matt Cheung (IL); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Seong-min Eom (NJ); William B. Carmello (NY); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted Proposal 2024-21-L-MOD (Tax Credit Investments)

The Working Group considered proposal 2024-21-L-MOD to remove or rename the Guaranteed Federal Low-Income Housing Tax Credits, Federal Non-Guaranteed Low Income Housing Tax Credits, State Guaranteed Low-Income Housing Tax Credits, State Non-Guaranteed Low-Income Housing Tax Credits, and All Other Low Income Housing Tax Credits lines (asset value reserve [AVR] lines 75 through 79) and broaden the scope of remaining tax credit structure lines in AVR in line with the Statutory Accounting Principles (E) Working Group adoption. These changes resulted in corresponding changes in the life risk-based capital (RBC) instructions and/or blanks, namely LR007, LR010, LR030, and LR031.

Barlow said that the proposal was re-exposed for a 30-day public comment period ending March 23 after receiving comments from the American Council of Life Insurers (ACLI), dated Feb. 5, in response to the original proposal. He said that no comment letters were received during the re-exposure period.

Slutsker made a motion, seconded by Reedy, to adopt proposal 2024-21-L MOD (Attachment Two-A). The motion passed unanimously.

2. Adopted Proposal 2024-24-L-MOD (Principle-Based Bond Project)

The Working Group considered proposal 2024-24-L to incorporate changes adopted by the Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes resulted from the Statutory Accounting Principles (E) Working Group adopting the principle-based bond definition.

Barlow said the Working Group is considering adoption of proposal 2024-24-L-MOD (Principle-Based Bond Project). He said the proposal was also re-exposed for a 30-day comment period ending March 23, in light of the initial comments received from the ACLI dated Feb. 5. Barlow said that no comment letters were received during the re-exposure period. He added that Kazeem Okosun (NAIC) has further modified this proposal to reflect the 2025 annual statement references.

Slutsker made a motion, seconded by Leung, to adopt proposal 2024-24-L MOD (Attachment Two-B). The motion passed unanimously.

3. Adopted Proposal 2025-01-L (C-2 Mortality Risk)

The Working Group considered proposal 2025-01-L 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.

Barlow said item No. 3 is to consider the adoption of the proposal 2025-01-L C-2 Mortality Risk. He said that the Working Group exposed this proposal for a 30-day comment period ending March 23, 2025, and no comment letters were received.

Reedy made a motion, seconded by Yanacheak, to adopt proposal 2025-01-L (Attachment Two-C). The motion passed unanimously.

4. Adopted Proposal 2025-05-L (Asset Concentration [LR010])

The Working Group considered proposal 2025-05-L to clarify the LR010 instruction so that “Securities Valuation Office (SVO)-designated non-bond debt securities” can obtain asset concentration factor treatment akin to bonds in LR002 (C-1o risk component). This put the investments’ RBC treatment at the same pre- and post-principle-based bond definition adoption.

Barlow said the Working Group directed NAIC staff to draft and send a referral to the Statutory Accounting Principles (E) Working Group to solicit comments, and the Working Group received a response from the Statutory Accounting Principles (E) Working Group. He said that at the same time, the proposal was exposed for a 30-day period ending March 23, and no additional comment letters were received from interested parties.

Barlow acknowledged the February Life Risk-Based Capital (E) Working Group referral letter to the Statutory Accounting Principles (E) Working Group and the response received from the Statutory Accounting Principles (E) Working Group, which was in support of option 1.

Yanacheak made a motion, seconded by Leung, to adopt proposal 2025-05-L (Attachment Two-E). The motion passed unanimously.

5. Adopted Proposal 2025-04-L Other Long-Term Assets

The Working Group considered proposal 2025-04-L to reorganize the LR008—Other Long-Term Assets page to ensure Schedule BA assets of the same risk components (C-1o versus C1-cs) are grouped, to facilitate proper modified coinsurance (modco)/funds withheld reinsurance agreement adjustments within LR008. These also resulted in corresponding changes to LR030 and LR031 instructions and/or blanks.

Barlow said this proposal was exposed for a 30-day public comments period ending April 23, and that one comment letter was received from the ACLI, with minor editorial changes. The Working Group has a modified Other Long-Term Assets proposal for consideration. He noted that the comment letter requested the Working Group’s discussion of the conceptual issue within LR008, including the treatment of Schedule BA investments that owned-insurance affiliates do not file AVR (e.g., foreign, health, property/casualty [P/C], etc.).

Barlow noted that the ACLI had requested to discuss some conceptual issues with the proposal. Marc Altschull (ACLI) explained that the ACLI’s comments were generally supportive of the proposal but sought clarification on an inconsistency between the RBC formula and the AVR instructions. Maggie Chang (NAIC) highlighted that the changes in the modified proposals were in response to the ACLI editorial comments, which were inconsequential and did not impact the mapping to the risk components but expressed concerns about the adoption timeline, noting that the structural change needs to be locked down by May 15 by the Task Force. Chang emphasized that the changes do not impact the life RBC framework in terms of mappings or comparison with the 2024 filing.

Barlow and Julie Gann (NAIC) discussed whether the changes to the AVR instructions would hold up the adoption of LR008. Gann clarified that the AVR instructions are under the purview of the Blanks (E) Working Group and that

an editorial change could be incorporated without holding up the RBC element. Barlow suggested that the benefits of moving forward with the change to LR008 are sufficient to make the change now, with the minor changes made to the proposal based on ACLI's comments. He proposed referring the conceptual issue to the Blanks (E) Working Group and any other relevant parties to consider instructional changes in AVR for consistency with the life RBC instructions.

Noting that this referral to the Blanks (E) Working Group would not in any way impact the adoption of the proposal 2025-04-L MOD, Leung made a motion, seconded by Yanacheak, to adopt proposal 2025-04-L MOD (Attachment Two-D). The motion passed unanimously.

6. Received a Referral from Statutory Accounting Principles (E) Working Group

Barlow said the Working Group received a referral from the Statutory Accounting Principles (E) Working Group on RBC asset credit for modco reinsurance transactions, and in line with the referral, the Working Group is to consider the exposure of the proposal 2025-10-L (Attachment Four-A1).

The Working Group agreed to expose the proposal for a 30-day public comment period ending May 30.

7. Heard a Presentation from the Academy on C-3 Alignment

Barlow opened the conversation with remarks on the previously proposed 2025 field test timeline, noting discussions with NAIC staff and industry participants. He said due to practical constraints, the field testing is now recommended to occur in 2026, with a new target effective date for adoption in 2027. Barlow acknowledged the potential need to address inconsistencies with the generator of economic scenarios (GOES) but noted these could be reviewed separately. He confirmed the American Academy of Actuaries (Academy) was in support of this revised timeline.

Rick Hayes (Academy) and Maambo Mujala (Academy) presented "C-3 Alignment, Part II" (Attachment Four-A2). Hayes provided the updated timeline and scope. He stated that the fixed indexed annuities (FIAs) would also be included in C-3 phase I and that the discounting methodology would mirror C-3 phase II: net assets earned rate (NAER) or direct iteration. Speaking in terms of the scenarios, he proposed a GOES usage. Hayes, in his presentation on the assumptions, proposed the use of principle-based reserve (PBR) models with prudent estimate assumptions, noting that with *Valuation Manual* (VM)-22, Statutory Maximum Valuation Rates for Income Annuities, PBR requirements, there is a disconnect between enforced prior to effective date and new business thereafter. He added that an option to continue the use of conditional tail expectation (CTE) models with moderate adverse assumptions would be allowed.

Mujala recapped and discussed the default costs and double counting presented at the last meeting. She recommended revising default cost assumptions from expected levels to a more conservative CTE 70 level, aligning them to ensure consistency between C-3 phase II and PBR frameworks (VM-20, Requirements for Principle-Based Reserves for Life Products; VM-21, Requirements for Principle-Based Reserves for Variable Annuities; and VM-22). Mujala stated that the advantage of the approach includes being able to assume the same default costs for the reserves and capital calculations, and at the same time, leverage the same model output to do required calculations on VM-21 and VM-22. She noted the potential double-counting issue of default cost between C-1 and C-3 and illustrated this using a calibration chart. Mujala further proposed exploring an optional credit mechanism and possible factor-based adjustments as part of field testing.

Slutsker expressed concern over the complexity this adds with regard to double-counting. He argued that the numerical impact may be minor (just a few basis points) and suggested it should not be included in this phase of

the project due to the existing work volume. Slutsker proposed that model office testing be used to determine whether the issue is material. Mujala acknowledged these points and suggested that credit could remain optional in the field test, allowing companies flexibility depending on their materiality assessment. She noted the practicality issue of including all the points in the field test and agreed that model office testing could be a useful tool to pre-assess the impact.

Mujala discussed how stochastic equity returns could introduce unintended interim deficiencies in C-3 phase I calculations. She stated that as part of the VM-22 field testing, there were C-3 phase I calculations that were also tested, and that stochastic equity returns were introduced in the calculations as well. Mujala noted that introducing stochastic equity returns into C-3 phase I, which is based on a gross premium valuation at date of valuation surplus (GPVAD), could lead to interim deficiencies in the calculations. Clarifying, she said a double count in C-1 and C-3 calculations could be introduced, like the default costs, and the introduction of stochastic equity returns could cause interim deficiencies that potentially impact C-3. Mujala, however, noted that the double count between C-1 and C-3 would be seen through the first two years' calculations.

She proposed a three-bucket approach for liabilities: 1) hedge-driven liabilities (e.g., FIAs), which would include hedge error margin in the calculation like the same approach on the reserves; 2) equities backing liabilities, which could exist in general account (e.g., structured settlements), assuming a levelized returns because the liability cash flows do not change as equity returns change; and 3) equity-sensitive liabilities that include stochastic equity returns into C-3 phase I with the risk captured in the calculation, which could lead to double counting like the default costs. Mujala then suggested two ways forward for the field testing: 1) a GPVAD calculation based on surplus, which could explore whether to exclude the first two years of equity modeling that have been captured in the C-1 calculation, and 2) use a factor-based credit.

Hayes, discussing metric, scalar, working reserves, and time horizon, said the consideration for measurement for the risk is still ongoing and that the projection length or time horizon would be dependent on whether a working reserve is included. Hayes reviewed two metric approaches. He noted that pre-PBR stat reserves were formulaic and easier to project. But in the post-PBR period, modeling reserve paths require more advanced computationally intensive methods (stochastic on stochastic process). He added that this left the team with the following choice: a short-term surplus measure that captures more disintermediation risk and un-deferred annuities versus a long-term asset measure capturing more reinvestment risk.

He clarified that the C-3 phase 1 uses the GPVAD surplus measure and that the measure focuses on projecting the stats surplus, which accounts for the future reserve changes with inherent interim deficiencies that may require a short projection horizon due to complexity. Hayes further said that the C-3 phase II used the GPVAD asset measure with the working reserves set at zero, and the metric focuses on claim payment ability and does not reflect interim surplus deficiencies resulting from the long-term reserves changes. He added that due to this approach's computational simplicity relative to the surplus measure, the projection horizon could be set long enough to capture the life of the business, which would allow PBR businesses to use the same model to be leveraged for both reserve and capital purposes.

He noted that in the asset valuation (AV) reform, the use of working reserves discouraged hedging due to the accounting mismatch between assets and liabilities. Hayes then presented illustrative examples showing the surplus deficits during early years when asset earnings lag liability growth and the differences in risk capture between surplus-based and asset-based metrics. He then summarized the pros and cons of each approach in the comparison of options section to guide the Working Group's preference. In the next steps section, Hayes confirmed that the field testing is planned for 2026 and that the adoption of the updated C-3 methodology is expected in 2027. He added that the evaluation of consistency between PBR and capital treatment (especially C-1) will be undertaken, and based on the feedback received, further specification development will continue.

Barlow reiterated the importance of aligning C-3 methodology with PBR and C-3 phase II wherever possible. He thanked presenters and participants for their input and encouraged continued collaboration as field test development progresses.

8. Heard a Presentation from the Academy on Covariance

Paul Navratil (Academy) presented an update on the Academy's work on covariance (Attachment Four-A3). He provided a brief review of the guiding principles for the covariance work. He said the objective was to maintain the targeted statistical safety level of RBC both before and after covariance, such that the use of covariance does not create an RBC amount that is either more or less conservative than the amount to which the factors themselves were calibrated. Navratil said that consistency is key, especially for companies with varying risk profiles, to ensure they consistently achieve the targeted safety level of RBC and emphasized the practicality and ease of implementation, including maintaining a 25% rounding to avoid any appearance of a false position.

Navratil discussed the current structure and the key recommended changes and said the current structure has either zero or 100% correlation between all the risks, except for longevity and mortality risks, which were recently introduced. Navratil highlighted the key changes and recommendations. (Refer to the presentation slide titled "Recommendations.")

Navratil supported his recommendations by presenting the data and analysis results. He reviewed the historical data and the observed correlations and added that the data sources included issuer-weighted corporate bond default rates for credit risk and S&P 500 for equity risk. Navratil said the interest rate risk was analyzed using total return data from bond funds, taking into consideration both rates and spreads, while the insurance risk was analyzed using U.S. population mortality rates, and the business risk was assessed using state guarantee association assessments.

Navratil explained the calibration process and key assumptions by saying the average correlations were calculated over various time periods and that the shape of loss distributions was analyzed to confirm the appropriateness of average correlations for RBC. He noted that the average correlation does remain appropriate even if the lost distributions are not normal. Navratil added that non-linearity was considered, particularly for equity and credit correlations, where stress scenarios indicated higher correlations. He noted the limited data points, saying it was consistent in showing that correlations could increase during the time of stress for the equity and credit pair.

Navratil summarized the rationale for the recommendations and noted that the historical data suggests a range from 0% to 75% for credit and equity correlation, and he recommended 50%. For interest rate and credit correlation, he recommended 25% based on historical data, which supports a range from 0% to 25%. Navratil recommended a 50% interest rate and equity correlation based on historical data supporting a range from 43% to 75%. He said no change was recommended for insurance risk.

Navratil discussed the rationale for nested correlations. For credit, he said C-1o was combined with C-3b with a 25% correlation due to the lack of data and the conservative approach, and that the equity combined C-1cs and C-3c with 100% correlation because they captured similar risks. He added that there are no changes to the current RBC structure of insurance and business risk, with business risk set to zero due to a lack of theoretical rationale for correlation.

Navratil performed an impact analysis on a hypothetical company that has a distribution of risk equal to the reported 2023 aggregate industry RBC statistics. He said his recommended changes to the covariance calculation will slightly increase the RBC after covariance (as a percentage of RBC before covariance) by 1.6% for that

hypothetical company. Navratil also performed a sensitivity test by a 50% increase in various risk components in order to simulate companies that have different weights in different risk components. He concluded that the impact would be greatest for companies with a higher concentration of C1-cs risk.

Barlow asked if the recommended covariance calculation could all be done at the end of the calculation, and Navratil said yes, since there would be no structural changes to the respective risk component calculation, but only the covariance calculation at the end of the calculation is proposed to be changed. Barlow sought clarification as to whether the Academy has looked into the impact on individual companies. Navratil confirmed that, in lieu of performing impact analysis at the individual company level, the Academy used the impact sensitivity test described above to evaluate the potential impact on individual companies. Navratil admitted that this exercise may not capture all of the company's specifics.

Cheung raised a related question about the covariance within the C-1 charge, specifically regarding different bonds and whether covariance is captured or assumed to be additive for conservativeness. Navratil responded that the scope was defined to look at correlations between the C factors as they exist today. He noted that there is a concentration risk adjustment within C-1, which is similar to covariance, and mentioned the potential correlation between bonds, mortgages, and real estate, which may not be fully captured. Barlow noted that the updates presented look ready for exposure, and Navratil agreed that exposure would be appropriate.

Barlow said that the Working Group and NAIC staff would work with the Academy to get the covariance proposal ready for exposure appropriately.

9. Discussed Other Matters

Barlow reminded the Working Group of the joint call with the Variable Annuities Capital and Reserve (E/A) Subgroup scheduled for May 7. He informed the Working Group that a trend test proposal is with the Capital Adequacy (E) Task Force for consideration, and that the Working Group would not be meeting in person at the Summer National Meeting. The Working Group plans to schedule an interim meeting for June.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees /E CMTE/CADTF/2025-2-Summer/Life RBC 05-01-25 Minutes TPR'd.docx



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

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Response to Proposal 2025-05-L – Asset Concentration L010 Referral

Date: April 14, 2025

This referral response intends to communicate the Statutory Accounting Principles (E) Working Group support for the ACLI proposal seeking to clarify the LR010 instruction that “SVO-designated non-bond debt securities” can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

Although debt securities that do not qualify under the principles-based bond definition are not considered bonds under statutory accounting, life reporting entities can file these securities with the SVO to obtain an SVO-assigned designation that assesses the risk of these investments for RBC purposes. After reviewing the purpose of the asset concentration factor, its limited applicability based on the extent of holdings from a single issuer, and recognizing that the asset concentration factor doubles the originally-determined RBC factor to reflect an additional RBC capital requirement, the Statutory Accounting Principles (E) Working Group supports option 1 (ACLI proposal) in clarifying the asset concentration factor for non-bond debt securities.

Use of the original RBC factor, determined from the SVO-assigned designation, as the base factor that would be doubled in the event the debt security was captured in the asset-concentration component is more appropriate in reflecting the investment risk, then use of the standard “Other Schedule BA Asset” flat charge of 15%. Presumably, if the standard Schedule BA factor was used for these debt securities, the additional asset concentration charge would be greater than the original RBC factor based on the actual assessed risk for certain NAIC designation categories.

The Statutory Accounting Principles (E) Working Group appreciates being consulted on this dynamic. Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

Cc: Maggie Chang, Kazeem Okosun, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr

C-3 Alignment, Part II

Life Risk-Based Capital (E) Working Group

May 1, 2025

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About the Academy

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Summary of Key Framework Proposals

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- *Adoption Date and Phase-in:* Adopt for year-end 2026, with a three-year phase in period dependent on field testing schedule.
- *Product Scope:* All current products subject to C-3 Phase 1 and C-3 Phase 2 will transition to new methodology for year-end 2026. Fixed Indexed Annuities will be included in the scope of C-3 Phase 1.
- *Scenarios:* Use new Generator of Economic Scenarios.
- *Discounting:* Leverage C-3 Phase 2 discounting, i.e., Net Asset Earned Rate or Direct Iteration.

Summary of Key Framework Proposals

4

- *Assumptions and Models:* Use PBR models with prudent estimate assumptions where possible. Otherwise, continue to use CFT models with moderately adverse assumptions.
- *Factor-based C-3 Floor:* Factors will be revisited at a future date and will remain unchanged for now.
- *Default Costs:* Explore an optional credit to offset the double counting of default costs between C-1 and C-3.
- *Aggregation between C3P1 and C3P2:* Will be revisited once methodologies are finalized.

Key Focus of Today's Discussion

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- Recap of Default Costs
- Stochastic Equity Risk
- Metric, Scalar, Working Reserves, and Time Horizon
- Next Steps

Recap of Default Costs

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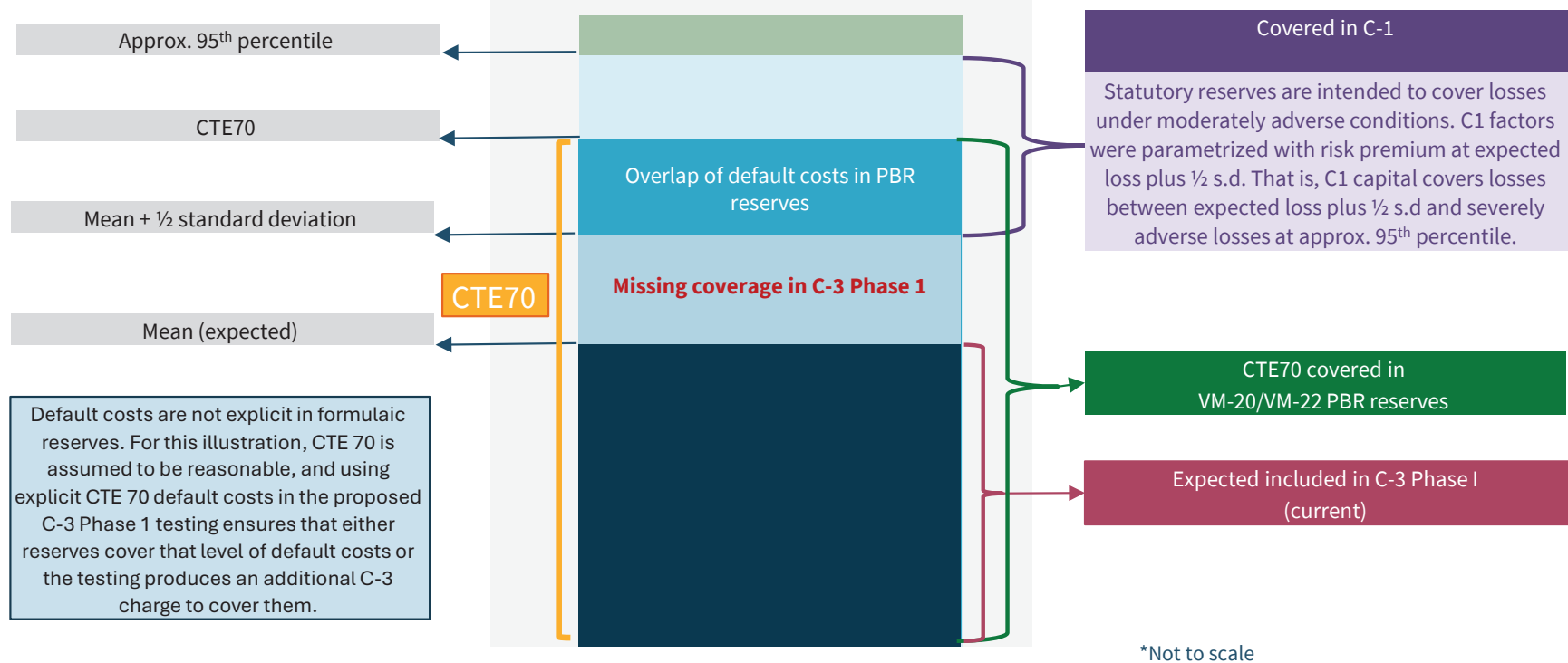
C-3 Default Costs

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- C-1 RBC for fixed income assets, such as bonds and commercial mortgages, is based on the difference between the value of severely adverse default costs and the value of default costs assumed to be covered in reserves.
- For assets that cover more than the assumed level of defaults, under the relevant reserve or C-3 testing framework, RBC factors double-count the value of the portion of the default costs between the assumed coverage levels in the C-1 models and the actual coverage levels in the reserve or C-3 models.
- Recommend updating default cost assumptions in C-3 Phase 1 to more conservative CTE70 level to allow the same default assumption to be used for reserves and capital.
- CTE70 is a generally accepted standard for prudent estimate default costs and required for PBR and C-3 Phase 2.
- Because of difference with default assumption in C-1 capital, this results in potential additional margin on C-1 risk capital.

Default Costs Illustration*

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C-1 Risk Capital Credit

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- Generally, adjustments are not made in the RBC framework for potential deficiencies or excess in other components.
- If an adjustment is included, a possible recommendation is a factor-based credit applied to the assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit ¹
Bonds – investment grade bonds	20%
Bonds – below investment grade	15%
Commercial mortgages	Double bond credit

- Recommend further study to explore an *optional* credit that would address the double counting.

¹From the 2021 Moody's Analytics C-1 Bond RBC report

Stochastic Equity Risk

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Stochastic Equity—Background

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- Historically, the intent of the C3P1 is to address asset/liability mismatch (ALM) risk due to interest rate risk for annuities and single premium life.
 - Disintermediation risk when selling assets at the depressed value to support policyholders' obligations, or
 - Reinvestment risk that investment returns will decline to the point that they are unable to service on-going policyholders' obligations.
- The addition of equity risk in the C3P1 calculation was tested as a part of the VM-22 PBR field test. The introduction of stochastic equity returns could introduce interim deficiencies.

Stochastic Equity—Issues

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- Like default costs, the introduction of stochastic equity could introduce a double count in capital that is already covered by C-1 equity risk charge.
 - The current C-1 common stock equity factor was based on the 94th percentile worst loss over 24-month periods.
 - The 2013 study continues to use a two-year loss horizon and retained the same 30% factor that was originally proposed in 1993.
 - The interim deficiencies that occur in the first two years of the C-3 calculation as a result of unfavorable equity returns under GOES are already reflected in C-1.

Stochastic Equity—Proposal

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Type of Equity Exposure	Proposal
Equity instruments to hedge predictive liabilities cash flows (e.g., FIA index hedge or indexed GIC)	<ul style="list-style-type: none"> • Exclude stochastic equity risk from C3P1. • Assume hedges are effective and reflect the same index hedge error margin for reserve and capital for additional conservatism.
Equity instruments on general account assets (e.g., equities backing long-duration contracts such as SSC)	<ul style="list-style-type: none"> • Develop a prudent estimate levelized return to avoid exacerbating capital requirement. • Option 1 — The prescribed levelized equity return equals the gross wealth factor (GWF) at specified CTE level for the projection years that reflect the average liability duration and then appending the new levelized return for the remaining years which equal to the GWF at the same CTE level at projection year 50 (See next slide for illustration). • Option 2 — Use AG-53 compliant assumption for general account equities.¹
Equity instruments to hedge the unpredictable liability cash flows (e.g., FIA with GLWB)	<ul style="list-style-type: none"> • Model stochastic equity but allow hedge modeling simplification. • Unlike VA, the liability cash flows are mostly exposed to the policyholder behavior assumption risk rather than equity risk. • Optional credit adjustment to account for double counting of risk reflected in the C-1 equity risk charge and the C-3 calculation.

¹: An equity-like instrument under AG53 assumed to have higher value at projection year 10 or later than under an assumption of annual total returns, before the deduction of investment expenses, of 4% for the first 10 projection years after the valuation date followed by 5% for projection year 11 and after.

Stochastic Equity—Levelized Return (Option1) Illustration 14

- Assume the following:
 - 30 years projection
 - C3P1 metric is based on the CTE90 (it is similar to 95th percentile)
 - Average liability duration = 10
- Based on the latest GOES equity Gross Wealth Factors (see right table)
- Annualized levelized return:
 - First 10 years: $-0.7\% = 0.93^{(1/10)} - 1$
 - Remaining 20 years: $4.4\% = (2.22/0.93)^{(1/20)} - 1$

S&P 500	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.50	0.23	0.17	0.09	0.17
1.0%	0.71	0.59	0.58	0.73	1.12
2.5%	0.77	0.71	0.77	1.07	1.60
5.0%	0.83	0.82	0.93	1.40	2.22
10.0%	0.89	0.94	1.16	1.87	3.26
25.0%	0.99	1.19	1.58	2.92	5.45
50.0%	1.10	1.50	2.16	4.50	9.37
75.0%	1.20	1.82	2.88	6.78	15.68
90.0%	1.29	2.14	3.67	9.59	23.92
95.0%	1.35	2.37	4.25	11.72	30.79
97.5%	1.40	2.57	4.86	13.85	37.57
99.0%	1.46	2.83	5.66	17.28	47.69
Max	1.81	4.14	9.45	34.11	136.91

C-1 Risk Capital Credit—Stochastic Equity

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- Ignore the first two years of the projection in the Greatest Present Value of Accumulated Deficiencies of surplus calculation.
- Factor-based credit applied to equity assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit
Common stock	30%
Other equity-like assets	TBD

Metric, Scalar, Working Reserves, and Time Horizon

Metric and Scalar

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- Consideration for measurement of the risk is ongoing, but will hinge on the defined metric while using the following formula:
 - **YY% x (CTE XX less Reserves)**
- YY% and CTE XX to be finalized with support of field-testing results.
- The projection length, or time horizon, will also be dependent on whether a working reserve is included.
- Prior to PBR, statutory reserves were formulaic, so interim reserves could easily be calculated. With PBR, a first principles interim reserve would require a nested stochastic projection, which may be onerous.
- The choice between a short-term **surplus** measure vs a long-term **asset** measure is dependent on what risk is intended to be captured. That is, a short-term surplus measure captures more disintermediation on deferred annuities risk vs. the long-term asset measure capturing more reinvestment risk

Greatest Present Value of Accumulated Deficiencies (Surplus)

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- C-3 Phase 1 currently uses a GPVAD (**surplus**) measure.
- This measure focuses on projecting the statutory surplus, which accounts for future reserve changes. The measure inherently accounts for interim deficiencies by reviewing how future reserve changes could impact surplus.
- Due to the requirement of projecting future reserves, this measure may present computational challenges when reprojecting PBR reserves at future points in time. Particularly if those reserves are currently determined using stochastic scenarios.
- Approximations can be made by assuming the working reserve is equal to CSV, factor of formulaic reserve, actuarial present values or other simplifications for nested simulations.
- If this approach is taken, a shorter time horizon would likely be recommended.
- An interim surplus measure would capture more short-term disintermediation risk on deferred annuities.
- As noted earlier in the presentation, if stochastic equity is required, interim deficiencies on assets would be impacted, which would not have occurred in the current calculation methodology.

Greatest Present Value of Accumulated Deficiencies (Assets)

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- C-3 Phase 2 metric uses an GPVAD (**asset**) measure (working reserves are set to zero). This change was made as a part of VA Reform project.
- The metric focuses on claims payment ability and does not look at interim surplus deficiencies due to long-term reserve changes.
- Due to the computational simplicity relative to GPVAD (surplus), the projection horizon can be set long enough to capture the life of the business.
- For PBR business, the same model may be leveraged for both reserve and capital setting.
- It was noted as part of VA Reform that the use of working reserves discouraged hedging due to the accounting mismatch between assets and liabilities.
- A long-term asset measure would capture more reinvestment risk, which could offset short term disintermediation risk.

Example Illustration: Baseline

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Assumptions

- 10-yr contract with a bullet payment at the end of 10 years
- Asset earned rate: 2.0% for Yrs 1-5 and 5.5% for Yrs 6-10
- Guaranteed AV credited rate of 5.0%
- CARVM Stat Val Rate of 4.0%

Balance Sheet	0	1	2	3	4	5	6	7	8	9	10
Assets											
Bonds	110.04	112.24	114.49	116.78	119.11	121.50	128.18	135.23	142.67	150.51	158.79
Liabilities and Surplus											
CARVM	110.04	114.44	119.02	123.78	128.73	133.88	139.24	144.81	150.60	156.62	162.89
CSV	100.00	105.00	110.25	115.76	121.55	127.63	134.01	140.71	147.75	155.13	162.89
Surplus	-	(2.20)	(4.53)	(7.00)	(9.62)	(12.39)	(11.06)	(9.58)	(7.94)	(6.11)	(4.10)

Example Illustration: Baseline

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- 1 For the first 5 years, the change in liabilities (CARVM reserves) exceeds the change in assets, which results in deficiencies in early years. This relationship changes after year 6 when the asset earned rate increases.
- 2 This results in the C3 requirement under the surplus measure to peak at year 5, despite the liability payment only being in year 10. This is due to the C3 requirement being used to fund interim deficiencies as the reserve changes outpace the asset changes.
- 3 The C3 requirement under the asset measure is driven by focusing on whether the assets can pay the liability that is due in year 10.

GPVAD Scenarios	0	1	2	1	3	4	5	6	7	8	9	10
Working Reserves = CARVM												
Surplus	-	(2.20)	(4.53)	(7.00)	(9.62)	(12.39)	(11.06)	(9.58)	(7.94)	(6.11)	(4.10)	
GPVAD (Surplus)		(2.16)	(4.36)	(6.60)	(8.89)	(11.22)	(9.50)	(7.80)	(6.12)	(4.47)	(2.84)	
C3	(11.22)						2					
Working Reserves = \$0												
Surplus = Assets	110.04	112.24	114.49	116.78	119.11	121.50	128.18	135.23	142.67	150.51	(4.10)	
GPVAD (Surplus)		110.04	110.04	110.04	110.04	110.04	110.04	110.04	110.04	110.04	(2.84)	
C3	(2.84)											3

Example Illustration: Interest Rate Spike

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Assume spike in rates of 3% in year 5.

- 1 As a result of the interest rate spike, 20% surrender is assumed. This resulted in an outflow of \$25.53.
- 2 Assets are sold at a loss due to the market value decrease. Higher level of assets (\$46.35) need to be sold to fund the book value liability, thereby resulting in negative surplus.

Balance Sheet	0	1	2	3	4	5	6	7	8	9	10
Assets											
Bonds	110.04	116.09	122.48	129.22	136.32	75.14	79.28	83.64	88.24	93.09	98.21
Liabilities and Surplus											
CARVM (WR)	110.04	114.44	119.02	123.78	128.73	107.11	111.39	115.85	120.48	125.30	130.31
CSV	100.00	105.00	110.25	115.76	121.55	102.10	107.21	112.57	118.20	124.11	130.31
Surplus	-	1.65	3.46	5.43	7.59	(31.96)	(32.11)	(32.21)	(32.24)	(32.21)	(32.10)

Example Illustration: Interest Rate Spike

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The example below illustrates that even under an interest rate spike and excess surrenders scenarios, the GPVAD (surplus) and GPVAD (assets) both work as intended to capture their respective risks.

1

2

GPVAD Scenarios	0	1	2	3	4	5	6	7	8	9	10
Working Reserves = CARVM											
Surplus	-	1.65	3.46	5.43	7.59	(31.96)	(32.11)	(32.21)	(32.24)	(32.21)	(32.10)
GPVAD (Surplus)		1.56	3.11	4.63	6.13	(24.46)	(23.29)	(22.14)	(21.01)	(19.89)	(18.79)
C3P1	(24.46)										
Working Reserves = \$0											
Surplus = Assets	110.04	116.09	122.48	129.22	136.32	75.14	79.28	83.64	88.24	93.09	(32.10)
GPVAD (Surplus)		110.04	110.04	110.04	110.04	57.50	57.50	57.50	57.50	57.50	(18.79)
C3P1	(7.79)										

1

2

Comparison of Options

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GPVAD (Assets)

Pros

- Focus on solving for level of assets that would result in the defeasement of future liabilities.
- Can support a longer projection length and could leverage same model runs as was used for reserving, particularly on PBR business. A longer projection is more conservative.
- Consistency with current C3 Phase 2 methodology.
- May be more optimal for hedging as removes the misalignment of market-sensitivity between economic and statutory funding requirements.

Cons

- Does not consider interim surplus deficiencies, and therefore, will not fully capture future adverse scenarios where PBR reserves could dramatically increase.

GPVAD (Surplus)

Pros

- Focuses on funding future claims and reserve funding requirements.
- Considers interim deficiencies, which ensures capital accounts for both economic and statutory insolvencies.
- Maintains current methodology on C3 Phase 1.

Cons

- Calculating a projected reserve, especially under PBR, would be computationally intensive due to nested stochastic calculations. The impact from the types of approximations for future PBR requirements have not been explored yet and therefore unclear.
- Discourages hedging due to accounting mismatch between hedge assets and working reserves.
- Would require a shorter projection length given the computational requirements.

Next Steps

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Next Steps

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- Confirm field testing time horizon.
- Recommend an evaluation of consistency of C-1 methodology between PBR and capital be performed, and adjust recommendations as necessary.
- Review field test specifications based on feedback from discussions.
- Perform field test and leverage output to assist regulators in making final decisions.

Questions?

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For more information, please contact
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Prior Presentation

3/24/2025

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Background

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- C-3 Phase 1 applies to Single Premium Life and Non-Variable Annuities (excluding Fixed Index Annuities – FIA) and has not been updated in decades.
- C-3 Phase 2, which applies to Variable Annuities including Registered Index Linked Annuities, was recently updated and tested.
- Our purpose is to propose how to harmonize C-3 Phase 1 and C-3 Phase 2 methodology.

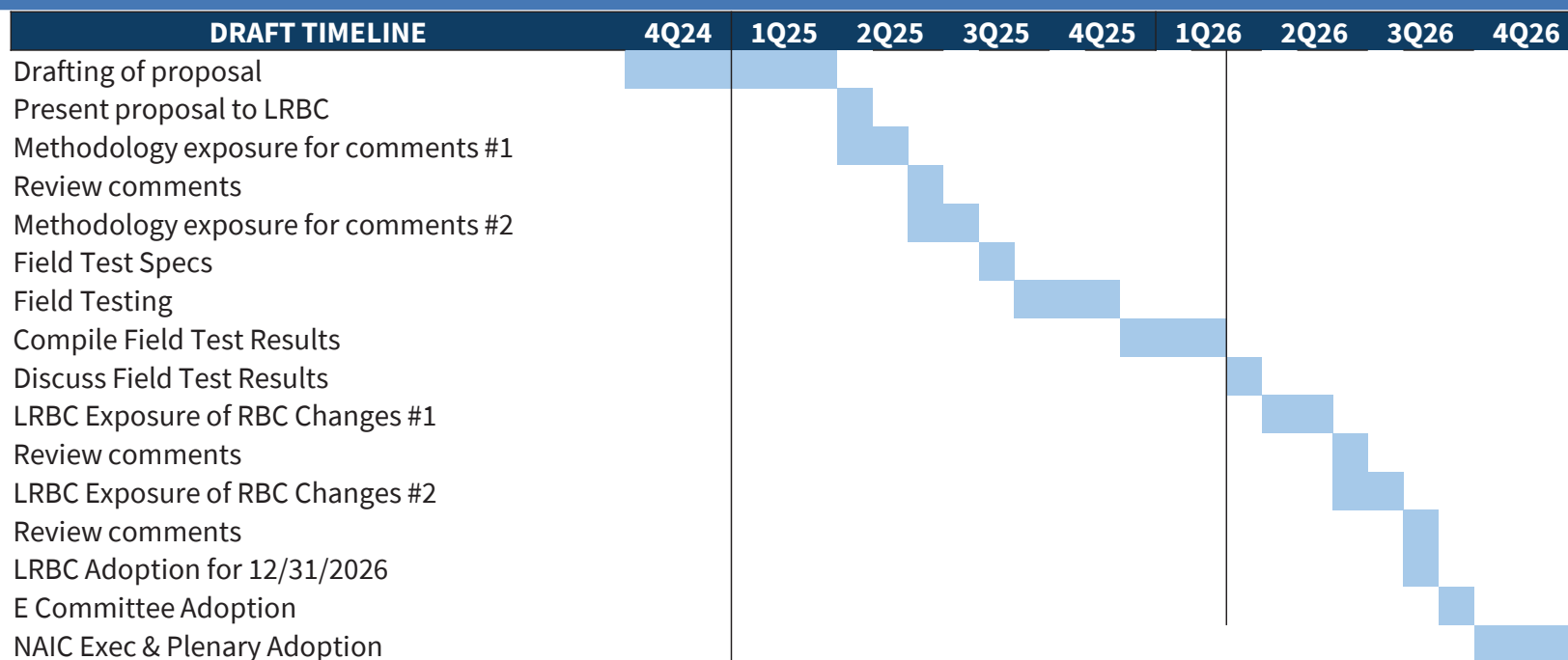
Approach to C-3 Alignment

30

- C-3 Phase 2 methodology was reviewed by the NAIC over the past 8 years.
- Where possible, C-3 Phase 1 will adopt changes to align with C-3 Phase 2.
- Given the scale of changes, we propose a phased approach with some changes being reflected by year-end 2026.
 - This would include the adoption of the new Generator of Economic Scenarios (GOES) which will also be the prescribed generator for C-3 Phase 2 and PBR.
- Other changes may be deferred due to feasibility, magnitude of impact, and to avoid unintended consequences.

Timeline, Adoption, Phase In Period

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Timeline, Adoption, Phase In Period

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- We anticipate a field test during 2025 and adoption effective year-end 2026.
- We propose a three-year phase-in period for changes that are effective at year-end 2026.
- We propose that other C-3 changes are phased in during future years and will be outlined in the rest of the presentation

Scenarios

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Economic Scenarios

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- C-3 Phase 1 scenarios have a high Median Reversion Point (MRP) and do not include equity returns.
- C-3 Phase 2 scenarios have a formulaic MRP weighted toward recent rates and include equity returns.
- Propose using the new GOES that is expected to be adopted for an effective date of 2026.

Product Scope

Product Scope

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The ultimate goal is a C-3 framework with consistent scenarios, metrics, and legal entity level aggregation for all products. We propose reviewing other products at a future date.

		Smallest step <u>Option 1</u>	<u>Recommended</u> <u>Option 2¹</u>	<u>Option 3</u>	<i>Closest to Ultimate Goal</i> <u>Option 4</u>
C3P1	Single Premium Life Single/Flexible Premium Annuity	Old C3P1 New C3P1	New C3P1 New C3P1	Old C3P1 Old C3P1 PBR Annuity to New C3P1	New C3P1 New C3P1
C3P2	VA RILA	C3P2	C3P2	C3P2	C3P2
Currently out of scope	FIA	New C3P1	New C3P1	New C3P1	New C3P1
	LTC	defer	defer	defer	New C3P1
	ULSG	defer	defer	defer	New C3P1
	Remaining Life & Health products	defer	defer	defer	defer
Pro		small manageable step	maintains existing aggregation	aligns reserving and capital models to PBR only business	closest to ultimate goal
Con		lose aggregation between life & annuity - which would ultimately be added back later	larger step, could be harder to execute quickly	inconsistent capital between in force and new business	most difficult to implement in one step

1: This option aligns with the timeline presented on slide 5

Discounting

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Discounting

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- **Background**
 - Phase 1 uses one-year Treasury rate discounting. Inforce assets and reinvestment assets are typically longer in duration than one year and lower in credit quality than Treasuries, both of which tend to increase yields.
 - Phase 2 allows discounting at the Net Asset Earned Rate (NAER), which likely produces better estimates of the amount of additional assets needed to eliminate a deficiency than does phase 1 discounting.
 - Phase 2 also allows Direct Iteration which solves for the amount of additional assets needed to eliminate a deficiency, whereas Phase 1 does not.
- **Proposal**
 - Use Phase 2 discounting rules which allow the use of NAER for discounting or Direct Iteration.
- **Rationale**
 - Better estimate of the amount of additional assets needed to eliminate a deficiency.
 - More principle-based.

Assumptions and Models

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Current Assumptions and Models

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- C-3 Phase 1: Cash Flow Testing (CFT)-based assumptions that are considered “moderately adverse.”
- C-3 Phase 2: Principles Based Reserve (PBR) prudent estimate assumptions.

Short-Term Solution Starting Year-End 2026 (Recommended)

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- **Proposal: bifurcated solution**
 - Use PBR models and assumptions for business subject to PBR (VM-20, VM-21, VM-22).
 - Use CFT models and assumptions for non-PBR business.
 - Potentially allow flexibility between the two approaches for business subject to PBR due to operational complexity.
 - Add other products if/when underlying reserve moves to PBR.
- **Pros**
 - Efficiency of using same underlying model for reserves and capital.
 - Similar to C3P2 for Variable Annuities.
- **Cons**
 - Need to maintain two sets of models/assumptions.

Default Costs

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C-3 Default Costs

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Current			Recommended		
	Non-PBR	PBR		Non-PBR	PBR
Reserves	Moderately adverse (approach varies)	CTE70	Reserves	Moderately adverse (approach varies)	CTE70
Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation	Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation
C-3 Phase 1	Expected Defaults	Expected Defaults	C-3 Phase 1	CTE70	CTE70
C-3 Phase 2	CTE70	CTE70	C-3 Phase 2	CTE70	CTE70

- Recommend updating default cost assumptions in C-3 Phase 1 to more conservative CTE70 level.
- CTE70 is a generally accepted standard for moderately adverse default costs and consistent with PBR and C-3 Phase 2.
- Because of difference with default assumption in C-1 capital, results in potential additional margin on C-1 risk capital.

C-1 Risk Capital Credit

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- Generally, adjustments are not made in the RBC framework for potential deficiencies or excess in other components.
- If an adjustment is included, a possible recommendation is a factor-based credit applied to the assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit
Bonds - investment grade bonds	20%
Bonds - below investment grade	15%
Commercial mortgages	Double bond credit

- Recommend further study to explore an *optional* credit that would address the double counting.

Stochastic Equity Risk

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Stochastic Equity

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- **Background & Considerations**

- Similar to default costs, double counting of RBC related to general account (GA) equity (or equity-like) assets is being reviewed
- Additionally, equity risk reflected in the current C-1 charge (based on 2013 historical experience measured over a 2-year exposure period) differs from the C-3 stochastic equity element captured over a set of real-world scenarios
- Considerations for companies with a material equity exposure in the GA are being discussed. Topics include:
 - Definition of the materiality threshold, e.g., 5% of GA for liquid liabilities or 15% for illiquid liabilities
 - Excluding equity-like assets in C-3 calculations from C-1 charge
 - Maintain C-1 charge, but allow for deficiency smoothing to address equity volatility, akin to SSAP 108 hedge accounting practices

Aggregation of C3P1 and C3P2

Aggregation

- **Background**
 - C-3 Phase 1 and C-3 Phase 2 are calculated separately with no aggregation.
- **Ideal Proposal**
 - No differences between C-3 Phase 1 and C-3 Phase 2 methodology and aggregation fully reflected.
- **Current Proposal**
 - Aggregation is permitted but not required (under certain conditions). Pros and cons reference this proposal.
- **Pros**
 - Reflects diversification between products, consistent with how a company manages interest rate risk.
- **Cons**
 - Requires consistency between C-3 Phase 1 and C-3 Phase 2 methodologies (dependent on outcome of other C3 – Alignment proposals)
 - Operationally complex; requires methodology for splitting VA market risk from aggregated interest rate risks.

Aggregation - Continued

- **Parameters for Permitted Aggregation in 2026**
 - This will need to be revisited based on proposals for other topics, such as models, assumptions, and number of scenarios.
 - If there is not full consistency between C-3 Phase 1 and C-3 Phase 2, is there still some level of aggregation that can be used?
 - For example, if Company does not have alignment on interim reserves for CFT vs. PBR assumptions, can Company still reflect aggregation across scenarios if both C-3 Phase 1 and C-3 Phase 2 use the same 1000 scenarios?

Factor Based C-3 Floor

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C-3 Floor Amount - Background

- The C-3 factors are meant to provide for a “lack of synchronization of asset and liability flows.”
 - Factors are from the 1991 study report. The “Low-Risk” category assumes a well-matched portfolio (1/8th of a year difference). The other risk category factors were developed by stochastic modeling of asset and liability cashflows.
- For companies that utilize the C-3 cash flow approach, there is a floor equal to ½ the standard factors.
- Assets, liabilities, and investment strategies are likely much different today than 1991, for many companies:
 - Assets – ABS, floating rate assets, equities
 - Liabilities – Embedded options in products
 - Investment Strategies – Using floating rate assets and/or equities to support some fixed rate liabilities

C-3 Floor Amount - Recommendation

- C-3 Phase 2 does not have a floor
 - PBR applies to almost all VA products and such reserves are reset each quarter, with a floor.
 - C-3 Phase 2 is based on a high CTE level (CTE 98) to encourage tail hedging.
- Significant changes to C-3 Phase 1 are being proposed for year-end 2026
 - GOES scenarios
 - Equity risk
 - FIAs
- Given the timeline, we cannot support the effort to update the C-3 factors and/or review the appropriateness of the floor at this time
- **Proposal**
 - Retain the current factors and floors for year-end 2026.
 - To be reviewed in greater detail after efforts to adopt year-end 2026 recommendations are complete.

Metric, Scalar, Working Reserves, Time Horizon

Metric and Scalar

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- C-3 Phase 1 metric is a **surplus** measure whereas C-3 Phase 2 uses an **asset** measure (working reserves are set to zero).
- Currently contemplating two Greatest Present Value of Accumulated Deficiency (GPVAD) methods:
 - GPVAD (**assets**) with projection horizon to sufficiently represent life of the business.
 - Set working reserves to zero and focus on claim payment capabilities – most aligned with C-3 Phase 2.
 - GPVAD (**surplus**) with shorter projection horizon, reasonable working reserve proxy and focus on reserve funding capabilities.
 - Working reserve proxy may range from Cash Surrender Value to Actuarial Present Value methods.

Metric and Scalar

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- Consideration for measurement of the risk is ongoing, but will hinge on the defined metric while using the following formula:
 - **YY% x (CTE XX less Reserves)**
- YY% and CTE XX to be finalized with support of field testing results.
- The projection length, or time horizon, will also be dependent on whether a working reserve is included.

Next Steps

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Next Steps

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- Provide recommendation on remaining topics:
 - Metric and Scalar
 - Working Reserves and Interim Measurement
 - Time Horizon
 - Stochastic Equity Risk
- Design field test

Correlation in Life Risk Based Capital

Life Investment and Capital Adequacy Committee

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Guiding Principles for this review

Consistent measure of aggregate company risk

- A best estimate view of tail risk aggregation supports the regulatory objective to identify potentially weakly capitalized companies and provides consistent differentiation between companies with concentration or diversification of risks

Consistent with targeted statistical safety level of RBC

- Target a correlation approach that achieves a Company Action Level RBC that maintains the statistical safety level to which the individual risk factors within RBC are calibrated over a multiyear horizon
- Recognize that correlations may not be linear across all outcomes

Practical to implement

- Avoid false precision in both methodology and numerical values: maintain simple linear correlation approach with appropriate rounding of correlation factors

Recommendation

Linear correlation between major risk categories expressed as a correlation matrix:

No change to the structure of how existing risk factors are defined

	Credit C-1o, C-3b	Equity C-1cs, C-3c	Interest Rate C-3a	Insurance C-2a, C-2b	Business C-4a, C-4b
Credit	100%	50%	25%	0%	0%
Equity	50%	100%	50%	0%	0%
Interest Rate	25%	50%	100%	0%	0%
Insurance	0%	0%	0%	100%	0%
Business	0%	0%	0%	0%	100%

Nested correlation used to combine C risks that fall within each major risk category:

Credit	C-1o	C-3b	Insurance	Mortality C-2a	Longevity C-2b
C-1o	100%	25%	Mortality C-2a	100%	-25%
C-3b	25%	100%	Longevity C-2b	-25%	100%

Equity	C-1cs	C-3c	Business	C-4a	C-4b
C-1cs	100%	100%	C-4a	100%	0%
C-3c	100%	100%	C-4b	0%	100%

Data Sources and Limitations

Recommendations are informed by analysis of historical correlations among data used to proxy C-risks within LRBC

Risk	Proxy Data	Key Assumptions
Credit	Primary – Issuer weighted corporate bond default rates Secondary – NCREIF real estate index total returns	Correlation of data weighted by issuer used as a proxy for correlations for mix of insurer bond holdings
Equity	S&P 500 Total Return	Insurer equity holdings under C-1cs assumed to be correlated with other risks similarly to S&P 500 equity returns
Interest Rate	Total Return of Investment Grade Bond Fund FBNDX	Correlations in bond fund returns driven by rates and spreads are assumed to be a reasonable proxy for more the complex C-3 calculation Recommend the absolute value of correlations with interest rates since rate & spread movements could be in either direction and not practical to differentiate correlation between up rate and down rate binding scenarios given the current structure of the C-3 calculation
Insurance	United States population mortality rates by age and socioeconomic decile	Age weighting based on SOA Mortality Experience Studies for Individual Life Insurance and Individual Payout Annuity used to represent Mortality and Longevity risks
Business	Life and Annuity State Guaranty Association Assessments as a Percentage of Capacity; <i>data available 1988 to 2021</i>	Represents portion of C-4a whose factor is in part intended to cover potential exposure to guaranty fund assessments

Time Period – Core period of 1982 to 2019 to create a consistent period for all risks (except Business); longer time periods were also reviewed for individual pairs where available to check for consistency with core period

Calibration

The guiding principle for calibration is a linear correlation assumption that achieves an aggregate RBC amount that maintains the statistical safety level to which the individual risk factors were calibrated.

Our approach to achieving this calibration result considered three elements:

1. Analysis of average risk correlation

- Numerous metrics were considered aimed at calibrating the average observed correlation between risks across different time horizons
- A mathematical appendix demonstrates that for normally distributed risks that are linearly correlated, this average correlation achieves this calibration objective

2. Confirmed that average correlation remains appropriate for non-normal market loss distributions

- Analysis was done to confirm that for market losses that are not normally distributed the average correlation remains an appropriate calibration target for the approximate level of statistical significance targeted by RBC

3. Considered if there is evidence of non-linear correlations that are higher in unfavorable risk scenarios

- Cumulative 5 year risk losses were calculated and compared to the corresponding rolling 5 year correlations to identify risk pairs where higher correlations have been observed in years where losses were greater (e.g. tail events)

Summary Results & Rationale – Market Risks

The primary metric was the average annual correlation over the core 1982-2019 period

Numerous secondary metrics along with qualitative factors were also considered; more information on these additional considerations is included in the appendices

Risk Pair	Average Annual Correlation	Recommend	Reasonable Alternatives	Key Additional Insights from Secondary metrics
Credit - Equity	24% with bond default 9% with real estate	50%	25%, 75%	<ul style="list-style-type: none"> Multi-year cumulative correlations more strongly supported 50% Rolling 5 and 10 year distributions were most consistent with 25% or 0% Data was consistent with nonlinearity with higher correlations in stress scenarios which could support 50% or 75% assumption
Interest Rate - Credit	18% with bond default 17% with real estate	25%	0%	<ul style="list-style-type: none"> Rolling 5 and 10-yr distributions were consistent with both 0% and 25% while 50% was a much poorer fit
Interest Rate - Equity	43%	50%	75%	<ul style="list-style-type: none"> Rolling 5-year distribution tail supported both 50% and 75% Other metrics most consistent with 50%

Summary Results & Rationale – Insurance Risks

There was little quantitative evidence or qualitative considerations supporting a non-zero correlation for Insurance risk

Risk Pair	Average Annual Correlation	Recommend
Insurance – Credit	8% Life Mortality with Bond default -10% Life Mortality with Real Estate -6% Annuity Mortality with Bond default 8% Annuity Mortality with Real Estate	0%
Insurance – Equity	16% with Life Mortality -14% with Annuity Mortality	0%
Insurance – Interest Rate	4% with Life Mortality -1% with Annuity Mortality	0%

Correlations for mortality risk based on $q(x)$ values while longevity risk represented by $p(x) = 1 - q(x)$

Results reflect total population mortality, though analysis done on the wealthiest population decile showed similar results

Summary Results & Rationale – Business Risk

The average annual correlations for business risk analysis used the available 1988-2021 period

The 1998-2021 results were also considered which exclude the wave of guaranty fund assessments in the early 1990's and also supported the recommendation

Risk Pair	Average Annual Correlation	Recommended
Business - Credit	-34% with bond default 29% with real estate	0%
Business - Equity	-28%	0%
Business – Interest Rate	-5%	0%
Business - Insurance	-46% with Life 48% with Annuity	0%

Current RBC includes a C-4b health administrative component within the correlation matrix with 0% correlation to the other risks, while C-4a is excluded from the correlation matrix and added to the total after covariance

- The limited historical data supports a 0% correlation assumption which is achieved by including Business Risk within the correlation matrix
- A theoretical argument for keeping Business Risk as additive outside of the correlation matrix is that guaranty assessments result from insurance company failures which would be caused by the realization of RBC risks in aggregate, therefore should be expected to have high correlation with the total RBC amount in times of stress
- Counterarguments include cases of insolvencies driven by underpricing or a lack of diversification rather than systemic risk events along with the lag between low RBC indicating financial difficulty and the ultimate guaranty fund assessment
- Recommend combining C-4a and C-4b to a single Business Risk value then treating all business risk consistently whether included within or additive to the correlation matrix

Nested Correlation Rationale

Rationale for nested correlations rely on descriptions of risks covered and judgment of reasonable correlations in the absence of data

Credit: Recommend 25% Correlation between C-1o and C-3b

- C-3b Health Credit Risk covers the risk that the company will pay capitation payments to health care providers but will not receive the agreed-upon services and will encounter unexpected expenses in arranging for alternative coverage
- It seems plausible that this risk would be independent from asset default risk covered in C-1o which would support a 0% correlation assumption
- It could also be possible that a weak economic environment that would lead to C-1o asset defaults could also be associated with increased incidence of failure of health care provider entities
- In the absence of data, we recommend the more conservative argument for a correlation of 25%.

Equity: Recommend 100% Correlation (additive) between C-1cs and C-3c

- Both C-1cs and C-3c capture market risk of equity assets and therefore the existing approach of combining the risks for covariance purposes is reasonable

Nested Correlation Rationale - Continued

Insurance: Recommend no change to existing -25% Correlation between C-2a and C-2b

- Correlation between C-2a mortality and C-2b longevity was recently reviewed when Longevity risk was added to LRBC; we are not recommending changes to the existing negative 25% correlation between C-2a and C-2b.

Business: Recommend 0% Correlation between C-4a and C-4b

- C-4a premium and liability components cover in part the risk of guaranty fund assessments following the failure of other insurers in addition to other risks not covered elsewhere in the RBC formula such as exposure to litigation
- C-4b health administrative expense component provides for the risk that actual expenses of administering certain types of health insurance will exceed the portion of the premium allocated to cover these expenses
- The lack of an expected relationship between these components supports a zero correlation assumption

Impacts – 2023 Aggregate Industry Mix

The recommendation would increase the effective required capital after covariance for Equity and Credit Risk and decrease the effective required capital for Insurance, Interest Rate and Business Risks

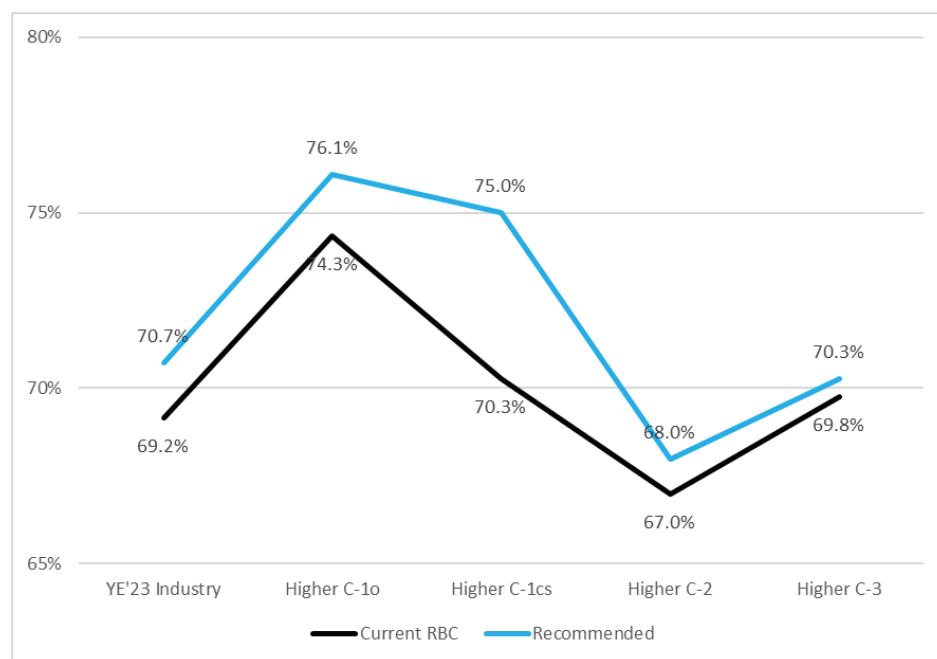
The net impact to a hypothetical company with a risk distribution equal to the 2023 aggregate industry mix would be an increase of 1.6% to RBC After Covariance

YE'23 Industry Mix		<u>RBC After Covariance as a % of RBC Before Covariance</u>			
			<u>Current RBC</u>	<u>Recommended</u>	<u>Change</u>
C-0	15.5%	Equity	56%	83%	27%
C-1cs	26.1%	Credit	77%	82%	5%
C-1o	30.0%	Insurance	30%	26%	-4%
C-2	14.5%	Interest Rate	77%	51%	-26%
C-3a	7.3%	Business	100%	10%	-90%
C-3b	0.0%				
C-3c	1.1%				
C-4a	5.3%				
C-4b	0.3%				
Total	100.0%	Total	69.2%	70.7%	1.6%

Impact shown for a hypothetical company with a distribution of risks equal to the reported 2023 aggregate industry RBC mix
This is not necessarily representative of the impact to average company RBC across the industry

Impact Sensitivities

Each of the sensitivities tested resulted in an increase to RBC after covariance
The impact is greatest for companies with higher concentration of C-1cs risk



Sensitivities increase the percentage of each risk noted by 50% relative to the 2023 Aggregate Industry baseline while all other risks are reduced proportionally

	YE'23 Industry	Higher C-1o	Higher C-1cs	Higher C-2	Higher C-3
C-0	15.5%	15.5%	15.5%	15.5%	15.5%
C-1cs	26.1%	18.9%	39.2%	23.4%	24.9%
C-1o	30.0%	45.0%	23.3%	26.9%	28.6%
C-2	14.5%	10.5%	11.2%	21.7%	13.8%
C-3a	7.3%	5.3%	5.6%	6.5%	10.9%
C-3b	0.0%	0.0%	0.0%	0.0%	0.0%
C-3c	1.1%	0.8%	0.8%	1.0%	1.0%
C-4a	5.3%	3.9%	4.1%	4.8%	5.1%
C-4b	0.3%	0.2%	0.2%	0.2%	0.2%

Questions?

For more information, please contact:
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Appendix

Overview of Secondary Metrics

Several metrics were used to inform the recommendation and improve consistency with core principles:

- Average annual correlation over core 1982-2019 period (primary metric)
- Average annual correlation over extended period where data is available for each risk pair
- Average correlation of cumulative multi-year risk outcomes (rolling 2-year, 5-year and 10-year periods) – recognizes the fact that the calibration of RBC factors considers losses over the risk cycle which is generally longer than one year
- Distribution of observed multi-year rolling correlations (5-year, 10-year):
 - Correlations observed from data over rolling 5 and 10-year periods
 - Observations rounded to nearest 10% and plotted as a histogram
 - Expected histogram distributions for 0%, 25%, 50% correlations developed through simulation
 - Goodness of fit (error sum of squares) evaluated to quantify best fit to data distribution
 - Considered error sum of squares for only values ≥ 0 and $\geq 50\%$ to ensure appropriate right tail
 - Also provided graphical perspective on level of uncertainty from only 37 years of data

Calibration

Demonstration that within a linear correlation framework, the average correlation is appropriate for calculating target capital

- Let X_1 and X_2 denote individual risk random variables
- $Y = X_1 + X_2$ is the aggregate outcome resulting from the risks
- Assume for illustration that X_1 and X_2 are standard normally distributed with mean zero and variance 1
- It follows that Y is also normally distributed with variance $= \sigma_{X_1}^2 + \sigma_{X_2}^2 + 2 \rho \sigma_{X_1} \sigma_{X_2} = 2 + 2 \rho$ where ρ is the linear correlation between X_1 and X_2
- C_1 and C_2 are capital factors for risks X_1 and X_2
- Assume that C_1 and C_2 are calibrated to capture risk of X_1 and X_2 between 1 standard deviation and 95th percentile, so that C_1 and C_2 both equal ~ 0.645
- Assume that aggregate reserves cover aggregate risk of Y at approximately 1 standard deviation
- Assume the objective is to combine C_1 and C_2 with covariance to achieve an aggregate capital requirement C_A equal to the excess of the 95th percentile of Y over the 1 standard deviation covered by reserves
- The targeted C_A is achieved across all correlations by combining C_1 and C_2 using the average linear correlation ρ between X_1 and X_2

Risk correlation ρ	0	25%	50%	75%	100%
Y 95th	2.33	2.60	2.85	3.08	3.29
Y 1σ	1.41	1.58	1.73	1.87	2.00
Target Capital	0.91	1.02	1.12	1.21	1.29

Correlation that achieves Target	0%	25%	50%	75%	100%
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Analysis was done to empirically validate this result using the observed loss distributions for equity, credit and interest rate risk as well as using loss distributions output by the published ESG

Tail Calibration

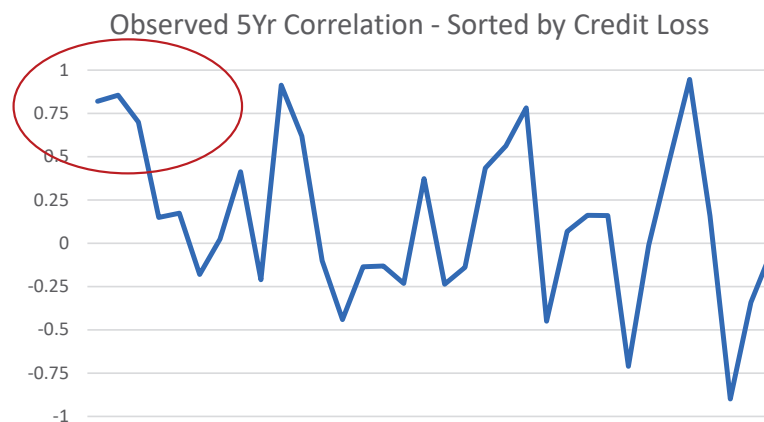
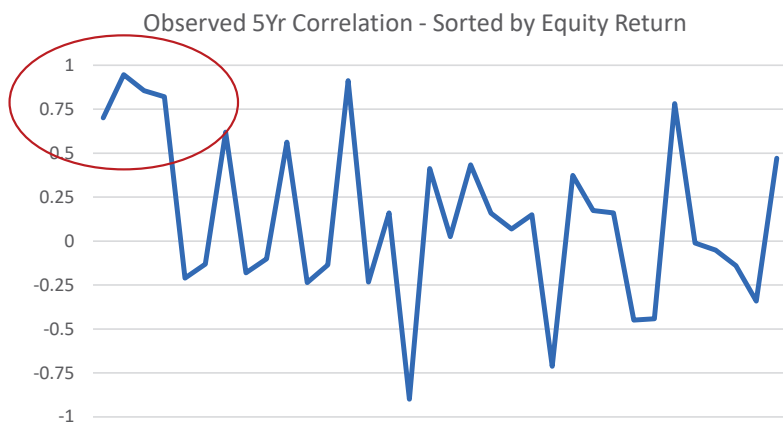
A key assumption in a linear correlation framework is that correlations are static across time

The calibration process also considered whether there was evidence to suggest that correlations may be higher in tail scenarios

The Credit – Equity risk pair showed the most evidence consistent with correlations increasing during times of stress, and this observation influenced the recommendation

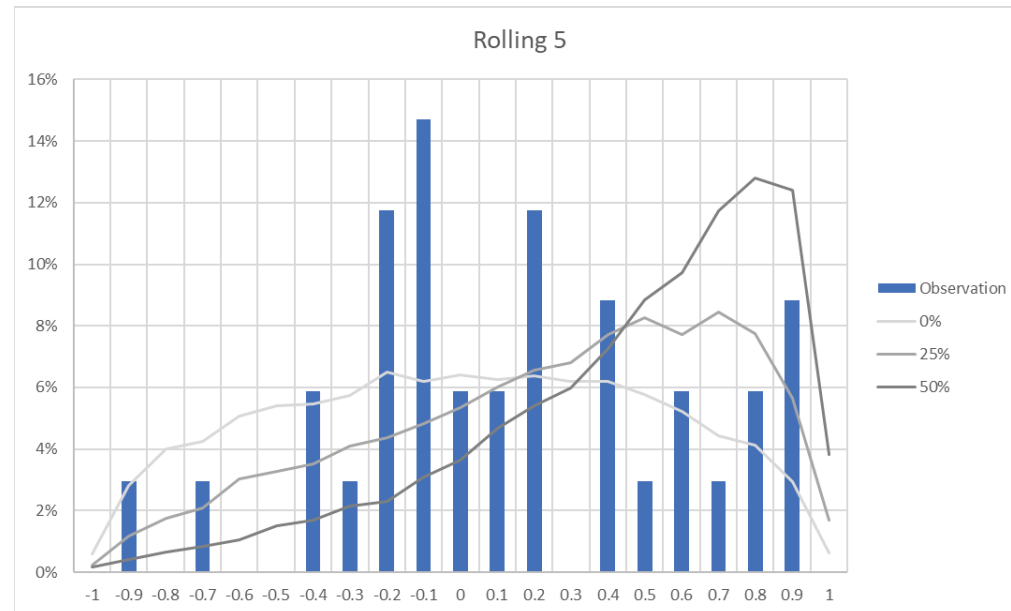
The graphs below show observed rolling 5 year correlations between Equity and Credit data, each sorted with the worst outcomes for each risk on the left. In both cases the worst several risk outcomes were observed to also have higher observed correlations

The small number of data points available in stress scenarios limits the credibility that should be assigned to this observation



Results Detail – Credit & Equity

Recommended:	50%
Average Annual Correlation – Core 1982-2019	24%
Average Annual Correlation – Extended 1972-2021	11%
Average Cumulative 2yr, 5yr, 10yr Correlations	46% 2-year 56% 5-year 53% 10-year
5-year Rolling Distribution best fit	0% best fit using all data (25% also good fit)
10-year Rolling Distribution best fit	0% best fit using all data (25% also good fit)
Tail Correlation in Worst 10% & 20% of 5Yr Credit Outcomes	63% in worst 4 rolling 5yr data points 36% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Equity Outcomes	81% in worst 4 rolling 5yr data points 51% in worst 7 rolling 5yr data points

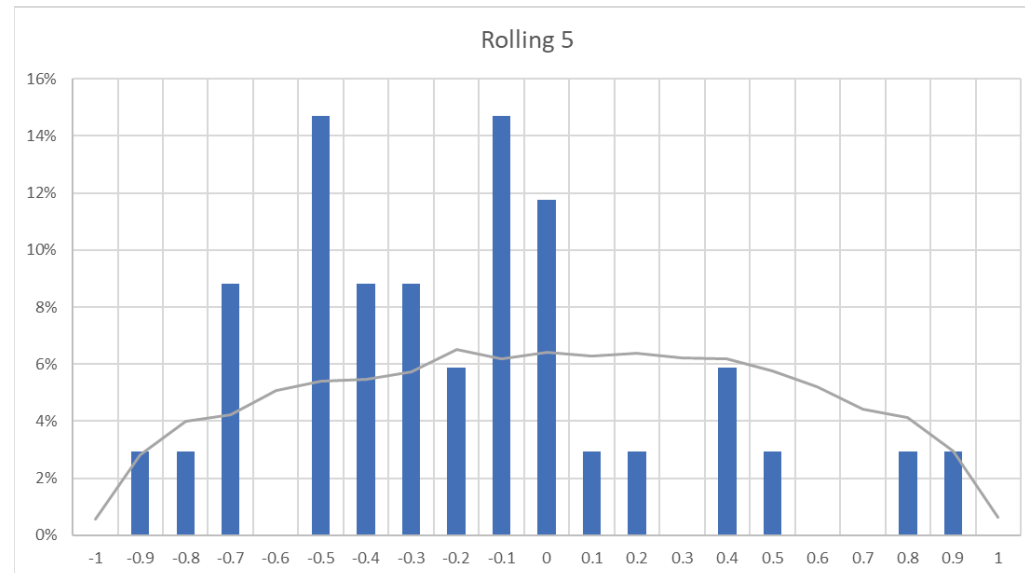


Qualitative Considerations

- Expect positive correlation given the nature of the risks
- Weak economic environment with company credit defaults to debt holders would also be expected to be unfavorable for equity holders
- There may be a time lag in the data between the risks which weakens the observed correlations
- The longer time period for calibration of risks within LRBC would support a lower correlation compared to 1 year capital frameworks

Results Detail – Credit & Interest Rate

Recommended:	25%
Average Annual Correlation – Core 1982-2019	18%
Average Annual Correlation – Extended 1972-2021	33%
Average Cumulative 2yr, 5yr, 10yr Correlations	31% 5-year 5% 10-year
5-year Rolling Distribution best fit	25% best fit using all data, taking the absolute value of -25% (0% also good fit)
10-year Rolling Distribution best fit	25% best fit using all data
Tail Correlation in Worst 10% & 20% of 5Yr Credit Outcomes	49% in worst 4 rolling 5yr data points 27% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Rate Outcomes	3% in worst 4 rolling 5yr data points 9% in worst 7 rolling 5yr data points

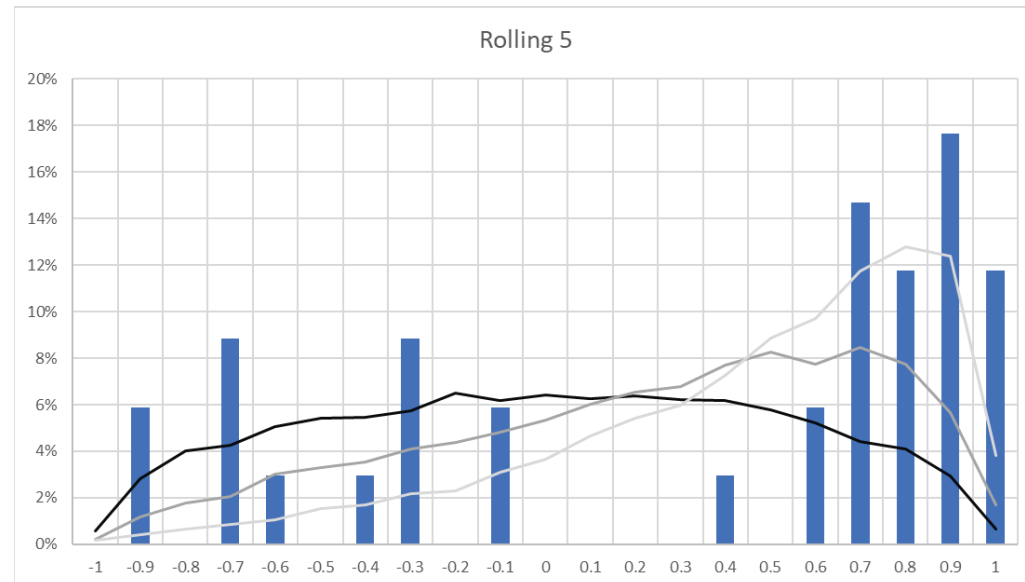


Qualitative Considerations

- Since interest rate losses could be driven by either increases or decreases in rates, we have considered the absolute value of all interest rate correlations in our results
- Correlations may differ in up rate vs down rate binding scenarios; the current structure of RBC does not easily allow for this differentiation
- The data used for interest rate risk captures both rate and spread movements; we might expect a positive relationship between credit defaults and increase in spreads

Results Detail – Equity & Interest Rate

Recommended:	50%
Average Annual Correlation – Core 1982-2019	43%
Average Annual Correlation – Extended 1972-2023	46%
Average Cumulative 2yr, 5yr, 10yr Correlations	12% 5-year 42% 10-year
5-year Rolling Distribution best fit	75% best fit using all data (50% also good fit)
10-year Rolling Distribution best fit	50% best fit using all data
Tail Correlation in Worst 10% & 20% of 5Yr Equity Outcomes	31% in worst 4 rolling 5yr data points 2% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Rate Outcomes	91% in worst 4 rolling 5yr data points 68% in worst 7 rolling 5yr data points



Qualitative Considerations

- Since interest rate losses could be driven by either increases or decreases in rates, we have considered the absolute value of all interest rate correlations in our results
- Correlations may differ in up rate vs down rate binding scenarios; the current structure of RBC does not easily allow for this differentiation
- The data used for interest rate risk captures both rate and spread movements; we might expect a positive relationship between credit defaults and increase in spreads

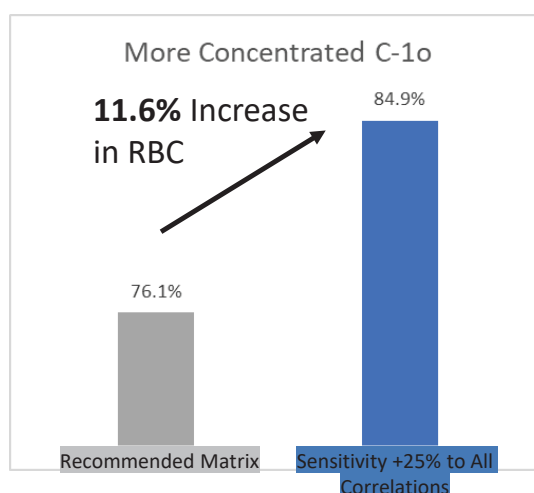
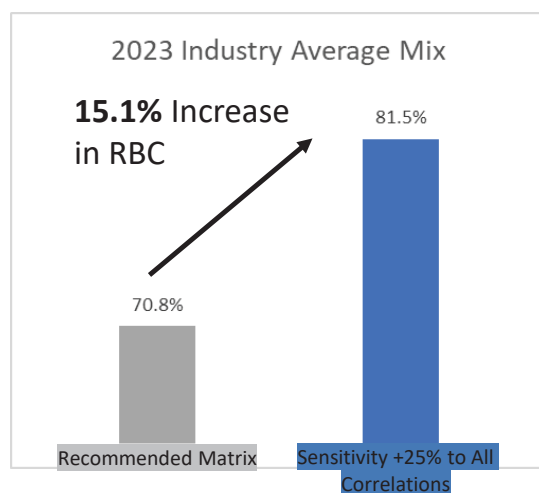
Conservatism in Calibration

Higher correlation assumptions are 'conservative' in that they will increase aggregate RBC

However the impact would disproportionately impact diversified companies while having less impact on aggregate RBC for companies with relatively more concentrated risk exposures

This could weaken the effectiveness of RBC as a tool for identifying potentially weakly capitalized companies

Recommend best estimate correlations without explicit conservatism consistent with the objective of maintaining the statistical safety level to which risk factors were calibrated



Sensitivity shows the impact of increasing correlations between major risk categories 25% higher than the recommendation

Higher correlations increase RBC for both companies, but the impact less for companies with more concentrated risk exposures

The "More Concentrated C-1o" sensitivity increases C-1o risk by 50% while proportionally reducing all other C risks

Background

- The Life Risk Based Capital Working Group has reviewed and made updates to many areas of the LRBC formula in recent years to maintain the effectiveness of LRBC as a regulatory tool to identify potentially weakly capitalized insurers
- The calculation of each individual risk factor within LRBC has been reviewed and/or updated since the introduction of formula in the 1990s
- A holistic review of correlation of risks within the formula has not yet been undertaken
 - In 2001, the C1-cs component was created with separate covariance from C-1o
 - In 2021, C-2b longevity risk was introduced, including correlation with mortality C-2a
- Except for longevity and mortality risk, all correlations within LRBC are either 0% or 100%
- The scope of this analysis is initially focused on correlation between C-risks within LRBC; an extension of this effort could also consider correlation within individual C-risks (such as within C-1o)

Rationale for Review of Covariance Within LRBC

Due for regular maintenance review

- Every C-factor within LRBC has been individually reviewed in recent years; covariance between C-factors is due for a routine review to maintain the effectiveness of LRBC

Current approach is simplistic

- Except for C-2b longevity which was recently added, every correlation within LRBC is either 0% or 100%
- A more refined approach could be considered that improves effectiveness without adding undue complexity

Impact to effectiveness of LRBC could be material

- Changes to covariance could improve the effectiveness of RBC in differentiating between companies with concentration or diversification of risks

Current Life Risk Based Capital

RBC after Covariance =

$$C0 + C4a + \text{Square Root of } [(C1o + C3a)^2 + (C-1cs + C-3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$$

Expressed as a correlation matrix, all correlations are either 0% or 100% except for the nested correlation within C-2 between mortality and longevity:

	C-1cs	C-1o	C-2	C-3a	C-3b	C-3c	C-4b
C-1cs	100%						
C-1o	0%	100%					
C-2	0%	0%	100%				
C-3a	0%	100%	0%	100%			
C-3b	0%	0%	0%	0%	100%		
C-3c	100%	0%	0%	0%	0%	100%	
C-4b	0%	0%	0%	0%	0%	0%	100%

Nested correlation for C-2:

	C-2 Mortality	C-2 Longevity
C-2 Mortality	100 %	
C-2 Longevity	-25%	100 %

Attachment Four-B
Capital Adequacy (E) Task Force
8/12/25

AGGREGATED LIFE RBC AND ANNUAL STATEMENT DATA
2024 Data as of 6/2/2025

	Year-End 2024	Year-End 2023	Year-End 2022	Year-End 2021	Year-End 2020	Year-End 2019
# of Companies Filed RBC	725	735	742	750	760	772
# of Companies Filed Annual Statement	741	749	755	766	774	786
% of RBC Companies	98%	98%	98%	98%	98%	98%
Company Action Level - Trend Test at 300%	5	1	6	8	5	7
Company Action Level - Trend Test at 250%			1	1	1	3
Company Action Level, excluding CAL- Trend Test	1	2	2	3	2	4
Regulatory Action Level	2	1	0	1	0	0
Authorized Control Level	3	0	0	0	0	1
Mandatory Control Level	4	3	3	3	4	3
Total	11	7	12	16	12	18
	1.52%	0.95%	1.62%	2.13%	1.58%	2.33%
# of Companies with RBC Ratio > 10,000%	41	44	45	55	52	50
# of Companies with RBC Ratio >1000 & < 10,000%	319	312	298	292	306	312
# of Companies with RBC Ratio >500 & <1,000%	297	302	313	315	317	332
# of Companies with RBC Ratio >300 & <500%	52	62	69	73		
# of Companies with RBC Ratio >250 & <300%	4	9	9	9		
# of Companies with RBC Ratio >250 & < 500%					78	68
# of Companies with RBC Ratio > 200 & < 250%	6	1	3	2	2	4
# of Companies with RBC Ratio < 200% & <= 0%	6	5	5	4	5	6
# of Companies with RBC Ratio of Zero	0	0	0	0	0	0
Total	725	735	742	750	760	772
Total Adjusted Capital	752,566,690,699	733,909,113,489	696,198,240,900	710,746,904,192	635,213,337,716	606,901,270,691
Authorized Control Level RBC	86,652,329,484	84,142,856,020	81,640,007,079	80,264,014,541	74,177,610,650	70,095,026,244
Aggregate RBC %	868%	872%	853%	886%	856%	866%
Median RBC %	993%	978%	931%	965%	972%	964%
Total C-0 Asset Risk - Affiliates	35,259,977,766	34,300,788,830	33,786,700,697	32,282,896,095	27,669,014,696	25,328,213,376
Total C-1cs Asset Risk - Common Stock	58,516,684,017	57,768,527,572	54,900,737,718	55,182,980,709	45,635,935,886	42,580,467,817
Total C-1o Asset Risk - All Other	68,778,586,654	66,301,470,377	64,146,694,016	62,725,689,661	60,109,306,053	55,635,242,506
Total C-2 Insurance Risk	34,125,643,189	32,011,834,354	31,195,104,008	37,296,986,893	29,241,196,797	29,733,905,846
Total C-3a Interest Rate Risk	15,403,842,193	16,061,418,244	17,190,092,747	16,066,024,280	16,792,371,276	15,883,584,969
Total C-3b Health Credit Risk	43,442,646	19,114,152	18,337,840	111,552,562	104,729,771	92,196,729
Total C-3c Market Risk	1,610,503,560	2,342,014,491	3,529,226,438	4,295,739,257	6,181,583,664	5,209,040,590
Total C-4a Business Risk	13,062,931,991	11,797,283,285	10,224,912,322	9,240,542,060	8,816,493,013	8,678,807,068
Total C-4b Business Risk Admin. Expenses	570,883,709	585,932,801	583,359,049	620,386,794	680,883,943	652,941,471
	227,372,495,725	221,188,384,106	215,575,164,835	217,822,798,311	195,231,515,099	183,794,400,372
Net Basic Operational Risk	432,410,452	518,789,825				
Total C-0 Asset Risk - Affiliates	15.51%	15.51%	15.67%	14.82%	14.17%	13.78%
Total C-1cs Asset Risk - Common Stock	25.74%	26.12%	25.47%	25.33%	23.38%	23.17%
Total C-1o Asset Risk - All Other	30.25%	29.98%	29.76%	28.80%	30.79%	30.27%
Total C-2 Insurance Risk	15.01%	14.47%	14.47%	17.12%	14.98%	16.18%
Total C-3a Interest Rate Risk	6.77%	7.26%	7.97%	7.38%	8.60%	8.64%
Total C-3b Health Credit Risk	0.02%	0.01%	0.01%	0.05%	0.05%	0.05%
Total C-3c Market Risk	0.71%	1.06%	1.64%	1.97%	3.17%	2.83%
Total C-4a Business Risk	5.75%	5.33%	4.74%	4.24%	4.52%	4.72%
Total C-4b Business Risk Admin. Expenses	0.25%	0.26%	0.27%	0.28%	0.35%	0.36%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets	9,429,183,092,654	8,915,394,823,594	8,439,367,712,664	8,832,312,765,460	8,297,856,845,231	7,697,670,761,108
Total Invested Assets	5,746,233,628,982	5,470,188,985,349	5,312,077,013,619	5,159,452,752,770	4,907,504,359,175	4,582,985,123,381
Reserves (Liabilities Line 1 + 2)	3,703,189,265,643	3,619,051,443,815	3,580,757,824,976	3,468,243,938,821	3,394,241,406,583	3,285,116,770,876
Surplus (Liabilities Line 37)	629,142,197,080	617,441,214,536	589,231,822,136	599,394,009,357	543,174,466,456	521,516,943,871
Premiums Earned (Page 4 Line 1)	829,082,617,115	687,761,484,264	714,406,215,905	649,749,402,737	635,918,317,202	691,912,622,389
Claims Incurred (Page 4 Lines 10 Through 13)	373,548,953,569	346,809,474,331	327,099,260,850	345,503,167,520	319,751,913,923	308,204,032,091

Source: NAIC Financial Data Repository
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MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair, Statutory Accounting Principles (E) Working Group

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

DATE: May 28, 2025

RE: Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component Line 15, 16, 68 & 69 Referral

On May 1, 2025, the Life Risk-Based Capital (E) Working Group received and discussed a comment letter from the American Council of Life Insurers (ACLI) in response to exposure of Proposal 2025-04-L Other Long-Term Assets (LR008) (Attachment A). The ACLI raised questions regarding AVR equity reporting lines for common stock in SCAs and other affiliates and requested clarifications and updates to the AVR instructions. The Working Group directed NAIC Staff to refer to the comments to the Statutory Accounting Principles (E) Working Group (SAPWG) for further review to determine if changes and/or clarifications in Annual Statement Blanks instructions are needed.

Background

Currently, the Life and Fraternal Annual Statement provided the following instructions for AVR Equity and Other Invested Asset Component Table Line 15, 16, 68 and 69:

AVR Equity Line	Instructions (Excerpt and emphasis added)
Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries	Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the <u>Purposes and Procedures Manual of the NAIC Investment Analysis Office</u> in Columns 1 and 4...
Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other	Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4...

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Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)	...Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the <u>Purposes and Procedures Manual of the NAIC Investment Analysis Office</u> . Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...
Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...

ACLI has expressed confusions as to what Subsidiary, Controlled or Affiliated (SCA) Investments should have been categorized in respective AVR Equity lines referenced above. Through detailed review, NAIC Staff noted the following:

- 1) AVR Equity Line 15 and 68 singled out “certain SCAs” that are eligible to lower AVR Maximum Reserve Factors (e.g. Maximum Reserve Factor of 0.20 for Certain Other SCA vs. 0.25 for All Other SCA) . Such a design was supported by working groups and/ or task force when AVR was first instituted in 1992. The eligible SCAs were required to be valued in accordance with Securities Valuation Office (SVO) Purpose & Procedures Manual (P&P Manual) Section 4(B)(i) and Section 4(B)(iii).

Excerpt from 1992 SVO P&P Manual are focused on valuations of SCA, see Attachment B for the full Manual:

SVO P&P Section 4(B)(i)	SVO P&P Section 4(B)(iii)
...the value of only such of the assets of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.	book value , defined as in Section 4 (A)(c)*, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii); * 4(A)(c) states: Association Values for common stocks which are not publicly traded which are issued by insurance companies will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.

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- 2) Subsequent to 1992, there were several iterations of SVO P&P Manual in which the valuation methodologies were refined (e.g. version 1994, 1995, 1998 etc.). These iterations were believed to be the impetus where the AVR instruction was generically amended to use the terminology "Certain Other (See SVO Purposes and Procedures Manual) as it is currently used.
- 3) In 2017 the instructions for valuation of SCA investments were deleted from SVO P&P Manual and moved to Exhibit A of *Statement of Statutory Accounting Principles No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities Task Force to transfer oversight of this activity from the Task Force and the SVO to the Statutory Accounting Principles Working Group and the Financial Regulatory Services Division. The AVR instructions were not updated because of this transfer of valuation function.
- 4) Subsequent to 2017, there were a couple updates to the AVR factors (in general, not specifically for AVR lines referenced above) as a result of tax effect changes and/or NAIC Designation Categories deployment.

In light of the historical development summarized above, the Working Group would appreciate consideration by SAPWG for possible updates and/or clarifications to SSAP No. 97 (if needed) and the AVR instructions. Specifically, the SAPWG may want to assess whether the AVR SCA lines 15 & 16 for "Affiliated – Certain Other" and "Affiliated – All Other" should be retained and if so, propose guidance for consistent reporting within the two categories.

Please contact NAIC Staff of the Life Risk-Based Capital (E) Working Group with any questions.

Cc: Maggie Chang, Kazeem Okosun, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Attachment A – ACLI Comment Letter to Proposal 2025-04-L Other Long-Term Assets dated April 23, 2025

Attachment B – SVO P&P Manual effective for 1992

<https://naic.soutronglobal.net/Portal/Public/en-GB/DownloadImageFile.ashx?objectId=3245&ownerType=0&ownerId=11833>

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April 23, 2025

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

Re: Proposal 2025-04-L (LR008 Other Long-Term Assets)

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on RBC Proposal Form 2025-04-L which seeks to reorganize the LR008 - Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/Funds Withheld Reinsurance Agreement adjustments within that section.

ACLI is generally supportive of this Proposal, but we do have one editorial comment and a few more broad considerations that we would wish to see discussed prior to adoption.

For consistency, we suggest that the term “equity interests” be capitalized like the remaining terms in the header and subtotal/total lines throughout the document. ACLI also recommends that the line references shaded in gray be updated since the Blanks (E) Working Group adopted 2023-12

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effective 1/1/25 and as such, those references, especially for Surplus/Capital notes, have a different line number than “99” as illustrated in the proposal.

More conceptually, the exposure states that “affiliated non-insurance stock” should be included in C1-cs and Schedule BA Affiliated Common Stock – All Other has been moved into the non-insurance stock section. This only leaves Life with AVR in C1-o section but this category would not apply to foreign insurance affiliated companies, as foreign insurance companies do not have an AVR (something that would also be true if there was a foreign affiliated P&C or health insurance company, based on our current understanding). Therefore, we would propose that foreign affiliated insurance company stock should be treated similarly to Life with AVR and included in C1-o, which would require a new line added to the blanks.

Additionally, if the BA-Affiliated Certain Other category, per the AVR instructions, is intended to capture “where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned, and these assets should be valued according to the Purposes and Procedures Manual of the NAIC Investment Analysis Office” and non-insurance entities are included in C1-cs in the RBC proposal, the AVR Instructions should clarify that only non-insurance entities are reported in BA Affiliated Common Stock – All Other in the AVR. Clarification should be made as to where a reporting entity would classify investments in insurance companies that do not hold AVR (i.e., foreign, health, P&C) so that it would feed from the AVR into the RBC Blanks correctly.

Thank you very much for your consideration of our comments, and we look forward to further discussion at a future LRBC Working Group Meeting.

Sincerely,



cc: Kazeem Okosun, NAIC; Maggie Chang, NAIC



MEMORANDUM

TO: Mike Yanacheak, Chair of the Capital Adequacy (E) Task Force
Tom Botsko, Vice Chair of the Capital Adequacy (E) Task Force
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice Chair of the Life Risk-Based Capital (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

DATE: June 5, 2025

RE: Collateral Loan Schedule BA Reporting Changes

On May 29, 2025, the Blanks (E) Working Group adopted revisions to the Asset Valuation Reserve (AVR) and Schedule BA: Other Long-Term Assets to incorporate more granular reporting of collateral loans based on the type of underlying collateral that secures the loan. (These revisions are detailed in 2024-19BWGMOD). The revisions reflect the adopted recommendations from the Statutory Accounting Principles (E) Working Group (SAPWG) from agenda item 2023-28: Collateral Loan Reporting. With the revised reporting, the SAPWG requests consideration of updated AVR (for life companies) and RBC factors for collateral loans (for all companies). The SAPWG identified that some reporting entities were using collateral loans as a way to access certain types of investment structures while obtaining more favorable RBC than if they held the underlying collateral directly. As such, the ability to incorporate RBC parity for certain collateral loans to what would be incurred if the collateral was held directly was a focus of the project to incorporate more granular reporting lines.

The adopted AVR and Schedule BA reporting lines for collateral loans are as follows (all lines divided between unaffiliated and affiliated loans):

- Backed by Mortgage Loans
- Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies
- Backed by Residual Tranches or Interests
- Backed by Debt Securities
- Backed by Real Estate
- Backed by Other Collateral Types

There are also new Schedule BA reporting lines for non-collateral loans to separate related party loans, affiliated loans and other loans. These are believed to be captured in the 2025 AVR Schedule BA line 102 for "Other Invested Assets" and incur the standard Schedule BA RBC Charge (e.g., 30% in the Life formula).

A new disclosure was available for year-end 2024 to detail collateral loans based on certain types of collateral. The aggregated results from a review of that disclosure are provided:

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An aggregate review of the 2024 collateral loan disclosure is as follows:

(This information is from the reported note only and does not include a comparison to Schedule BA.)

As shown in the detail below, collateral loans backed by “affiliated ICO bonds,” unaffiliated mortgage loans” and “affiliated investments in joint ventures, LLCs and partnerships” are greater than 70% of the total.

Of the \$27.8B in collateral loans, only \$65M was disclosed as nonadmitted:

- Of the \$10.6B reported as backed by affiliated JV, LLC or partnership investments, \$3M was nonadmitted.
- Of the \$309M reported as backed by affiliated other qualifying investments, \$32.5M was nonadmitted.
- Of the \$45.8M reported as backed by unaffiliated non-qualifying collateral, \$28.5M was nonadmitted.

Collateral Backing Collateral Loan	Note Disclosure Total	% of Total
Unaffiliated Cash / CE & ST	\$145,575,627	0.52%
Issuer Credit Obligations - Affiliated	\$3,286,243,783	11.79%
Issuer Credit Obligations - Unaffiliated	\$1,196,181,621	4.29%
Asset-Backed Securities - Affiliated	\$1,292,104,481	4.63%
Asset-Backed Securities - Unaffiliated	\$547,154,663	1.96%
Preferred Stocks - Affiliated	\$25,000,000	0.09%
Preferred Stocks - Unaffiliated	\$875,892,650	3.14%
Common Stocks - Affiliated	\$10,089,663	0.04%
Common Stocks - Unaffiliated	\$93,746,538	0.34%
Real Estate - Affiliated	\$584,798,322	2.10%
Real Estate - Unaffiliated	\$304,055,142	1.09%
Mortgage Loans - Affiliated	\$377,120,058	1.35%
Mortgage Loans - Unaffiliated	\$5,966,730,875	21.40%
JV, LLC & Partnerships - Affiliated	\$10,603,824,022	38.04%
JV, LLC & Partnerships - Unaffiliated	\$1,292,344,887	4.64%
Other Qualifying - Affiliated	\$309,339,173	1.11%
Other Qualifying - Unaffiliated	\$916,698,627	3.29%
Does Not Qualify - Affiliated	\$4,912,141	0.02%
Does Not Qualify - Unaffiliated	\$45,869,262	0.16%
Reported Note Total	\$27,877,681,535	100%

The SAPWG highlights that mortgage loans and collateral reflecting investments that would be in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* represent the highest percentage of the collateral backing collateral loans.

For collateral loans backed by mortgage loans, during the bond project, the SAPWG learned that companies were not reporting these loans on the dedicated “collateral loan” reporting line but were instead reporting these items on Schedule BA as “Private Equity Funds” so that they would flow through AVR to obtain more desirable RBC. The private equity fund reporting line was eliminated with the bond project, and an interim provision was allowed to permit these loans to be reported in AVR lines 38-64 (Schedule BA investments with underlying characteristics of mortgage loans) based on the mortgage loan details. As reporting entities have been classifying these collateral loans in accordance with the underlying mortgage loan details pursuant to the interim provision, this could be considered for a permanent option, with potential of a default category if the reporting entity does not know the mortgage loan details for granular reporting.

Collateral loans backed by investments in scope of SSAP No. 48, representing the largest population of collateral loans, have the greatest potential for inequitable RBC as entities can structure the investment to reflect a collateral loan rather than reporting the SSAP No. 48 investment directly. Previous SAPWG actions have incorporated requirements to ensure that such designs are only admitted if the underlying collateral is audited, as audited support for these investments is a requirement for admittance under SSAP No. 48, but consideration of comparable RBC would assist in further ensuring appropriate reflection of the underlying risk of these items.

The SAPWG appreciates the focus on this referral, and the consideration of specific AVR and RBC factors for the different collateral loan reporting lines. If you have any questions, or would like to further discuss, please contact the Statutory Accounting Principles (E) Working Group chair or vice chair (Dale Bruggeman, or Kevin Clark), or NAIC staff Julie Gann (jgann@naic.org).

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Maggie Chang, Kazeem Okosun, Derek Noe

Draft: 7/2/25

Property and Casualty Risk-Based Capital (E) Working Group
and Catastrophe Risk (E) Subgroup
E-Vote
June 30, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force that concluded June 30, 2025. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Eric Unger (CO); Sandra Darby (ME); Melissa Robertson (NM); Will Davis (SC); and Miriam Fisk (TX). The following Subgroup members participated: Wanchin Chou, Chair (CT); Eric Unger (CO); Travis Grassel (IA); Sandra Darby (ME); Melissa Robertson (NM); Tom Botsko (OH); Andy Schallhorn (OK); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted the Working Group and Subgroup's June 11, May 2, and Spring National Meeting Minutes

The Working Group and Subgroup conducted an e-vote to consider adoption of the Working Group and Subgroup's June 11, May 2, and Spring National Meeting minutes. During its June 11 meeting, the Working Group and Subgroup took the following action: 1) adopted proposal 2025-09-P (Underwriting Risk Line 1 Factors); 2) adopted proposal 2025-11-CR (Catastrophe Modeling Attestation); 3) discussed property/casualty (P/C) 2024 risk-based capital (RBC) statistics; 4) heard updates on wildfire impact analysis; 5) discussed climate impact disclosures; 6) discussed flood peril; and 7) discussed property claim services events list enhancement. During its May 2 meeting, the Working Group and Subgroup took the following action: 1) adopted proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction); 2) exposed proposal 2025-09-P (Underwriting Risk Line 1 Factors) for a 30-day public comment period ending June 1; 3) exposed proposal 2025-11-CR (Catastrophe Modeling Attestation) for a 30-day public comment period ending June 1; 4) heard updates on the wildfire impact analysis; 5) discussed holding a summer panel discussion; 6) discussed the process for updating the catastrophe event lists; 7) discussed the Statutory Accounting Principles E Working Group referral for RBC assessment for capital notes and non-bond debt securities; 8) discussed bond-like treatment for SVO-designated mutual funds; and 9) discussed the appointment of the Risk-Based Capital Model Governance (EX) Task Force.

Unger made a motion, seconded by Schallhorn, to adopt the Working Group and Subgroup's June 11 (Attachment Five-A), May 2 (Attachment Five-B), and Spring National Meeting minutes (*see NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force*). The motion passed unanimously.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2026-Summer/PCRBCWG

Draft: 6/18/25

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Virtual Meeting
June 11, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 11, 2025, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Charles Hale (AL); Eric Unger (CO); Jane Nelson (FL); Sandra Darby (ME); Elouisa Macias (NM); Rebecca Armon and Julie Lovings (TX); and Adrian Jaramillo (WI). The following Subgroup members participated: Wanchin Chou, Chair (CT); Jane Nelson (FL); Eric Unger (CO); Travis Grassel (IA); Sandra Darby (ME); Elouisa Macias (NM); Tom Botsko (OH); Andy Schallhorn (OK); and Rebecca Armon and Julie Lovings (TX).

1. Adopted Proposal 2025-09-P (Underwriting Risk Line 1 Factors)

Botsko emphasized that proposal 2025-09-P is intended to provide a routine annual update to the industry underwriting factors, specifically premium and reserve in PR017 and PR018 within the property/casualty (P/C) risk-based capital (RBC) formula. The proposal was exposed for a 30-day public comment period that ended June 1, with no comments received.

Chou made a motion, seconded by Unger, to adopt proposal 2025-09-P (Attachment One-B). The motion passed unanimously.

2. Adopted Proposal 2025-11-CR (Catastrophe Modeling Attestation)

Chou explained that proposal 2025-11-CR seeks to update the PR002 attestation by including the newly added wildfire and severe convective storm perils from PR027 for informational purposes only. Chou reiterated that the Subgroup will closely monitor the development of these catastrophe perils and update the attestation and PR027 interrogatories as needed. The proposal was exposed for a 30-day public comment period that ended June 1, with no comments received.

Chou made a motion, seconded by Grassel, to adopt proposal 2025-11-CR (Attachment One-C). The motion passed unanimously.

3. Discussed P/C 2024 RBC Statistics

Botsko reported that the 2024 P/C RBC statistics were processed May 30. He noted that 2,564 P/C RBC filings were uploaded to the NAIC database, an increase from 2,546 in 2023. Botsko stated that 50 companies triggered an action level in 2024: 15 were in company action level, 14 were in regulatory action level, two were in authorized control level (ACL), and 19 were in mandatory control level. Additionally, 20 companies triggered the trend test. The aggregate RBC percentage rose slightly from 578% in 2023 to 619% in 2024. The R4 and R5 components increased from 169,235,693,704 and 95,802,981,865 to 189,723,540,473 and 106,034,015,489, respectively. However, the R2 component decreased from 186,251,584,606 to 170,940,641,724. Botsko also mentioned that the statistics will only display six years of information starting last year. He advised that anyone needing historical information should contact NAIC staff.

4. Heard Updates on the Wildfire Impact Analysis

Chou emphasized that this year, vendors will adhere to the same process used for the 2021 impact analysis, which was also generated by Karen Clark & Company (KCC). He mentioned that the scenario file has been created and distributed to various model vendors, including KCC, CoreLogic, Verisk, and Moody's RMS. Chou noted that the vendors are currently developing their own wildfire models and plan to discuss the model results with the ad hoc group separately in July. Once the review is finalized, the ad hoc group will report back to the Subgroup, which will then decide whether the wildfire peril should be included in the 2026 RBC reporting. He anticipated that the final results would be delivered to the Subgroup chair by the end of August. Chou expressed gratitude for the vendors' efforts to ensure completion in July, allowing Subgroup members who signed the non-disclosure agreement sufficient time to review the results. Chou emphasized that due to the highly confidential nature of the model results, it is imperative to contact NAIC staff to complete the non-disclosure agreement before beginning the review of the modeling results.

5. Discussed Climate Impact Disclosures

Chou reported that proposal 2023-17-CR (Climate Scenario Analysis) was adopted in April 2024. The primary objective of this proposal is to develop a tool that facilitates dialogue between companies and state insurance regulators. This tool will be continuously evaluated based on company reporting. Chou also mentioned that, since the 2024 data was received in March, he and Bosko will collaborate with the staff at the Center for Insurance Policy and Research (CIPR) to determine the analyses that can be conducted and the enhancements that can be made for the RBC report next year. The Subgroup will provide updates during the next meeting.

6. Discussed Flood Peril

Chou noted that flood risk is a highly complex issue, with the National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency (FEMA), providing over 95% of insurance coverage to property owners. Botsko mentioned that the NFIP has been extended until Sept. 30. Additionally, the president intends to transfer FEMA responsibilities to the states. Botsko suggested that the Working Group and Subgroup should closely monitor how U.S. Congress (Congress) and the federal government address these matters before deciding on the approach to flood peril. Chou concurred, recommending that the Working Group and Subgroup hold off on this issue until clear guidance is received from NAIC leadership.

7. Discussed Other Matters

A. Property Claim Services Events List Enhancement

Chou mentioned that the NAIC has published the annual catastrophe events list for several years. He noted that historically, there have been few comments from the industry regarding the earthquake and hurricane lists. However, comments on the differences in catastrophic events have increased with the inclusion of wildfire and severe convective storms in the RBC formula for informational purposes only. Chou stated that the Subgroup has discussed this matter with Verisk and learned that it has utilized the Storm Prediction Center as one of the sources for defining severe convective storm events. Lastly, he mentioned that NAIC staff will collaborate with the Subgroup to enhance the accuracy of the catastrophe events list.

Lastly, Botsko announced that the Working Group and Subgroup will not convene during the Summer National Meeting. Both groups are planning to schedule a meeting in September or October.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2026-Summer/PCRBCWG

Draft: 5/12/25

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Virtual Meeting
May 2, 2025

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met May 2, 2025, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Charles Hale (AL); Rolf Kaumann and Eric Unger (CO); Jane Nelson (FL); Sandra Darby (ME); Elouisa Macias (NM); Ni Qin (NY); Will Davis (SC); Miriam Fisk (TX); and Adrian Jaramillo (WI). The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair (FL); Rolf Kaumann and Eric Unger (CO); Travis Grassel (IA); Sandra Darby (ME); Elouisa Macias (NM); Alexander Vajda (NY); Tom Botsko (OH); Andy Schallhorn (OK); Will Davis (SC); and Miriam Fisk (TX).

1. Adopted Proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instruction)

Chou explained that proposal 2025-06-CR aims to ensure that the information provided by companies is reflected on an annual basis, aligning with other reporting schedules within the risk-based capital (RBC) report and enhancing future analysis. The proposal was exposed for a 30-day public comment period that ended April 23, with no comments received.

Chou made a motion, seconded by Darby, to adopt proposal 2025-06-CR (Attachment Two-F). The motion passed unanimously.

2. Exposed Proposal 2025-09-P (Underwriting Risk Line 1 Factors)

Botsko stated that proposal 2025-09-P aims to deliver a routine annual update to the industry underwriting factors, specifically premium and reserve in PR017 and PR018 within the property/casualty (P/C) RBC formula. He also noted that, as discussed during the Spring National Meeting, reviewing the premium and reserve line 1 factors methodology in PR017 and PR018 is a future project for the American Academy of Actuaries (Academy). Findings will be provided upon completion of the review.

The Working Group and Subgroup agreed to expose proposal 2025-09-P (Attachment One-B) for a 30-day public comment period ending June 1.

3. Exposed Proposal 2025-11-CR (Catastrophe Modeling Attestation)

Chou stated that proposal 2025-11-CR aims to update the PR002 attestation by incorporating the newly added wildfire and severe convective storm perils from PR027 for informational purposes only. He mentioned that the Subgroup will closely monitor the development of these catastrophe perils and update the attestation and PR027 interrogatories as necessary. Chou mentioned that the Subgroup will collaborate closely with the Academy to examine the correlation effects between the perils, and the findings will be shared upon the study's completion.

The Working Group and Subgroup agreed to expose proposal 2025-11-CR (Attachment One-C) for a 30-day public comment period ending June 1.

4. Heard Updates on the Wildfire Impact Analysis

Chou mentioned that in 2021, all vendors utilized the same exposure files Karen Clark & Company (KCC) prepared for the wildfire model impact analysis. The Ad Hoc Group decided to include the wildfire peril for informational purposes in 2022, following the review of the model output by several regulators based on Actuarial Standard of Practice (ASOP) No. 38 – Catastrophe Modeling (For All Practice Areas). Chou indicated that this year, vendors will adhere to the same process to run the scenario, which KCC also generates. He also noted that the exposure file will be geo-coded and encompass both northern and southern California. Chou said he expects the input file to be ready by the end of April, with the impact analysis completed by the end of June. Chou also mentioned that this year, he will request that all Ad Hoc Group members who signed the non-disclosure agreement participate in the review process. Once the review is finalized, the Ad Hoc Group will report back to the Subgroup, which will decide whether the wildfire peril should be included in the 2026 RBC reporting. Glen Daraskevich (KCC) said that the scenario file has been created and distributed to various model vendors, and the results are expected to be delivered to the Subgroup chair by mid-June.

5. Discussed Holding a Summer Panel Discussion

Chou reiterated that over the past few years, the Subgroup has continued its efforts to address the Climate and Resiliency (EX) Task Force referral from spring 2021. Specifically, the Task Force's recommendations consider "wildfire," "flood," "severe convective storm," and other perils where commercial modelers have developed products used by insurers. He stated that wildfire and severe convective storm perils were implemented in the P/C RBC formula in 2022 and 2023, respectively. Chou mentioned, however, that flood risk is a very complex subject, with the National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency (FEMA), providing over 95% insurance coverage to property owners. The Subgroup will need to better assess concerns from various stakeholders such as the NAIC, regulators, FEMA, insurers, brokers, property claims services (PCS), and modelers. Chou also noted concerns about flood insurance availability and affordability issues during a recent visit to Capitol Hill. Lastly, Chou mentioned that he had discussed this issue with Commissioner Andrew N. Mais (CT) to determine the direction for addressing the flood peril. Commissioner Mais agreed to continue working on this subject. Since the Working Group and Subgroup will not meet in person at the Summer National Meeting, Chou decided to meet with different stakeholders separately instead of setting up another panel discussion. He encouraged all interested parties to stay tuned for the latest updates related to this subject.

6. Discussed the Process for Updating the Catastrophe Event Lists

Chou stated that the inclusion of wildfire and severe convective storm risks in the P/C RBC formula required additional efforts from NAIC staff to assess if these events meet the \$25 million threshold and are cataloged by the Insurance Services Office's (ISO's) PCS, Munich Re's NatCatService, or Swiss Re Sigma. Chou emphasized the need for a process to ensure the quality of event lists provided to the industry by the end of the year. Derek Noe (NAIC) concurred, noting that the catastrophe event list process remains unchanged and is currently accessible on the Subgroup's web page. Noe also suggested that collecting events based on the listed entities on a quarterly basis would reduce discrepancies between the approved sources and the NAIC event lists. Chou added that he would communicate with the approved entities to ensure that both the NAIC and the approved entities are using the same event sources. Botsko encouraged all interested parties to submit comments and ideas to improve this process.

7. Discussed the Statutory Accounting Principles (E) Working Group Referral for RBC Assessment for Capital Notes and Non-Bond Debt Securities

Botsko reiterated that at the Spring National Meeting, Ed Toy (Interested Party) emphasized the importance of consistency across all lines of business unless there are valid reasons for deviations. Chou also highlighted the significance of consistency but noted that the Working Group should consider the unique characteristics of each line of business, such as the long and short tails of the business. Botsko mentioned receiving informal feedback from the industry indicating that the P/C sector is content with remaining on the sidelines due to the materiality of the RBC changes, the effort required to implement these changes, and the differences in underlying accounting and portfolio construction. Botsko stated that the data will be reported in the 2025 annual statement, and this issue will be revisited after the impact analysis is completed in March 2026.

8. Discussed Other Matters

A. Bond-Like Treatment for SVO-Designated Mutual Funds

Botsko reported that the Working Group received a comment letter from a small insurance company regarding the bond-like treatment for Securities Valuation Office (SVO)-designated mutual funds. The comment highlighted that insurers rely on fund vehicles to access select fixed income markets and diversify investment risk, as these vehicles allow for more efficient market access. The company emphasized that the ability for insurers to invest in fixed income funds and receive fair RBC treatment commensurate with the SVO designations is critical for leveling market access across all insurers, regardless of size. Botsko noted that this comment was also directed to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which is currently reviewing this issue. He encouraged all interested parties to submit comments, which will be discussed at a future Property and Casualty Risk-Based Capital (E) Working Group meeting. Chou concurred, stating that while consistency among all lines of business is important, the different RBC formulas that handle and treat risks differently should be recognized. He encouraged all interested parties to submit comments to ensure the cost and benefit issue is justified.

B. Risk-Based Capital Model Governance (EX) Task Force

Botsko mentioned that the Risk-Based Capital Model Governance (EX) was appointed on Jan. 10. He stated that an external consultant will be hired to perform a comprehensive gap analysis and develop guiding principles. He also noted that the Task Force does not recommend that any of the NAIC RBC groups pause their current work until the Task Force adopts the new guiding principles.

Lastly, Botsko welcomed all interested parties to direct comments or suggestions for improvements to the RBC formula to the RBC groups' chairs or NAIC staff for consideration.

Botsko said the Working Group and Subgroup plan to meet to continue this discussion in June.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2026-Summer/PCRBCWG

Draft: 6/30/25

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
June 23, 2025

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met June 23, 2025. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Ray Spudeck and Carolyn Morgan (FL); Carrie Mears, Kevin Clark, and Mike Yanacheak (IA); Matt Cheung (IL); Roy Eft (IN); Ben Slutsker (MN); William Leung and Danielle Smith (MO); Andrea Johnson (NE); Jennifer Li (NH); Bob Kasinow and William B. Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI).

1. Adopted its Spring National Meeting Minutes

Drutz made a motion, seconded by Reedy, to adopt the Working Group's March 24 minutes (*see NAIC Proceedings – Spring 2025, Capital Adequacy (E) Task Force, Attachment Five*). The motion passed unanimously.

2. Received Comments on the ACLI's RBC Principles for Bond Funds Presentation and the NAIC's Memorandum of Bond Funds Reported in 2023 Annual Statement Filings

Barlow said that during the Working Group's Feb. 11 meeting, the Working Group exposed the American Council of Life Insurers' (ACLI's) risk-based capital (RBC) principles for bond funds presentation (Attachment Six-A) and the NAIC's memorandum of bond funds reported in 2023 annual statement filings (Attachment Six-B). The Working Group received three comment letters, which were discussed during the Spring National Meeting. As a result of the discussions, the Working Group directed NAIC staff to draft a formal RBC proposal for the life RBC formula only. Since then, the Working Group has received nine additional comment letters (Attachment Six-C). The majority of the commenters support aligning the RBC treatment of Securities Valuation Office (SVO)-designated funds across all types of businesses.

Siddharth Chakravarty (Coaction Specialty Insurance) presented his comment letter. Chakravarty said Coaction Specialty Insurance is a small insurance company that commonly uses funds as investment vehicles. The comment letter expressed support for the alignment of RBC treatment as in the ACLI's presentation but requested that such treatment be applied for both life and non-life insurers.

Matt Hill (Premera Blue Cross) presented his comment letter. Hill said Premera Blue Cross is a small insurance company with less than \$5 billion in assets under management. He said his company commonly uses funds to gain access to certain asset classes and views the current RBC treatment for funds as less advantageous for non-life insurance companies. As such, his comment letter expressed support for the alignment of RBC treatment for fund types across all types of business.

Jeannine Heal (PineBridge Investments—PineBridge) presented a comment letter on behalf of Helen Remeza (PineBridge). Heal said PineBridge Investments manages 120 insurer portfolios globally, with \$45 billion in assets under management. She said the topic of bond fund RBC alignment is important to her clients. Heal pointed out how this topic is especially important to her property/casualty (P/C) insurer clients, who are primarily small insurance companies that heavily use funds as investment vehicles. The letter expanded on PineBridge's initial comment letter presented in March and provided further details on how the current RBC treatment has created a disproportionate burden for non-life insurers, and therefore, PineBridge expressed support for promoting consistent RBC treatment for bond funds across all insurer types.

Joe Engelhard (Alternative Credit Council—ACC) presented his comment letter. Engelhard said the ACC represents over 250 asset managers globally who oversee over \$2 trillion in assets under management. The ACC's March comment letter presented during the Spring National Meeting strongly supported the ACLI's presentation. Engelhard said the ACC believes the principles identified by the ACLI are equally applicable to non-life insurers and submitted another comment letter to express support for broadening the scope of the harmonization to all insurer types.

Keith Bell (Travelers) presented his comment letter. Bell said the comment letter laid out differences between life and P/C RBC formulas and presented impact analysis for a non-life insurer with a well-balanced portfolio of directly held investments. He concluded that the proposed RBC alignment for this insurer would be minor or even negligible. Due to this finding, Travelers does not support the presentation. That said, Bell acknowledged that the RBC impact would be meaningful should the company own its investments through fund structures, which is typically the case for smaller insurers who rely on asset managers to manage their portfolios. Given this, Bell requested that the Working Group allow optionality should the alignment project be applied to all types of business.

Chou said that while he understood the current RBC disparity may have more impact on the smaller insurers, he believed cost and benefit analysis should be performed to ensure changes are truly justifiable. He recalled that this topic was first discussed in 2018, and an analysis was performed at that time that suggested alignment was unnecessary. He requested a refreshed analysis to help the Working Group proceed.

Barlow asked if Bell could provide examples of optionality in RBC formulas. Bell said the catastrophe risk charge calculation allows filers' discretion. Bell said Travelers would like to have optionality because it interpreted the proposal as mandating insurers to file investments with the SVO. Mears clarified that mandatory filing with the SVO is neither the intent of the proposal nor the current practice with life insurers. Mears said filing with the SVO is optional, and the proposal for life insurers is to allow risk charges commensurate with the risk as represented by the SVO designations. Without any SVO designations, the investment will simply be treated as it currently is. Julie Gann (NAIC) concurred. She supplemented with another scenario of optionality: NAIC staff were made aware in the past that certain insurers did not report their investments as SVO-designated, even though SVO designations were obtained. Despite potential inconsistencies in reporting, it is not likely that anything will be enforced against that, as the filers potentially face more conservative capital charges and, therefore, do not pose a concern for the regulators.

Barlow asked Bell if the clarifications helped. Bell said the optionality helps, and his company can also rely on others' SVO filings to obtain better RBC treatment. He said the extra work to identify those instances and ensure correct filing is also manageable.

3. Exposed Proposal 2025-12-IRE (SVO Funds Alignment Project)

Barlow said a formal proposal 2025-12-IRE was drafted for life RBC only (Attachment Six-D). He asked if the Working Group has an opinion on expanding the scope to include non-life formulas. Leung stated his support. Chou expressed reservations, especially because the proposal was drafted specifically for life. Barlow said he is indifferent about having referral(s) sent to health and P/C RBC working groups versus a centralized effort, and he sought Working Group members' opinions. Drutz said that as the chair of Health Risk-Based Capital (E) Working Group, he has no issue with exposure, but he seeks to ensure the health RBC changes are aligned with life's, preferably with the Health Risk-Based Capital (E) Working Group's participation. Botsko agreed. He said that as chair of the Property and Casualty Risk-Based Capital (E) Working Group, he would appreciate the Working Group's participation in weighing up all the positive and negative feedback gathered so far.

Hearing no objection from the Working Group members, interested regulators, or interested parties, Barlow exposed proposal 2025-12-IRE for a 30-day public comment period ending July 23. He also directed NAIC staff to send formal referrals to the Health Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group, which will go through due processes when deliberating the applicability of the RBC alignment project to the respective RBC formulas.

4. Discussed Other Matters

Barlow said the Working Group is not planning to meet in person at the Summer National Meeting. The Working Group plans to receive an update from the American Academy of Actuaries (Academy) on the topic of the collateralized loan obligation (CLO) RBC project Sept. 8.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2025-2-Summer/IRE/RBCIREWG 06-23-25 SPGNM Minutes TPR'd.docx



RBC Principles for Bond Funds

December 2024



Background

- Operating under a regulatory regime where funds with slightly different structures but same economic risks receive different RBC treatment
- (9/27/2017) VOSTF directed NAIC staff to develop a comprehensive proposal to ensure consistent treatment for investments that involved funds that invest in bond portfolios (history included in Appendix)
- (5/10/2019) VOSTF requested that CATF consider formally integrating the comprehensive instructions for mutual funds recently adopted for the P&P Manual into the NAIC RBC framework
- ACLI has agreed with RBC IRE to begin looking at three types of bond funds that get different treatment in RBC calculation. ACLI has been looking at these to determine whether the risk profiles are similar or different to warrant different treatment for different types of bond funds. While this work focuses on these three types of bond funds, ACLI is identifying principles that can be used to expand treatment from these types of bond funds to other similar bond fund types.



Focus on Bond Funds – Current State

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Equity RBC	Bond RBC
RBC Charge Methodology	SVO WARF	30% equity charge (can file and SVO can apply WARF but cannot be used for RBC)	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories



Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Bond RBC	Bond RBC
RBC Charge Methodology	SVO WARF	SVO WARF	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories



Assumptions / Constraints for Principles

- Develop principles for consistent RBC treatment for Bond ETFs, Bond Mutual Funds, and Bond Private Funds that bear substantially the same economic risks regardless of legal form.
- The accounting for the aforementioned Bond Funds will/should not be changed because each different fund type is governed by different SSAPs.



Application of Principles

- Candidate principles developed to evaluate and ensure consistent RBC treatment between various fund types where the underlying holdings are bonds and currently meet the criteria for the SVO WARF methodology.
- Candidate principles could be applied for substantially similar bond fund investments to Bond ETFs, Bond Mutual Funds, and Bond Private Funds (currently meet the criteria for SVO WARF methodology) that the SVO could also apply their WARF as they become known.
- Candidate principles are intended to focus on the C-1 factor exclusively (i.e., excludes concentration factors).
- Principles could be leveraged for addressing similar situations where industry or regulators note similar significantly inconsistent RBC treatment for substantially similar investments. While the principles can potentially be leveraged, they will need to be tailored, as other fund types are likely not subject to the SVO WARF methodology.



Candidate Principles

1. Meets qualifications for SVO to apply WARF methodology
2. RBC is based on underlying economic risk
 - Regardless of accounting method applied, fund risk depends on the collateral pool
 - Differences between fund types are considered immaterial where such differences are deemed not to contribute risks captured by RBC (e.g., illiquidity is not measured by C-1)
3. Economic risk of fund investment is materially similar to the collateral pool
 - There are no support tranches
 - All fund investors have equal ownership status (i.e., no fund investors are more senior nor junior than others)
4. Included within an SSAP in AP&P Manual



Focus on Bond Funds – Future State after Applying Principles

	Bond Exchange Traded Funds (ETF) ¹	SEC Registered Bond Mutual Funds	Private Bond Funds ¹
Description	Portfolios of bonds held in a 1940 Act fund structure whose ownership interests trade on a centralized securities exchange	Open-end investment company registered with the SEC under 1940 Act that invests in a portfolio of bonds but does not trade on an exchange	Fund in LLC/LP form investing in bonds for benefit of investors
Accounting Standard	SSAP 26	SSAP 30	SSAP 48
Accounting Methodology	Fair Value unless Systematic Value elected	Fair Value	Equity Method Value of Accounting
RBC Charge	Bond RBC	Bond RBC	Bond RBC
RBC Charge Methodology	SVO WARF	SVO WARF	SVO WARF
RBC Asset Concentration Factors	Excluded ²	Excluded ²	Look through for inclusion
SIRI ³ Top 10 Exposure Disclosure	Excluded ²	Excluded ²	Look through for inclusion
Reporting Schedule	Schedule D-1	Schedule D-2-2	Schedule BA
AVR Treatment	Depends on NAIC rating changes	Entirely	Entirely

¹ For funds meeting SVO criteria

² For funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b)(1)]

³ Supplementary Investment Risks Interrogatories



Key Questions for Regulators

- Which candidate-principles do regulators support?
- Are there additional principles not outlined herein that also ought to be incorporated into RBC for funds?



Appendix: History of VOSTF Treatment of Funds Investing in Bonds

- 1991 – Money market mutual funds that hold short-term U.S. Treasuries - exempted from reserve
- 1992 – Funds holding U.S. direct and full faith and credit obligations - exempted from reserving
- 1992 – Funds holding high quality corporate bonds & U.S. Government obligations - reserve as NAIC 1 bonds
- 1995 – Short-term bond funds - holding high quality corporate & U.S./GSO obligations) - Schedule D; market value & reserved as bonds for AVR and RBC
- 2003 – Exchange Traded Funds that held bonds – report as bonds
- 2005 – BA assets with fixed income characteristics can be assigned NAIC Designations
- 2017 – SVO authorized to assign NAIC Designations to private Schedule BA funds, joint ventures or partnership interests if underlying investments are fixed-income like to align with Annual Reporting Instruction

Source: September 21, 2018 Referral to the Capital Adequacy Task Force – Comprehensive Fund Proposal from VOSTF



MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties
FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group
DATE: January 6, 2025
RE: Certain Bond funds reported in 2023 Annual Statement Filings

Background

On October 22, 2024, the Working Group met and discussed the status of the Working Agenda #2 & #4 (collectively the "Fund Review Project"). Representatives from the American Council of Life Insurers (ACLI) proposed, and the Working Group agreed, to narrow the scope of the project with the intent to achieve convergence in RBC treatment among three types of funds when they predominantly invest in bonds and receive SVO-assigned designations: 1) exchange-traded funds (ETFs), 2) U.S. Securities and Exchange Commission (SEC)-registered mutual funds; and 3) private funds.

NAIC staff was directed to summarize herein the amount of respective fund types reported on insurers' 2023 annual statement filings to facilitate the Working Group's discussions.

	Bond Exchange Traded Fund (SVO-identified) Schedule D – part 1 Bonds Line 1619999999 (as % of Total Invested Assets)	SEC Registered Bond Mutual Funds (SVO-identified) Schedule D – part 2 – Section 2 Common Stock Line 5319999999, 5519999999, 5719999999 (as % of Total Invested Assets)	Private Bond Funds (SVO-identified) Schedule BA, Part 1, Line 0799999999, 0899999999, 1399999999, 1499999999, 159999999999, 1699999999 ^{Note A} (as % of Total Invested Assets)	Total Invested Assets 2023 Asset Page Line 12
2023 Life	\$5,844,611,923 (0.11%)	\$95,524,695 (0.00%)	\$5,858,319,676 (0.11%)	\$5,470,188,985,349
2023 P/C	\$4,934,503,172 (0.19%)	\$1,652,371,654 (0.06%)	\$905,395,147 (0.03%)	\$ 2,662,293,397,830
2023 Health	\$1,292,501,879 (0.36%)	\$877,352,361 (0.24%)	\$118,990,522 (0.03%)	\$360,699,408,453

Note A, per 2023 AVR instruction, "... the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 07999999 and 08999999 and the portion of Lines 13999999, 14999999, 15999999 and 16999999 that applies to fixed income instruments similar to bonds) that have been valued according to the Purposes and Procedures Manual of the NAIC Investment Analysis Office ..." should be reported on Line 22 through 28 of AVR Equity Component table, thereby afforded RBC charge based on NAIC Designation. As there is no AVR reporting for P/C and Health, the statistics are obtained directly from lines 07999999, 08999999, 13999999, 14999999, 15999999, and 16999999 of Schedule BA, Part 1. As such, overstatement is expected.

Please contact NAIC Staff of Risk-Based Capital Investment Risk and Evaluation (E) Working Group with any questions.

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

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509

p | 202 471 3990

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1

AmeriHealth Caritas
3875 West Chester Pike
Newtown Square, PA 19073



June 10, 2025

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a Health insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a Health insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

Pamela Schmidt
Vice President Treasury & Chief Investment Officer
AmeriHealth Caritas

¹ Certain Bond funds reported in 2023 Annual Statement Filings



Amerisure Mutual Holdings, Inc.
Amerisure Mutual Insurance Company
Amerisure Insurance Company
Amerisure Partners Insurance Company

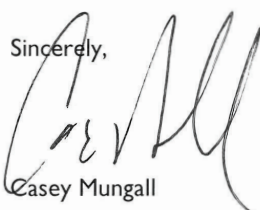
April 25, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a Property & Casualty insurer, presently we are subject to punitive RBC charges, eg. Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a Property & Casualty insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets and fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,

Casey Mungall

Vice President, Enterprise Risk Management & Investments
Amerisure Insurance

26777 Halsted Road | Farmington Hills, MI 48331 | amerisure.com



BCS Insurance Company
2 Mid America Plaza, Suite 200 | Oakbrook Terrace, IL 60181
630.472.7700 | bcsf.com

April 25, 2025

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

Alexander D Hudson

Alex Hudson
Vice President, Investment Services and Treasury
BCS Insurance Company

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)

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Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

April 29, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given [the exposure draft](#). This inconsistency disadvantages us as a P&C insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely yours,

DocuSigned by:
A handwritten signature in black ink that reads "William Sloan".

403B1A6472D1484...
William Sloan, Chief Financial Officer

Coaction Specialty Insurance Group, Inc.
on behalf of New York Marine and General Insurance Company,
Southwest Marine and General Insurance Company, and
Gotham Insurance Company

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)

412 Mount Kemble Ave, Suite 300C Morristown, NJ 07960
Tel: 800-774-2755 - Fax: 855-200-1158
inquiries@coactionspecialty.com



Premera Blue Cross
PO Box 327 – MS 341
Seattle, WA 98111-0327

April 28, 2025

NAIC
1101 K Street, N.W., Suite 650
Washington, DC 20005

Dear Chairs and members of **NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Health Risk-Based Capital (E) Working Group, and Valuation of Securities (E) Task Force:**

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets.¹ However, for fixed income funds, as a P&C (Health) insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given [the exposure draft](#). This inconsistency disadvantages us as a P&C (Health) insurer.

Furthermore, as a smaller insurer, we rely on fund vehicles to access select fixed income markets and to diversify investment risk. We do not have the required scale and operational infrastructure to invest in these fixed income assets directly on our balance sheets, but fund vehicles allow more efficient market access. In our view, the ability for us to invest in fixed income funds and to receive fair RBC treatment commensurate with their SVO designations is critical for leveling market access across all insurers regardless of size.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Ratliff".

David Ratliff, CFA
VP, Treasury & Investments

¹ [Certain Bond funds reported in 2023 Annual Statement Filings](#)



T.C. Wilson III
Chief Investment Officer

May 23, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), and Valuation of Securities (E) Task Force:

We strongly support your call at the 2025 NAIC Spring National meeting for developing a proposal for harmonization including assigning bond-like treatment to SVO designated funds across all insurer types.

We would like to point out that 96% of SVO-designated mutual funds and significant amount of private funds resided on non-life insurance balance sheets. However, for fixed income funds, as a P&C insurer, presently we are subject to punitive RBC charges, i.e., Schedule D-2 Equity charge to mutual funds and Schedule BA charge to private funds. On the other hand, Life insurers have been benefiting from bond-like treatment for SVO designated private funds and will likely be able to apply the same to mutual funds given the exposure draft. This inconsistency disadvantages us as a P&C insurer.

We utilize fund vehicles such as ETFs and mutual funds extensively for certain fixed income exposures due to their liquidity, diversification, operational and expense efficiencies. In our view, the ability to invest in fixed income funds and to receive fair RBC treatment commensurate with the associated SVO designation risk level is critical for leveling market access across all insurers regardless of size.

Sincerely,

TC Wilson
Chief Investment Officer
The Doctors Company Group



NAPA, CALIFORNIA
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P 800.421.2368, x1193 . 707.226.0193 | **F** 707.226.0111 | thedoctors.com | tc.wilson@thedoctors.com



June 18, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), Valuation of Securities (E) Task Force, and Risk-Based Capital (RBC) Model Governance (EX) Task Force:

We commend the working groups for your efforts in harmonizing in the risk-based capital (RBC) treatment for bond funds. In [our March 2025 comment letter](#), we proposed allowing non-life insurers to apply the Securities Valuation Office (SVO) fund designation for RBC purposes for mutual funds and private funds. This harmonization will accomplish several important objectives:

- Creating consistent RBC treatment across fund types (ETF, mutual fund, private fund) and insurer types (Life, P&C, and Health).
- Leveling the playing field for small insurers regarding market access and diversification. Small insurers, for instance, represent over 90% of the P&C industry by insurer count.
- In addition to funds, applying bond-like RBC treatment to tens of billions of non-bond debt obligations that were reclassified as Schedule BA assets and moved out of Schedule D-1 under the Principles-Based Bond Definition (PBBD). This is another area for harmonization across life and non-life.

P&C Industry is Built on Small Insurers

Over 90% of the P&C industry by insurer count is comprised of small insurers that have less than \$5 billion in assets under management (AUM) per entity, totaling \$375 billion in aggregate.¹ These small insurers are a key part of the industry, yet they currently face structural disadvantages. They are subject to an onerous capital charge of 20% on fixed-income funds except for ETFs; and the same treatment is applied to assets held by health insurers. In contrast, life insurers in the same funds would receive bond-like RBC treatment commensurate with their SVO designations.

	Aggregate Small Insurers AUM (\$ billion)	Small Insurer Count	Industry Insurer Count	%Count
Life/Fraternal	\$207	281	387	73%
P&C	\$375	1035	1151	90%
Health	\$92	280	428	65%

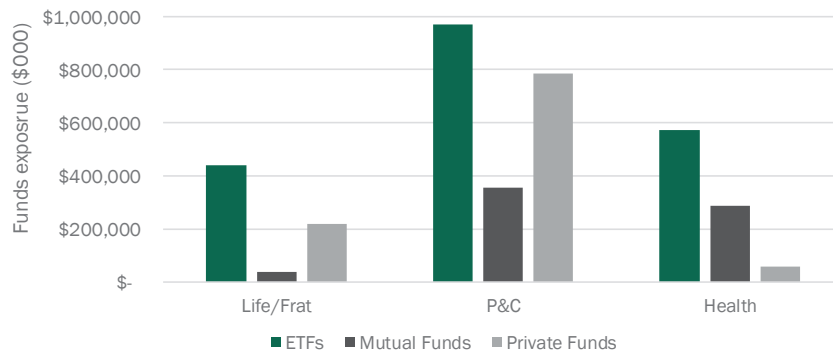
Source: PineBridge Investments. Based on 2024 Annual Statutory Filings retrieved from S&P Capital IQ

¹ Insurer counts are based on S&P Capital IQ's consolidated subgroups. **Without the subgrouping, 94% of total 2679 P&C entities fall into <\$5 billion in assets.** AUM represents total cash and invested assets of general account.



Investment Funds: A Critical Tool for Market Access and Diversification

Investment funds are essential tools for small insurers. They offer efficient market access, diversification, and asset management expertise that would otherwise be out of reach. For these reasons, small non-life insurers with under \$5 billion in assets, are the most prolific users of funds across all categories including ETFs, mutual funds, and private funds, as indicated in the chart below.



Source: PineBridge Investments. Based on 2024 annual statutory filings data retrieved from S&P Capital IQ

A Disproportionate Burden for Non-Life Insurers

Despite their importance, non-life insurers who purchase interests in non-ETF, fixed-income funds are penalized under the current RBC framework. Using P&C insurers as an example, these funds can be subject to RBC charges as much as twenty times those for life insurers.²

SVO Fund Designation	Non-life Funds RBC	Bond-Like RBC (for P&C Insurers)	Multiplier
NAIC 1.E (A+)	20.0%	1.0%	20.0x
NAIC 2.B (BBB)	20.0%	2.1%	9.5x
NAIC 3.B (BB)	20.0%	6.0%	3.3x

Source: PineBridge Investments. Based on NAIC P&P manual and public materials

These onerous capital charges discourage small, non-life insurers to invest in funds, limit diversification, and disproportionately harm the insurers who need these tools the most. While covariance adjustments may dampen the unfavorable RBC impact illustrated above, for small insurers overall, we expect covariance adjustment will fall short of correcting the significant imbalance illustrated above. For example, assuming covariance adjustment would reduce P&C funds RBC charge by half from 20% to 10%, the multiples would be lowered to 10x, 4.8x, and 1.7x respectively, which remain materially in excess of the investment risk commensurate with a bond-like profile.

² [Assuming the American Council of Life Insurers' \(ACLI\) proposal on harmonizing mutual fund treatment is adopted for the life insurance industry.](#)



Treatment for Non-Bond Debt with SVO Designation

Given the implementation of the PBBD, tens of billions of non-bond debt were reclassified as Schedule BA assets and moved out of D-1, increasing the size of the Schedule BA bucket materially for certain insurers.³ Currently, for life insurers, bond-like treatment is applied to the non-bond debt with SVO designation, but not for non-life insurers. Furthermore, the larger reportable Schedule BA allocation due to non-bond debt can be a challenge for non-life insurers that face tight state regulatory limits on Schedule BA assets in addition to the penal fund RBC charges, further constraining their ability to invest in funds. For non-life insurers, applying the same bond-like treatment for non-bond debt is another area for harmonization.

A Call for Consistency and Harmonization

We are encouraged by [the recent launch of the NAIC RBC Model Governance Task Force by the NAIC Executive Committee](#) to promote RBC consistency. We believe aligning asset RBC charge with appropriate investment risk will improve the accuracy of regulatory capital assessment and promote leveled market access to diverse investment strategies—all of which goes to support a sound solvency framework.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

³ “Q1 bond definition change nets billions of dollars in reclassifications,” published by S&P Capital IQ on May 19, 2025.



1100 15th Street, NW
Washington, DC 20005

June 18, 2025

aima.org

Chairman Phil Barlow
NAIC Risk-Based Capital Investment Risk and Evaluation (RBC-IRE) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Subject: Second Comment Letter on the Proposed Principles for Bond Funds

Dear Chairman Barlow and Members of the RBC-IRE Working Group,

The Alternative Credit Council¹, the private credit affiliate of the Alternative Investment Management Association Ltd (AIMA), appreciates the opportunity to provide a supplemental comment on the ACLI's proposed RBC Principles for Bond Funds ("bond fund principles").²

In our March 6th comment letter, we strongly supported the ACLI's proposed bond fund

¹ The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research to strengthen the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

² National Association of Insurance Commissioners, *RBC Principles for Bond Funds* (February 2025), available at <https://content.naic.org/sites/default/files/inline-files/Attn%20%20Principles%20for%20Bond%20Funds%20%201-9-2025%20%28ACLI%20revised%20deck%29.pdf>.

Alternative Credit Council (ACC)

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)



AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.



principles, because they appropriately “address inconsistencies in the risk-based capital (RBC) treatment of bond funds, which arise due to differences in legal structures and accounting standards despite the economic risks being fundamentally similar.” Given that the ACLI volunteered to take the initiative in response to your request, they naturally focused on life insurers.

We urge the RBC-IRE to expand its consideration of more equitable capital treatment for mutual and private bond funds across all insurer types, including property & casualty and health insurance companies. Current RBC rules place an outsized burden on small insurers – who make up the overwhelming majority of the P&C sector – by subjecting them to higher capital charges when investing in bonds via mutual and private funds. Extending the proposed principles to all insurers would enable both large and small insurers to benefit from more appropriate, risk-aligned treatment based on Securities Valuation Office (SVO) determinations.

Over 90% of P&C insurers manage less than \$5 billion in assets. For these smaller firms, pooled investment vehicles such as bond funds are a vital tool. They provide affordable access to diversified fixed income exposures and professional management that would otherwise be operationally or economically out of reach. Yet under the current RBC framework, these funds attract disproportionately high capital charges, discouraging use of the very vehicles that could strengthen portfolio resilience and solvency.

To rectify these imbalances and improve capital efficiency, we recommend extending SVO-based RBC recognition to non-life insurers’ bond fund holdings. This would bring much-needed consistency to capital standards, support prudent diversification, and ensure that solvency rules reflect actual investment risk, regardless of how the bond exposure is accessed or which type of insurer holds it.

We commend the RBC-IRE Working Group and the other related committees for their leadership and commitment to regulatory consistency and capital adequacy. Please contact me at Jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org if you have any questions or would like to discuss these topics in more detail.

Sincerely,

Jiří Król
Global Head of Alternative Credit Council





CC:
NAIC Capital Adequacy (E) Task Force
Property and Casualty Risk-Based Capital Working Group
Health Risk-Based Capital Working Group
Valuation of Securities Task Force
Risk-Based Capital (RBC) Model Governance Task Force





D. Keith Bell

Senior Vice President
Accounting Policy - Finance
Plaza Building, 6th Floor
Phone: (860) 277-0537
Email: d.keith.bell@travelers.com

One Tower Square
Hartford, CT 06183

June 23, 2025

Philip Barlow, Chairman
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Risk-Based Capital (RBC) Principles for Bond Funds Presentation

Dear Mr. Barlow:

Thank you and the NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group (the Working Group) for the opportunity to comment on the proposed RBC Principles for Bond Funds that was presented to the Working Group during its meeting in December 2024.

We offer the following comments.

We believe that a change to the property & casualty (P&C) RBC to accomplish a greater “look-through” for investment risk charges is unnecessary, and if pursued should be done with the knowledge that P&C RBC is an approximate tool, is not meant to differentiate the relative strength of financially viable insurers and is not (and never has been) designed as a mechanism for evaluating or optimizing an insurer’s investment strategy.

Purpose of the formula

As stated in Section 8E of the NAIC’s Risk-Based Capital Model Act, the RBC formula “is not intended as a means to rank insurers generally”. It is meant to identify troubled companies, not to rank financially viable insurers. Additionally, it was not designed as a means of evaluating or optimizing an insurers’ investment strategy or internal compensation metrics. Therefore

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
June 23, 2025
Page 2

modifications (such as a Schedule D or Schedule BA look-through) designed to better evaluate financially strong insurers are not furthering the purpose of the RBC formulae.

RBC was designed to identify troubled companies and the differences between the life and property casualty formulas were intentionally structured to emphasize the primary risks of each business model.

For example, the P&C RBC formula is structured to emphasize underwriting risk for the 6-month to one-year policies written by P&C insurers, with a much lesser emphasis on asset risk. In contrast, the life RBC formula is structured to emphasize asset risk due to the longer-term nature (measured in years) of a life insurer's insurance products. Additionally, life insurers have the risk that policyholders may cancel and withdraw accumulated balances associated with their products which can occur at the same time that negative market conditions occur, making the asset risk associated with such products much greater than the products offered by P&C insurers.

Covariance impacts

The NAIC's P&C RBC formula currently has six elements within the square root ("covariance") component of the formula. As has been discussed before, the largest elements within the covariance part of the formula drive the final result, with the impact of the smaller elements becoming smaller or immaterial after covariance. For P&C insurers, the biggest elements are from insurance operations (i.e., premiums, reserves, cat risk, reinsurance credit risk), not investment operations. This is borne out by the risk factors for those items being comparable to or above the risk factors applied to equity items, all of which are well above the average risk factors existing for bond investments.

To isolate the impact of the various risk factors, we analyzed the reduction in total RBC ratio after covariance if an RBC component were to be completely eliminated. For the P&C formula, the risk factors are:

- R0 Subsidiary Insurance Companies and Miscellaneous Other Amounts (Off Balance Sheet)
- R1 Asset Risk - Fixed Income
- R2 Asset Risk - Equity
- R3 Asset Risk - Credit (including 1/2 reinsurance)
- R4 Underwriting Risk - Reserves (and 1/2 reinsurance)
- R5 Underwriting Risk - Net Written Premium
- Rcat Catastrophe Risk

Not surprisingly, the largest impact comes from R4 – Underwriting Risk – Reserves and ½ reinsurance, followed by Rcat – Catastrophe Risk, and R5 – Underwriting Risk – Net Written Premium. The elimination of any of the remaining RBC components resulted in a less than 1% change in the RBC ratio.

For an insurer with a balanced portfolio of directly held investments that are within the

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
June 23, 2025
Page 3

limitations imposed by state investment statutes, the impact of a look-through approach for RBC is minor to negligible. In contrast, the impact of going from a 30% equity risk charge to a look-through approach for RBC can have a meaningful impact for an insurer that relies on an external investment advisor that placed a significant portion of the insurer's investment portfolio in open-ended investment company funds.

As a result, the impact of a look-through approach is generally very small for the property casualty industry overall. This conclusion is consistent with the analysis that was performed by the NAIC staff when the topic of changing the RBC treatment of Schedule BA assets to provide a look-through approach was previously discussed by the Property Casualty Risk-Based Capital (E) Working Group¹ where the following summary was provided:

There is no significant difference on RBC ratios between Scenario 1 and Scenario 2. Most companies with difference in RBC ratio of 2% or less. Only 2 companies with difference between 2% and 5%. No company with difference greater than 5%.

P&C versus Life RBC differences

The above-described situations for the covariance formula are very different for the NAIC Life RBC formula. While most of the information underlying the NAIC P&C RBC formula is public, the same is not true for the life formula. This restricts the ability of rating agencies to rely on proprietary capital strength models vis-a-vis reliance on the NAIC formula.

With regard to the covariance formula, the largest element in the NAIC Life RBC formula is asset risk, with fixed income and asset risk combined into a single element. That fact makes changes to the asset risk factors a material item for the Life RBC formula and resulting RBC ratio, in stark contrast to the situation for the P&C formula.

Rating Agency approaches

The NAIC P&C RBC formula is not utilized by the major rating agencies in their evaluation of capital strength, and as a result, for reflection of financial strength ratings. The rating agencies all have their own proprietary formulas to determine capital strength and to differentiate among well capitalized companies. Accordingly, any look-through added to the NAIC P&C formula will have no impact on a P&C insurer's rating. There is also nothing to prevent these rating agencies from performing a Schedule D or Schedule BA look-through in their proprietary formulas, regardless of what happens to the NAIC's formulas.

The Use of NAIC RBC Formulas in Determining an Investment Strategy

It is generally agreed that any business decision should reflect the risks associated with that decision, and, for those with outside stakeholders, the external view of that

¹ See Attachment F to the Agenda and meeting materials of the Property Casualty Risk-Based Capital (E) Working Group for its meeting on Thursday, April 26, 2018.

NAIC Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
June 23, 2025
Page 4

risk. For investment decisions, the internal risk evaluation would include some level of due diligence beyond the use of a single external rating. For an evaluation of external views, that evaluation would look at the most relevant constraint or comparison.

For these reasons, we do not believe an investment look-through approach is necessary or relevant for an insurer's investment strategy to be appropriately managed.

* * * *

In summary, we do not believe it's necessary or impactful to change the P&C RBC formula to provide a look-through. However, if the Working Group concludes that such a change should be made, we recommend that it be optional for property casualty insurers as it may not have a significant impact on an insurer and it may not be cost effective as it requires either the insurer or others to file such investments with the NAIC Securities and Valuation Office (SVO).

Thank you for considering our comments. We look forward to working with you and the Working Group on this topic. If you have any questions in the interim, please do not hesitate to contact me.

Sincerely,

D. Keith Bell

cc: Julie Gann, NAIC staff

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 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 Evaluation (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & (E) Working Group |

<p style="text-align: right; margin: 0;">DATE: <u>5/29/2025</u></p> <p>CONTACT PERSON: <u>Maggie Chang</u></p> <p>TELEPHONE: <u>816-783-8976</u></p> <p>EMAIL ADDRESS: <u>mchang@naic.org</u></p> <p>ON BEHALF OF: <u>RBC Investment Risk and Evaluation (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center; margin: 0;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2025-12-IRE</u> Year <u>2026 or later</u></p> <hr/> <p style="text-align: center;">DISPOSITION</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 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)

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussions, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. Proposal 2025-12-IRE is drafted in response to the Working Group's direction.

Note that the proposed changes to LR005 Unaffiliated Preferred and Common Stock page are predicated on the changes proposed to the Annual Statement Blanks Asset Valuation Reserve (AVR) instruction. The Working Group will need to sponsor the AVR instruction changes at NAIC Blanks (E) Working Group should the Proposal 2025-12-IRE be supported by the Working Group.

Additional Staff Comments:

5/28/25 NAIC Staff had prepared a drafting notes memo that memorialized decision points in the proposal drafting process.

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

Revised 2-2023



MEMORANDUM

TO: Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

FROM: NAIC Staff

DATE: May 28, 2025

RE: Drafting Notes – Proposal 2025-12-IRE SVO-identified funds alignment project

Background

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussion, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. This memo memorializes the decision points when drafting the proposal.

Staff drafting notes:

- (1) As seen in summary below, there is no complete alignment among three types of funds in scope, with the following justifications:
 - a) Classification, measurement convention and reporting of these fund types are under purview of other working groups. With the current reporting of SVO's Fixed Income-Like SEC-Registered Funds reported as stocks, grafting these funds into LR002 Bonds would be inappropriate.
 - b) NAIC Staff noted that funds in scope of SVO's Fixed Income-Like SEC-Registered Funds predominantly own bonds and/or preferred stocks. As such, grafting these funds into current LR005's preferred stock section would be justifiable, especially after considering the hybrid nature of these fixed income-like funds and the potential alignment that the proposed changes created.
 - c) Given the relatively more opaque structure of the private funds, complete alignment among all 3 types is not preferable.
 - d) Operational efficiencies (e.g. structure of the forecasting files, ease of maintenance) are also factored into the drafting consideration.
- (2) Upon review, the NAIC staff believe the Asset Concentration instructions for LR010 and LR011 could be further enhanced to provide the following guidance:
 - a) Whether or not SVO identified ETFs and SVO's fixed income-like SEC-registered funds should be considered in LR010 Asset Concentration page or LR011 Common Stock Concentration page?
 - b) How would diversification status of the funds impact the asset concentration exposure ranking?

The proposed edits addressed the above questions and to the extent possible, aligned LR010 and LR011 instructions with Supplemental Investment Risk Interrogatory (SIRI) Line 2 and/or Line 13 instructions.



Summary of key similarities/differences among the various types of SVO designated fund, should the proposal be adopted (yellow highlighted):

	SVO-identified Bond ETFs	SVO-identified Preferred Stock ETFs	SVO-identified Fixed Income-Like SEC-Registered Funds	SVO-identified Private Bond Funds
Description	SEC registered	SEC registered	SEC registered	Non-SEC registered
Accounting Standard	SSAP 26	SSAP 32	SSAP 30	SSAP 48
Reporting Schedule	Schedule D – 1 Bonds	Schedule D – 2- 1 Preferred Stock	Schedule D – 2 – 2 Common Stock	Schedule BA – Other Long-Term Assets
Measurement Convention	Fair Value unless Systematic Value elected	Fair Value	Fair Value	Equity Method
RBC Reporting	LR002	LR005	LR005	LR008
RBC Risk Component	C-1o	C-1o	C-1o	C-1o
RBC Charge Methodology	Driven by SVO Designation – 20 Designation Categories Same as Bond charges	Driven by SVO Designation – 6 Designations Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations Same as Unaffiliated Preferred Stock charges
Tax effect	0.168 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6
AVR Component	Default Component	Default Component	Default Component	Equity Component
AVR factors	Bond AVR Factors	Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely	Entirely

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds. Starting (2026 tentatively), NAIC fixed income-like SEC registered funds designated by SVO are included in the preferred stock section.

Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16 plus sum of Schedule D, Part 2, Section 2 Column 6, Line 5319999999, Line 5519999999 and Line 5719999999. Column (2) should equal Schedule D Summary by Country, Column 1, Line 22 less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in Line (11) of this page.

Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

Line (17)

~~Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line 25 29 less Schedule D Summary by Country, Column 1, Line 24 28 less line (13).~~

Lines (19) and (20)

To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.

ASSET CONCENTRATION FACTOR LR010

Basis of Factors

The purpose of the asset concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 A to I.G bonds, NAIC 1 unaffiliated preferred stock, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.85% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash, certain cash equivalents and short-term investments) and SVO-identified exchange-traded funds (ETFs) and SVO designated fixed income-like SEC registered funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. For SVO-identified ETFs and SVO designated fixed income-like SEC registered funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual exposures (unless excluded categories as above) and aggregate those exposures with directly held investments to determine the 10 largest exposures.

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such assets. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Investments held within SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds") that are not diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. Securities held within Schedule BA joint ventures partnerships limited liability and other fund structures should be aggregated by issuer as if the securities underlying investments are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 A to I.G bonds or NAIC 1 unaffiliated preferred stock, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the 'Other Invested Assets with Underlying Characteristics of Bonds' AVR category, use the NAIC Designation and NAIC Designation Modifier from the 'NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol' column as reported on Schedule BA – Part 1. The RBC filing software automatically allows for an overall 45% RBC cap.

Lines (17) through (22)

The Asset Concentration RBC Requirement for a particular property plus the Real Estate RBC Requirement for a particular property cannot exceed the book/adjusted carrying value of the property. Any properties exceeding the book/adjusted carrying value must be adjusted down to the book/adjusted carrying value in Column (6) of the Asset Concentration.

Line (18), Column (4) is calculated as Line (17), Column (2) multiplied by 0.1100 plus Line (18), Column (2) multiplied by 0.0925, but not greater than Line (17), Column (2).

Line (20), Column (4) is calculated as Line (19), Column (2) multiplied by 0.1100 plus Line (20), Column (2) multiplied by 0.0925, but not greater than Line (19), Column (2).

Line (22), Column (4) is calculated as Line (21), Column (2) multiplied by 0.1300 plus Line (22), Column (2) multiplied by 0.1125, but not greater than Line (21), Column (2).

Lines (23) through (54)

The Asset Concentration RBC Requirement for a particular mortgage plus the LR004 Mortgages RBC Requirement or LR009 Schedule BA Mortgages RBC Requirement for a particular mortgage cannot exceed 45% of the book/adjusted carrying value of the mortgage. Any mortgages exceeding 45% of the book/adjusted carrying value must be adjusted down in Column (6) of the Asset Concentration.

Line (32), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (31) plus Line (32))] less Line (32) or Line (31) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (34), Column (4) is calculated as the greater of 0.0140 multiplied by [(Line (33) plus Line (34))] less Line (34) or Line (33) multiplied by 0.0068.

Line (36), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (35) plus Line (36))] less Line (36) or Line (35) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (38), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (37) plus Line (38))] less Line (38) or Line (37) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (40), Column (4) is calculated as the greater of 0.0270 multiplied by [(Line (39) plus Line (40))] less Line (40) or Line (39) multiplied by 0.0068.

Line (42), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (41) plus Line (42))] less Line (42) or Line (41) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (43), Column (4) is calculated as Line (43) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (52), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (51) plus Line (52))] less Line (52) or Line (51) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (54), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (53) plus Line (54))] less Line (54) or Line (53) multiplied by the appropriate factor for the CM class to which the loan is assigned.

COMMON STOCK CONCENTRATION FACTOR LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, ~~investment companies (mutual funds) and common trust funds, SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds")~~ that are diversified with the meaning of the Investment Company Act of 1940 [Section 5(b) (1)], and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code 3 on LR044 (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code 9 (other subsidiaries), the total stock investment including both preferred and common stock should be used. For funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual common stock exposures and aggregate those exposures with directly held common stock to determine the 5 largest exposures. For example, if a reporting entity directly holds common stocks in Exxon Mobil and holds a non-diversified closed-end fund with common stock in Exxon Mobil, the reporting entity shall aggregate the directly held common stock investments with the common stock investments held in the closed-end funds to determine the aggregate exposure to Exxon Mobil.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

UNAFFILIATED PREFERRED AND COMMON STOCK

	(1)	(2)	(3)	(4)	(5)
	Book / Adjusted Carrying Value	Less Affiliated Preferred Stock Without AVR	RBC Subtotal	Factor	RBC Requirement
Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO	Annual Statement Source				
(1) Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10	\$0	\$0 X	0.0039	= \$0
(2) Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11	\$0	\$0 X	0.0126	= \$0
(3) Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12	\$0	\$0 X	0.0446	= \$0
(4) Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13	\$0	\$0 X	0.0970	= \$0
(5) Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14	\$0	\$0 X	0.2231	= \$0
(6) Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15	\$0	\$0 X	0.300	= \$0
(7) Total Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (6)	\$0	\$0		\$0
(Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16 plus Schedule D, Part 2, Section 2 Column 6, Line 5319999999 + Line 5519999999 + 5719999999)					
(Column (2) should equal Schedule D Summary by Country Column 1 Line 22 less Asset Valuation Reserve Default Component Column 1 Line 16.)					
(8) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(9) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(10) Total Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)				\$0
Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO					
(11) Total Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO	AVR Equity Component Column 1 Line 17 Schedule-D Summary-Column 1 Line 29	\$0			
(12) Less Affiliated Common Stock	AVR Equity Component Column 1 Line 4+5+6+7+8+9+10+11+12+13+14+15+16 Schedule-D-Summary-Column 1 Line 28	\$0			
(13) Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records	\$0			
(14) Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3	\$0	\$0 X	0.011	= \$0
(15) Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2	\$0	\$0 X	0.300	= \$0
(16) Net Other Unaffiliated Public Common Stock	Lines (11) - (12) - (13) - (14) - (15)	\$0	\$0 X	0.450 †	= \$0
(17) Total Admitted Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (pre-MODCO/Funds Withheld)	Lines (14) + (15) + (16)	\$0	\$0		\$0
(Column 1 should equal Schedule D Summary by Country Column 1 Line 29 less Line 28 less Line (13))					
(18) Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line (02999999)				\$0
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)				\$0
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)				\$0
(21) Total Admitted Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)				\$0

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

LR005 (2)

ASSET VALUATION RESERVE

This exhibit and its supporting calculations are designed to address the non-interest-related (default) and equity risks of the company's assets by calculating a basic contribution, a reserve objective and a maximum reserve amount and controlling the flow of the reserve from/into surplus. These instructions cover the Asset Valuation Reserve (AVR) for both the General Account Statement and the Separate Account Statement. If an AVR is required for investments in the Separate Accounts Statement, it is combined with the General Account AVR and accounted for in the General Accounts statement. Worksheets supporting the separate accounts portion of the reserve are included with the Separate Accounts Statement. The criteria for determining when an AVR is required for separate accounts are described in the Separate Accounts AVR Worksheet instructions.

Line 1 – Reserve as of December 31, Prior Year

Enter amounts from Line 16 of the prior year's Reserve Calculation.

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stock (regardless if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding asset-backed securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43—Asset-Backed Securities*, for asset-backed securities only:

**DEFAULT COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.

Column 5	–	Basic Contribution Factor	<p>These factors, on average, will provide an amount that approximates expected annual losses.</p> <p>Include: The reserve factor calculated for mortgage loans.</p>
Column 7	–	Reserve Objective Factor	<p>These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.</p> <p>Include: The reserve factor calculated for mortgage loans.</p>
Column 9	–	Maximum Reserve Factor	<p>These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.</p> <p>Include: The reserve factor calculated for mortgage loans.</p>
Lines 1 through 7	–	Long-Term Bonds	<p>Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4. Categorize the bonds and other fixed income instruments into NAIC designations 1 through 6 as directed by the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i>, except that, exempt obligations should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.</p>
Line 8	–	Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion	<p>“Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion” are securities acquired through the conversion of a portion of the company’s assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.</p> <p>For instructions for completing this line, refer to “Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion.”</p>
Line 9	–	Total Long-Term Bonds	<p>Column 1 should agree with Page 2, Line 1, Column 3 plus Schedule DL Part 1, Column 6, Line 2009999999.</p>

Lines 10 through 15	–	Preferred Stocks <u>and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>
		Report the book/adjusted carrying value of all preferred stocks, <u>mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”)</u> , owned in Columns 1 and 4. <u>Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO.</u> Categorize the preferred stocks <u>and SVO-identified mutual funds, unit investment trusts and closed-end funds</u> into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.
Line 16	–	Affiliated Life Insurer with AVR
		Report the book/adjusted carrying value of all preferred stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the preferred stocks are not required to be included in the asset valuation reserve of an affiliated company.
Line 17	–	Total Preferred Stocks <u>and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>
		Column 1 should agree with Page 2, Line 2.1, Column 3 plus Schedule DL, Part 1, Column 6, Line 4509999999 <u>plus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999.</u>
Lines 18 through 24	–	Short-Term Bonds
		Report the book/adjusted carrying value of all short-term bonds and other short-term fixed-income investments (Schedule DA, Part 1 (Line 0509999999) and short-term bonds included on Schedule DL, Part 1, Line 9509999999 owned in Columns 1 and 4. Categorize the short-term bonds and other fixed-income instruments listed in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> into NAIC designations 1 through 6 as directed by the Securities Valuation Office instructions, except that exempt obligations listed in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.
Lines 26 through 32	–	Derivative Instruments
		Report the book/adjusted carrying value exposure to counterparty credit risk associated with the use of derivative instruments, net of acceptable collateral, for all counterparties by each SVO designation, from Schedule DB, Part D, Section 1, Column 8. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.
Line 34	–	Total
		Column 6 must be reported on Page 29, Line 7, Column 1.
		Column 8 must be reported on Page 29, Line 10, Column 1.

**EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factors

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Line 1 – Unaffiliated Common Stocks – Public, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds, unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. Exclude money market mutual funds appropriately reported on Schedule E, Part 2 and exclude mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”). Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

See Footnote (a) on the Annual Statement Blank for reference on the minimum and maximum reserve factors for Line 1, Column 7 and 9.

The reserve factor is equal to 15.8% times the company’s weighted average portfolio beta. The weighted average portfolio beta is the market value weighted average of four (4) portfolio betas, one from the end of the prior year and the remaining from the first three (3) quarters of the current year. Calculation of this weighted average portfolio beta is illustrated in the following worksheet:

- Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries
- Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.
- Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other
- Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.
- Line 17 – Total Common Stocks excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO
- Column 1 should agree with Page 2, Line 2.2, Column 3 plus Schedule DL, Part 1, Column 6, Line 5989999999 minus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999. The Columns 6, 8 and 10 amounts, respectively, must be reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, respectively, Column 4.
- Lines 18 through 20 – Real Estate
- Categorize the real estate as indicated on Lines 18 through 20. Real estate reported in Schedule DL, Part 1, Line 9209999999 would also be included in this section. Report the sum of Columns 1, 2 and 3 in Column 4. Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.
- NOTE: Related party encumbrances are loans from the reporting entity and the amount reflected in Column 2 should be deducted in Column 2 in the corresponding section of the AVR worksheet. If the real estate entity to which the loan was made is not wholly owned by the reporting entity, the related party encumbrance amount reflected in Column 2 should be based on the reporting entity's ownership percentage. The amount of the third-party encumbrances without recourse to be reflected in Column 3 is limited to the extent that the maximum reserve (Column 6) should not exceed the sum of the book/adjusted carrying value (Column 1) plus related party encumbrances (Column 2) and third-party encumbrances with recourse which are included in Column 3.
- Line 21 – Total Real Estate
- The Columns 6, 8 and 10 amounts must be combined with Line 83, Columns 6, 8 and 10 amounts and reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, Column 5.
- Lines 22 through 28 – Other Invested Assets with Underlying Characteristics of Bonds
- Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.



Newsletter Items for Adoption for 2025 for Health RBC:

Date: August 2025

Volume: 27.2

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For the year-end 2025 health risk-based capital (RBC) filing, submit hard copies of pages **XR001 through XR027** to any state that requests a hard copy in addition to the electronic filing. Beginning with year-end 2007, a hard copy of the RBC filings was not required to be submitted to the NAIC. Other pages, outside of pages XR001 through XR027, do not need to be submitted. Those pages would need to be retained by the company as documentation.

Page 1+: Items Adopted for 2025:

Principle-Based Bond Definition

The Capital Adequacy (E) Task Force adopted proposal 2024-25-CA during its May 15 meeting. This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, 2023- 07BWG MOD, and #2023-12BWG MOD. These changes are resulted from the adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group.

The following pages are impacted by the proposal: XR004, XR006, XR007, XR008, and XR010.

Tax Credit Investments

The Capital Adequacy (E) Task Force adopted proposal 2024-26-CA during its May 15 meeting. This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 -Investments in Tax Credit Structures and SSAP No. 94R - State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in

Washington, DC	444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509	p 202 471 3990	f 816 460 7493
Kansas City	1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197	p 816 842 3600	f 816 783 8175
New York	One New York Plaza, Suite 4210, New York, NY 20004	p 212 398 9000	f 212 382 4207
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annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

The proposal also adds lines to XR008 for collateral loans, pulling the non-admitted amount from Note to the Financial Statement 5S added by blanks proposal 2024-09BWG Modified.

Underwriting Risk Factors (XR013) - Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2025-03-CA during its June 30 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 4.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
\$0-\$3 Million	0.1440	0.0987	0.1153
\$3-\$25 Million	0.1440	0.0609	0.0716
Over \$25 Million	0.0844	0.0609	0.0716

Trend Test

The Capital Adequacy (E) Task Force adopted proposal 2025-07-CA MOD during its May 15 meeting. This proposal seeks to expand the instructions for XR027 to facilitate consistent labeling of various company action levels across lines of business.

Page 2+: Editorial Changes:

Updated the Annual Statement reference for Line 1, Column 2 of page XR007 to Schedule D, Part 1, Section 2, Column 8, Line 1019999999 + Line 1029999999

Updated Page XR010 to align with Part D Summary by Country

- Line 9 Annual Statement Source updated to "Schedule D, Summary, Column 1, Line 29"
- Line 10 Annual Statement Source updated to "Schedule D, Summary, Column 1, Line 28"

Last Page: RBC Forecasting & Warning:

RBC Forecasting and Instructions

The health RBC forecasting spreadsheet calculates RBC using the same formula presented in the 2025 NAIC *Health Risk-Based Capital Report Including Forecasting & Instructions for Companies* (Forecasting & Instructions), and is available for download from NAIC publications webpage <https://content.naic.org/publications> in a PDF or CSV format. This publication is

available on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2025 National Association of Insurance Commissioners:

2025 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Health Risk-Based Capital Newsletter Volume 27.1 Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Derek Noe, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197. Phone: 816-783-8973. Email: dnoe@naic.org.



Newsletter Items for Adoption for 2025 for Life and Fraternal RBC

Date: July 2025

Volume: 31

Page 1: Introduction

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2025 life and fraternal risk-based capital (RBC), submit hard copies of pages LR001 through LR049 to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. However, a PDF representing the hard copy filing is part of the electronic filing.

If any actuarial certifications are required per the RBC instructions, they should be included as part of the hard copy filing. Starting with year-end 2008 RBC, the actuarial certifications were also part of the electronic RBC filing as PDFs, similar to the financial annual statement actuarial opinion.

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted. However, the company still needs to retain them as documentation.

Page 1+: Items Adopted for 2025

Tax Credit Investments

The Capital Adequacy (E) Task Force adopted proposal 2024-21-L MOD during its May 15 meeting. This proposal updates the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to *Statement of Statutory Accounting Principles (SSAP) No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* resulting from the New Market Tax Credits project (SAPWG Ref# 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the Blanks (E) Working Group.

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Kansas City	1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197	p 816 842 3600	f 816 783 8175
New York	One New York Plaza, Suite 4210, New York, NY 20004	p 212 398 9000	f 212 382 4207

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Principle-Based Bond Definition

The Capital Adequacy (E) Task Force adopted proposal 2024-24-L MOD during its May 15 meeting. This proposal incorporates changes adopted by the Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes resulted from the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group. In addition, certain editorial changes are proposed to provide clarifying edits to the *Life and Fraternal RBC Instructions* and/or Blanks. These clarifying edits are not necessarily related to the principle-based bond definition project.

The proposal impacts the following pages: LR002, LR005, LR008, LR009, LR010, LR011, LR012, LR017, LR029, LR031, LR033, LR038, LR042/43/44, and LR045/46/47/48.

LR025 Life Insurance Page Annual Statement Source

The Capital Adequacy (E) Task Force adopted proposal 2025-01-L during its May 15 meeting. This proposal updates the RBC instructions and blanks for LR025 Life insurance page 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.

Underwriting Risk Factors–Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2025-03-CA during its June 30 meeting. This proposal updates the comprehensive medical, Medicare supplement, and dental and vision factors to include a 4.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental and Vision
\$0–\$3 million	0.1440	0.0987	0.1153
\$3–\$25 million	0.1440	0.0609	0.0716
Over \$25 million	0.0844	0.0609	0.0716

LR008 Other Long-Term Asset Page Reorganization

The Capital Adequacy (E) Task Force adopted proposal 2025-04-L MOD during its May 15 meeting. This proposal reorganizes the LR008–Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o versus C1-cs) are grouped to facilitate proper modified coinsurance (modco)/funds withheld (FHW) reinsurance agreement adjustments within LR008.

LR010 Asset Concentration Factor

The Capital Adequacy (E) Task Force adopted proposal 2025-05-L during its May 15 meeting. This proposal clarifies the LR010 instruction so that the Securities Valuation Office (SVO)-designated non-bond debt securities can obtain asset concentration factor treatment akin to bonds in LR002 (C-1o risk component). This put the investments' RBC treatment at the same pre- and post-principle-based bond definition adoption.

Trend Test

The Capital Adequacy (E) Task Force adopted proposal 2025-07-CA MOD during its May 15 meeting. This proposal expands the instructions for LR034 and LR035 to facilitate consistent labeling of various company action levels across lines of business. In addition, the blanks for LR034 and LR035 are modified to align with the corresponding instructions.

Modified Coinsurance/Funds Withheld Reinsurance Agreements

The Capital Adequacy (E) Task Force adopted proposal 2025-10-L during its June 30 meeting. The proposal clarifies LR045/046/047/048 instructions to clarify that if any portion of a modco/FWH asset has been concurrently used as a pledged asset for a purpose specific to the ceding insurance reporting entity at any time of the year, the RBC for the ceding company shall not be reduced. Another editorial change was made to the instruction due to the adoption of proposal 2025-04-L MOD.

Editorial Changes

On LR030, Calculation of Tax Effect for Life and Fraternal Risk-Based Capital, Line (91) reference was corrected to "LR010 Asset Concentration Factor Column (6) Line **(61)** Grand Total Page".

Last Page: RBC Forecasting and Warning

Risk-Based Capital Forecasting and Instructions

The life and fraternal RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2025 Life and Fraternal Risk-Based Capital Forecasting and Instructions for Companies* (Forecasting and Instructions). This publication is typically published around Nov. 1 each year and is available to download in PDF or CSV format from the NAIC publications web page at <https://content.naic.org/publications>. Please note that the user guide is no longer included in the Forecasting & Instructions.

Warning: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not be filed.

Last Page: 2025 National Association of Insurance Commissioners

2025 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Life Risk-Based Capital Newsletter, Volume 31. Published annually or as needed by the NAIC for insurance regulators, professionals, and consumers.

Direct correspondence to: Kazeem Okosun, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197. Phone: 816-783-8981. Email: kokosun@naic.org.



Newsletter Items for Adoption for 2025 for Property and Casualty RBC

Date: August 2025

Volume: 29.2

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2025 property/casualty (P/C) risk-based capital (RBC) hard copies of pages PR001–PR035, as well as pages PR038 and PR039, should be submitted to any state that requests a hard copy. Beginning with year-end 2011 RBC, a hard copy was not required to be submitted to the NAIC, but a PDF representing the hard-copy filing is part of the electronic filing with the NAIC.

Page 1+: Items Adopted for 2025

Investment Risk

Principle-Based Bond Definition

The Capital Adequacy (E) Task Force adopted proposal 2024-25-CA during its May 15 meeting. This proposal incorporates changes adopted by the Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes resulted from the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group. The proposal impacts the following pages: PR005, PR006, PR007, PR008, PR009, PR015, and PR030.

Tax Credit Investments

The Capital Adequacy (E) Task Force adopted proposal 2024-26-CA during its May 15 meeting. This proposal updates the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to *Statement of Statutory Accounting Principles (SSAP) No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* resulting from the New Market Tax Credits project (SAPWG Ref# 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the Blanks (E) Working Group.

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Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175

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Accident and Health Business

Underwriting Risk Factors (PR020)

The Capital Adequacy (E) Task Force adopted proposal 2025-03-CA during its June 30 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 4.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental and Vision
\$0-\$3 million	0.1440	0.0987	0.1153
\$3-\$25 million	0.1440	0.0609	0.0716
More than \$25 million	0.0844	0.0609	0.0716

Trend Test

The Capital Adequacy (E) Task Force adopted proposal 2025-07-CA MOD during its May 15 meeting. This proposal expands the instructions for XR027 to facilitate consistent labeling of various company action levels across lines of business.

Underwriting Risk

Underwriting Risk Factors Lines 4 and 8

As a result of the adoption of proposal 2024-11-P by the Capital Adequacy (E) Task Force during its April 30, 2024, meeting, lines 4 and 8 factors were based on the 2023 American Academy of Actuaries' (Academy's) *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors* report. During the Property and Casualty Risk-Based Capital (E) Working Group's April 25, 2024, meeting, the Working Group decided to use 100% indicated change with capped international and product liability lines for reserves and 100% indicated change with capped financial mortgage guaranty lines for premium for 2025 reporting.

PR017 Underwriting Risk - Reserves			
Proposed Line (4), Industry Loss & Expense RBC Factors			
Col.	Line of Business	2025 Factor	2024 Factor
(1)	H/F	0.226	0.220
(2)	PPA	0.205	0.192
(3)	CA	0.360	0.318
(4)	WC	0.382	0.363
(5)	CMP	0.475	0.485
(6)	MPL Occurrence	0.271	0.327
(7)	MPL Claims Made	0.172	0.224
(8)	SL	0.401	0.353
(9)	OL	0.496	0.514

PR017 Underwriting Risk - Reserves			
Proposed Line (8), Adjustment for Investment Income			
Col.	Line of Business	2025 Factor	2024 Factor
(1)	H/F	0.951	0.945
(2)	PPA	0.937	0.933
(3)	CA	0.926	0.919
(4)	WC	0.783	0.807
(5)	CMP	0.898	0.887
(6)	MPL Occurrence	0.861	0.863
(7)	MPL Claims Made	0.896	0.890
(8)	SL	0.884	0.887
(9)	OL	0.864	0.858

(10)	Fidelity/Surety	0.586	0.479	(10)	Fidelity/Surety	0.908	0.924
(11)	Special Property/Pet Insurance Plan	0.272	0.259	(11)	Special Property/Pet Insurance Plan	0.954	0.960
(12)	Auto Physical Damage	0.137	0.146	(12)	Auto Physical Damage	0.978	0.977
(13)	Other (Credit A&H)	0.225	0.223	(13)	Other (Credit A&H)	0.936	0.952
(14)	Financial/Mortgage Guaranty	0.146	0.163	(14)	Financial/Mortgage Guaranty	0.916	0.921
(15)	INTL	0.669	0.514	(15)	INTL	0.881	0.878
(16)	REIN. P&F Lines	0.319	0.367	(16)	REIN. P&F Lines	0.913	0.907
(17)	REIN. Liability	0.596	0.626	(17)	REIN. Liability	0.793	0.816
(18)	PL	1.226	1.014	(18)	PL	0.844	0.843
(19)	Warranty	0.355	0.363	(19)	Warranty	0.961	0.951



PR018 Underwriting Risk - Premiums Proposed Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2025 Factor	2024 Factor
(1)*	H/F	0.930	0.933
(2)	PPA	0.970	0.970
(3)	CA	1.014	1.012
(4)	WC	1.037	1.041
(5)*	CMP	0.873	0.878
(6)	MPL Occurrence	1.394	1.531
(7)	MPL Claims Made	1.146	1.138
(8)*	SL	0.894	0.908
(9)	OL	0.993	1.003
(10)	Fidelity/Surety	0.657	0.756
(11)*	Special Property/Pet Insurance	0.795	0.829
(12)	Auto Physical Damage	0.835	0.836
(13)	Other (Credit A&H)	0.926	0.931
(14)	Financial/Mortgage Guaranty	2.012	1.805
(15)*	INTL	1.476	1.355
(16)*	REIN. P&F Lines	0.973	1.072
(17)*	REIN. Liability	1.183	1.253
(18)	PL	1.194	1.229
(19)	Warranty	0.985	0.920

PR018 Underwriting Risk - Premiums Proposed Line (7), Adjustment for Investment Income			
Col.	Line of Business	2025 Factor	2024 Factor
(1)*	H/F	0.966	0.960
(2)	PPA	0.937	0.931
(3)	CA	0.903	0.897
(4)	WC	0.833	0.836
(5)*	CMP	0.921	0.909
(6)	MPL Occurrence	0.795	0.781
(7)	MPL Claims Made	0.863	0.845
(8)*	SL	0.924	0.911
(9)	OL	0.837	0.827
(10)	Fidelity/Surety	0.922	0.913
(11)*	Special Property/Pet Insurance	0.957	0.953
(12)	Auto Physical Damage	0.979	0.975
(13)	Other (Credit A&H)	0.958	0.953
(14)	Financial/Mortgage Guaranty	0.891	0.888
(15)*	INTL	0.925	0.915
(16)*	REIN. P&F Lines	0.919	0.906
(17)*	REIN. Liability	0.811	0.794
(18)	PL	0.801	0.788
(19)	Warranty	0.972	0.938

* Cat Lines

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New Industry Average Risk Factors—Annual Update

During its June 30 meeting, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors.

PR017 Underwriting Risk – Reserves Line (1), Industry Development Factors				PR018 Underwriting Risk – Net Written Premiums Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2025 Factor	2024 Factor	Col.	Line of Business	2025 Factor	2024 Factor
(1)	H/F	0.997	1.020	(1)*	H/F	0.700	0.695
(2)	PPA	1.072	1.061	(2)	PPA	0.807	0.799
(3)	CA	1.110	1.115	(3)	CA	0.792	0.787
(4)	WC	0.912	0.882	(4)	WC	0.649	0.646
(5)	CMP	1.018	1.024	(5)*	CMP	0.683	0.684
(6)	MPL Occurrence	0.914	0.910	(6)	MPL Occurrence	0.763	0.752
(7)	MPL Claims Made	1.024	0.996	(7)	MPL Claims Made	0.840	0.828
(8)	SL	0.995	0.996	(8)*	SL	0.565	0.583
(9)	OL	0.995	0.993	(9)	OL	0.664	0.649
(10)	Fidelity/Surety	0.875	0.875	(10)	Fidelity/Surety	0.374	0.375
(11)	Special Property/Pet Insurance	0.985	0.989	(11)*	Special Property/Pet Insurance	0.552	0.559
(12)	Auto Physical Damage	1.002	0.999	(12)	Auto Physical Damage	0.731	0.733
(13)	Other (Credit A&H)	0.938	0.942	(13)	Other (Credit A&H)	0.714	0.711
(14)	Financial/Mortgage Guaranty	0.486	0.493	(14)	Financial/Mortgage Guaranty	0.159	0.158
(15)	INTL	1.927	2.168	(15)*	INTL	1.184	1.153
(16)	REIN. P&F Lines	0.925	0.930	(16)*	REIN. P&F Lines	0.597	0.587
(17)	REIN. Liability	1.090	1.054	(17)*	REIN. Liability	0.788	0.760
(18)	PL	0.911	0.882	(18)	PL	0.609	0.594
(19)	Warranty	0.978	0.991	(19)	Warranty	0.641	0.641

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Catastrophe Risk

Disclosure of Climate-Conditioned Catastrophe Exposure Instruction

The Capital Adequacy (E) Task Force adopted proposal 2025-06-CR during its meeting on May 15. This proposal ensures that the information provided by companies is accurately reflected on an annual basis.

Catastrophe Modeling Attestation (PR002)

The Capital Adequacy (E) Task Force adopted proposal 2025-11-CR during its June 30 meeting. The proposal updates the PR002 Attestation by incorporating the newly identified wildfire and severe convective storm perils from PR027 for informational purposes only.

Editorial Changes

Updated the annual statement reference for line 1, column 2, of page PR006 to Schedule D, part 1, section 2, column 8, line 1019999999 and line 1029999999.

Last Page: RBC Forecasting and Warning

Risk-Based Capital Forecasting and Instructions

The P/C RBC forecasting spreadsheet calculates RBC using the same formula presented in the 2025 NAIC *Property & Casualty Risk-Based Capital Report Including Overview & Instructions for Companies*, and is available to download from the NAIC publications web page at <https://content.naic.org/publications> in a PDF or CSV format. This publication is available for on or around Nov. 1 each year. The user guide is no longer included in the RBC publications.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual financial statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not be filed.

Last Page: 2025 National Association of Insurance Commissioners:

2025 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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Property and Casualty Risk-Based Capital Newsletter Volume 29.1. Published annually or as needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Eva Yeung, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197. Phone: 816-783-8407. Email: eyeung@naic.org.

Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut St., Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8300. Email: prodserv@naic.org.

Capital Adequacy (E) Task Force
RBC Proposal Form

- | | | |
|---|--|---|
| <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>4-24-24</u>	FOR NAIC USE ONLY
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2024-16-CA</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2024</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	DISPOSITION
ON BEHALF OF: <u>Capital Adequacy (E) Task Force</u>	ADOPTED:
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> TASK FORCE (TF) _____
TITLE: <u>Chair</u>	<input type="checkbox"/> WORKING GROUP (WG) _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> SUBGROUP (SG) _____
ADDRESS: <u>50 West Town Street, Suite 300</u>	EXPOSED:
<u>Columbus, OH 43215</u>	<input checked="" type="checkbox"/> TASK FORCE (TF) <u>04/30/2024</u>
	<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 checked="" type="checkbox"/> Health RBC Blanks | <input checked="" 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)

The purpose of this proposal is to provide edits to the RBC Preamble to clarify and emphasize the purposes and the intent of using RBC.

Additional Staff Comments:

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

Revised 2-2023

Risk-Based Capital Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry, and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.
2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.
3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.
4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risk (health).
5. The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.
6. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The RBC formula largely consists of a series of risk factors that are applied to selected assets, liabilities, or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item.
7. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
 - Evaluate emerging “risk” issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.
 - Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
 - Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
 - Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual* and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.

Preamble

8. The RBC forecasting, and instructions were developed and are now maintained in accordance with the mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital specific regulatory requirements based on its size and risk profile.

B. Purpose of Risk-Based Capital

9. The purpose of RBC is to identify potentially weakly capitalized companies **in order to** facilitate regulatory actions **designed to**, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies.
10. **RBC instructions**, RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions.
11. Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act* (#312) or the *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement **(including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts)** containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

C. Objectives of Risk-Based Capital Reports

12. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.

To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an "RBC event" and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer's risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

There are several RBC levels with different levels of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next higher level, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action. **Mandatory Control Level (MCL) requires the insurance commissioner to place the reporting entity under regulatory control.**

D. Critical Concepts of Risk-Based Capital

13. Over the years, various financial models have been developed to try to measure the "right" amount of capital that an insurance company should hold.¹ "No single formula or ratio can give a complete picture of a company's

¹ Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

Preamble

operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur.”

14. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is **neither useful nor appropriate** to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a **reliable** assessment of their relative financial strength. **For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%.** For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company’s RBC results to compare competitors.
15. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise’s ability to maintain itself as a going concern.
16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC blanks to 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.
17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.

E. Limited use of Risk-Based Capital

18. Use of RBC is limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.
19. RBC does not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer's RBC ratio but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer's financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.
20. RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for

Preamble

RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength.



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May 30, 2024

Tom Botsko
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: 2024-16-CA (Provide Edits to the RBC Preamble)

Dear Chair Botsko,

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the CADTF exposure of 2024-16-CA which aims to provide edits to the RBC Preamble to clarify that a company's RBC and adjusted reports should not be used to rank insurers.

ACLI supports regulators' ability to maintain RBC as a tool to identify potentially weakly capitalized companies and facilitate regulatory actions that ensure companies make good on their promises to policyholders, and we are committed to working constructively with regulators on this effort. However, regarding the current exposure, we request a delay in proceeding so that stakeholders may properly consider all key issues and potential unintended consequences. Delaying consideration of the RBC Preamble changes would provide industry and regulators with more time to craft appropriate updates that both address concerns around the public usage of RBC and harmonize with other ongoing projects at the NAIC.

The uses of insurance capital have evolved considerably since the original adoption of the NAIC Risk-Based Capital (RBC) For Insurers Model Act (#312, hereafter "Model Act"). For example, the ability of companies to share their RBC ratio in public forums has significantly strengthened public perceptions of the U.S. state-based regulatory system of insurance companies, e.g., during and after the financial crisis of 2008 and 2009. Further, other regulatory regimes have required

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disclosure of information of company capital positions that highlight the importance of RBC transparency, including:

- GAAP Accounting Standard ASC 944-505-50-1, which states: “Insurance entities shall disclose in their financial statements...(t)he amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on the entity's current operations) if significant in relation to the entity's statutory capital and surplus.” Companies have previously received notices from the SEC stating that reporting within the 10-K “above the minimum required RBC levels” is not a sufficient statement.
- Other foreign jurisdictions (e.g., Japan ESR) require some sort of solvency disclosure and removing the publication of the RBC ratio would make the U.S. one of the few jurisdictions that does not.
- The Employment Liability Insurance Report requests TAC and ACL information.
- Insurance Core Principle (ICP) 20.10 of the International Association of Insurance Supervisors (IAIS) requires that companies disclose “the capital available to cover regulatory capital requirements.”

In addition, this proposed change to the RBC Preamble could lead to a significant lack of transparency into an insurer's financial health for consumers and policyholders. It could complicate validation of RBC-related information for rating agencies, investment analysts, and reinsurance and other arrangements.

While we strongly urge regulators to delay action in order to conduct further analysis, we believe the following edits are, at a minimum, necessary. These edits are included in redlined sections later on in this letter. Additional edits may be necessary as industry and regulators learn more about the ramifications of these changes:

- Paragraph 11: We recommend striking the proposed parenthetical statement which is not part of the language in Model Act, which is otherwise quoted. We would also recommend adding a paragraph regarding striking a balance on considering the needs of other stakeholders including the consumers relying on transparent measures of financial health.
- Paragraph 14: We recommend replacing “neither useful nor appropriate” with “may not be meaningful” as we believe the proposed language calls into question the reliability of RBC, contrary to the interests of both regulators and the industry. Additionally, we recommend removing the example from this paragraph for the same reason.
- Paragraph 18: Recommend changing “limited” to “intended”, and striking the second sentence of this proposed paragraph, and focus on the affirmative use of the RBC data.
- Paragraph 20: Recommend striking the third and fourth sentences of this proposed paragraph and focus on the affirmative use of the RBC data.

One possible way to address regulator concerns around public disclosure of RBC is to have companies include a disclaimer around the intended purpose of RBC data as described in the RBC Preamble. We would be happy to work with regulators on the precise wording of such a disclaimer.

Lastly, we would caution against any changes to the Annual Statement related to this effort, specifically, the Total Adjusted Capital (TAC) and Authorized Control Level (RBC) values in the Five-Year Historical Data sheet of the Annual Statement. The Model Act specifically allows for this disclosure, and we believe retaining these lines is necessary for the above regulatory requirements and to maintain appropriate transparency within the RBC framework. Removal of these lines would likely increase the use of alternate metrics that estimate financial strength which may introduce inconsistencies between entities and inaccuracies due to estimation, neither of which is to the benefit of regulators and stakeholders.

The following is a redline of the proposed edits (as highlighted in yellow in the exposure) that we believe will address our preliminary concerns while providing appropriate clarifications:

Section B 11.

- Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for possible corrective action with respect to the insurer and is not intended or appropriate as a means to rank insurers generally. Therefore—except as otherwise required under the provisions of Risk-Based Capital (RBC) for Insurers Model Act (#312) or the Risk-Based Capital (RBC) for Health Organizations Model Act (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

Because the RBC framework has been developed with certain regulatory needs in mind, state regulators have decided keep some elements of the calculation confidential, as well as any workout plans for companies that have triggered a regulatory action level. Publication of limited RBC disclosures in the Annual Statement accommodates the interests of stakeholders that include policyholders, investors, insurers, and other regulatory authorities, and strikes an appropriate balance between confidentiality and transparency.

Section D 14.

- Because the NAIC formula develops threshold levels of capitalization rather than a target level, it may not be meaningful is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

Section E 18.

- Use of RBC is intended limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

Section E 20.

- RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management.

~~or evaluating the risk of investments:~~ While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

Thank you once again for the consideration of our comments and we look forward to further discussion on this matter at a future session of the Capital Adequacy (E) Task Force.

Sincerely,

Marianne E. Gomez *B. Banerji* *Colin Masterson*

cc: Eva Yeung, NAIC



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May 9, 2025

Mike Yanacheak
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Tom Botsko,
Vice Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: Re-Exposure of Proposal 2024-16-CA (Revised Preamble)

Dear Chair Yanacheak and Vice Chair Botsko:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional feedback on Proposal 2024-16-CA which aims to revise the Risk-Based Capital (RBC) Preamble to clarify that a company's RBC and adjusted reports should not be used to rank insurers. This was an item that we previously commented on in May 2024 and we are grateful for the work of regulators and NAIC staff alike in bringing back this issue for further consideration following the 2025 Spring National Meeting in Indianapolis.

ACLI supports regulators' ability to maintain RBC as a tool with which they can identify potentially weakly capitalized companies in order to facilitate regulatory actions designed to ensure that policyholders will receive their promised benefits. This aligns with a goal of our organization that every American have the opportunity to purchase products that provide them guaranteed financial security.

While we appreciate the re-exposure of the proposed Preamble edits from last year, we remain concerned with the language as drafted. In accordance with the structure of the document itself, we offer the following commentary which elaborates on our general position stated above within the context of the included consideration questions:

1. *As it is currently drafted, the proposed edits in Proposal 2024-16-CA do not include any edits to the 5-year Historical Data page in Annual Statement Blanks. Are there any comments/objections adopting the proposed edits to preamble "as is"?*
- While ACLI is supportive of the NAIC's treatment of the 5-year Historical Data page in the Annual Statement Blanks as a separate issue, we do not support adopting the proposal as it is currently written. The edits do not adequately reflect the uses of insurance capital which have evolved considerably since the original adoption of the NAIC RBC For Insurers

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Model Act (#312, hereafter “Model Act”). The ability of companies to share their RBC ratio in public forums has also significantly strengthened public perceptions of the U.S. state-based regulatory system of insurance companies, especially during such times as the 2008 Financial Crisis and the COVID-19 pandemic. Further, different regulatory regimes, rating agencies, and other parties have required disclosure of information of company capital positions that highlight the importance of RBC transparency, including:

- GAAP Accounting Standard ASC 944-505-50-1, which states: “Insurance entities shall disclose in their financial statements... (t)he amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on the entity's current operations) if significant in relation to the entity's statutory capital and surplus.”.
 - Companies have previously received notices from the SEC stating that reporting within the 10-K “above the minimum required RBC levels” is not a sufficient statement.
 - Other foreign jurisdictions (e.g., the Canadian Office of the Superintendent of Financial Institutions, Japan ESR, EU & UK Solvency II, IAIS Insurance Capital Standard (ICS), Swiss Solvency Test, et. al.) require some sort of solvency disclosure and removing the publication of the RBC ratio would make the U.S. one of the few jurisdictions that does not.
 - The Employment Liability Insurance Report requests TAC and ACL information.
 - The Insurance Core Principle (ICP) 20.10 of the International Association of Insurance Supervisors (IAIS) requires that companies publicly disclose the capital available to cover regulatory capital requirements.
 - The Moody's Rating Agency's RBC roll forward with their variable annuity and captive survey requests where TAC, CAL and RBC % are shown.
- We also continue to urge the NAIC to adopt the edits suggested in our May 30, 2024 letter (please see Appendix I). Specifically, these were edits to Preamble Sections B.11., D.14., E.18., and E.20.

2. *Please provide examples of ways how risk-based capital ratios are used other than the intended purposes of identifying potentially weakly capitalized companies:*

- While it was not feasible during this exposure period to gather information on the life insurance industry's uses of RBC ratios, ACLI would like to offer further dialogue with our members to regulators and NAIC staff for their consideration. Given the diversity of our companies in terms of size, product mix, and ownership structure, there could be many different uses of risk-based capital data that are not in conflict with the Model Act or with the description of RBC in the current version of the Preamble. We believe that specific and substantive examples of how life companies use RBC information could be incredibly helpful for all parties involved as we attempt to clarify and strengthen the RBC Preamble and ACLI would be more than willing to be the forum where such information is aggregated.

Though we understand regulators' position that a company's RBC and adjusted reports should not be used to rank insurers generally, for all of the reasons stated above, we suggest not adopting the Preamble changes as written and instead suggest the alternatives outlined in our previous comment letter which was included as a part of the current exposure.

If the public disclosure of RBC is a primary concern of regulators, ACLI would also like to reaffirm our willingness to work with the Task Force on drafting a potential disclaimer around the intended purpose of RBC data, as described in the RBC Preamble, for companies to include when they are providing the information in any of the ways described above and elsewhere.

Thank you once again for considering our feedback and we look forward to additional conversation soon at a session of the Capital Adequacy (E) Task Force.

Sincerely,

Colin Masterson

cc: Eva Yeung, NAIC

Appendix 1:

The following is a redline of the proposed edits (as highlighted in yellow in the exposure) that we believe will address our preliminary concerns while providing appropriate clarifications:

Section B 11.

- Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for possible corrective action with respect to the insurer and is not intended or appropriate as a means to rank insurers generally. Therefore—except as otherwise required under the provisions of Risk-Based Capital (RBC) for Insurers Model Act (#312) or the Risk-Based Capital (RBC) for Health Organizations Model Act (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement ~~(including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts)~~ containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

Because the RBC framework has been developed with certain regulatory needs in mind, state regulators have decided keep some elements of the calculation confidential, as well as any workout plans for companies that have triggered a regulatory action level. Publication of limited RBC disclosures in the Annual Statement accommodates the interests of stakeholders that include policyholders, investors, insurers, and other regulatory authorities, and strikes an appropriate balance between confidentiality and transparency.

Section D 14.

- Because the NAIC formula develops threshold levels of capitalization rather than a target level, ~~it may not be meaningful is neither useful nor appropriate~~ to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. ~~For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%.~~ For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

Section E 18.

- Use of RBC is intended limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. ~~Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors.~~ While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

Section E 20.

- RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. ~~They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would~~

not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.



May 30, 2024

Judith L. French (Ohio)
Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Doug Ommen (Iowa)
Vice Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Dear Ms. French and Mr. Ommen,

Aegon Ltd. ("Aegon") and the Transamerica Companies ("Transamerica") welcome the opportunity to comment on the CADTF exposure of 2024-16-CA. Transamerica represents the U.S. insurance operations of Aegon, whose shares are traded on the New York and Euronext (Amsterdam) stock exchanges.

We understand the proposed preamble changes to be a precursor to the removal of RBC information from the public statutory annual statement. We believe that the ramifications of such removal would be significant, and we urge the Task Force to defer action on this proposal so that these ramifications can be carefully considered.

As a public company, it is important for our investors to have accurate information about Aegon's ability to return invested capital. Transamerica's RBC constrains its generation of free capital, and Transamerica has historically generated a significant percentage of Aegon's free capital. Eliminating RBC transparency would introduce uncertainty among investors, making Aegon's shares less attractive for investment.

We also fear unintended consequences for the state-based system of regulation. Making RBC confidential would make state regulation an outlier and in contravention of international standards. Moreover, proposed preamble language that frames RBC as unreliable for well-capitalized companies may be perceived as calling into question its efficacy for purposes of regulatory action against weakly capitalized companies.

In searching the *Proceedings of the NAIC*, we found no evidence that state regulators ever intended for public RBC reporting to be temporary. We do not believe that a decision to reverse a three-decade-old policy decision should be taken lightly. We urge regulators to take additional time to consider the full ramifications of this proposal.

Thank you for considering our feedback. We look forward to further discussions at a future meeting of the Capital Adequacy Task Force.

Sincerely,

William J. (Bill) Schwegler
Transamerica
Senior Director, Financial Policy
6400 C Street SW
Cedar Rapids, IA 52499
Ph: 319-355-2667
bill.schwegler@transamerica.com

cc: Kim Cross, Iowa Insurance Division
Mike Yanacheak, Iowa Insurance Division



May 31, 2024

Tom Botsko
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: Risk-Based Capital Preamble Exposure

Dear Chair Botsko,

On behalf of the Prudential Regulation Committee (the committee) of the American Academy of Actuaries,¹ I appreciate the opportunity to provide input to the Capital Adequacy Task Force (CADTF) on the exposed revisions to the [Risk-Based Capital Preamble, 2024-16-CA](#). The Academy's mission is to serve the public and the U.S. actuarial profession. As part of that mission, the Academy has historically closely collaborated with the NAIC and state regulators in updating components of the NAIC's risk-based capital (RBC) framework to maintain it as an appropriate solvency monitoring tool. The committee has the following comments regarding the Exposure.

The Importance of RBC Transparency

We believe that maintaining public disclosure of the RBC level of individual insurance companies is beneficial to policyholders, consumers, and other external stakeholders. While recent discussion at the CADTF and the paragraphs added to the Preamble may point to the potential removal of RBC disclosures, we emphasize that a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime. For example, maintaining public disclosure of available and required capital is aligned with the globally accepted framework for insurance supervision, as outlined in International Association of Insurance Supervisors (IAIS) [Insurance Core Principle \(ICP\) 20.10](#). Disallowing such disclosures of the NAIC's risk-based capital may imply a distancing from these principles for a sound supervisory regime.

We believe that RBC has served its purpose well in that it has assisted regulators in identifying weakly capitalized companies. It has also provided a general and consistent way for other stakeholders to obtain a high-level understanding of a company's solvency position, which promotes public confidence. Removal of this important information may lead to the development of alternative metrics of solvency risk assessment and public reliance on those metrics, which would be detrimental to the public given the effectiveness of RBC.

The Uses of RBC Information

We appreciate the edits in the Exposure regarding certain misuses of RBC such as use for ranking individual companies or for detailed comparisons. While we recognize that there are instances in which

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

public data can be used for purposes that are not appropriate, if the data is valuable for its appropriate purposes eliminating it from the public domain may not be the best approach to solving the problem.

We also note that the Exposure may emphasize some of the misuses of RBC without fully highlighting the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general for many years. The proposed changes to paragraphs 11 and 14 and the new section E may be interpreted by some readers as critical of RBC generally. While we understand the purpose of these paragraphs in terms of outlining RBC's limitations, they may call into question the perceived validity and reliability of RBC when it has worked well for its purpose for many years. Therefore, we suggest the CADTF also consider potential revisions that reinforce the significant value that RBC has provided to date.

We agree with the additions made in section E about RBC being developed and calibrated for its primary use, the identification of potentially weakly capitalized companies. However, we disagree that any other use of RBC is inappropriate, including the use of RBC information outside of specific RBC action levels. For example, excess capital above the defined Authorized Control Level RBC provides useful information for company management and is regularly used by those focused on financial management and solvency risk, including actuaries. Part of sound risk management involves an assessment of Statutory-required and available capital levels in baseline and stressed conditions which can inform risk-based decision making. In addition, for some companies, RBC can be effective in capturing their risks, and these companies may reasonably use RBC as their primary capital management tool. We believe that the language in the exposure could better reflect these important company uses of RBC.

We also observe that RBC is utilized for other regulatory review tools such as ORSA and GCC, so the added language in Section E appears inconsistent with this practice of using RBC for broader purposes. For GCC specifically, the NAIC's recent adoption of the excess relative ratio scaling approach indicates that capital levels above minimum requirements remain relevant, in this case, for understanding group solvency. As such, we believe the sole emphasis on identifying potentially weakly capitalized companies may not be appropriate and recommend tempering the language in Section E.

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's Risk Management and Financial Reporting policy analyst, at behnke@actuary.org.

Sincerely,

Tricia Matson, MAAA, FSA
Chairperson, Prudential Regulation Committee
American Academy of Actuaries

PETER GOULD

May 5, 2025

Capital Adequacy (E) Task Force
NAIC

Re: Risk Based Capital Proposal 2024-16-CA
https://content.naic.org/sites/default/files/inline-files/2024-16-CA_0.pdf

Dear Members of the CATF:

I am a retiree and annuity contract owner. I depend on annuities for a considerable portion of my retirement income. I purchased annuities as a source of retirement income I would not outlive - not as speculative investments.

As an annuity owner, the insurer's obligations to me are spelled out in my contracts. However, there are no provisions in my contracts that protect me or provide me with rights to prevent my insurer from becoming insolvent or unable to meet their contractual obligations to me. As a result, consumers like me, as well as the insurance professionals who serve them, who ignore the financial stability and claims-paying ability of an insurer do so to their own detriment.

As an annuity owner with skin in the game, I'm uniquely qualified to share my strong opposition to the above-referenced proposal. I'm astounded that a regulator, charged with protecting consumers, would even think of suppressing RBC information.

After carefully studying the proposal and initial comment letters, it's clear to me that:

1. The change in the preamble is a thinly veiled attempt to remove RBC data from publicly available annual statutory statements. This would deprive stakeholders (including consumers, policy owners, investors, insurance professionals, researchers, journalists, academics and others) of information that is vital to the selection and monitoring of insurers.
2. Stakeholders have had access to this information for 30+ years. The information is useful for a variety of reasons - helping regulators identify weakly capitalized companies, providing stakeholders a general and consistent way to evaluate an insurer's condition. There's no compelling (or minor) reason to change the current policy and hide the information from stakeholders.
3. Transparency is important in the regulation of insurers and evaluation of their solvency. This is made clear in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 20.10. In a similar manner, transparency is required under GAAP Accounting Standard ASC 944-505-50-1, for reporting on a company's 10-K. The proposal would be a glaring deviation from both US GAAP accounting requirements and from international regulatory best practices - to the detriment of all stakeholders.

P.O. Box 8815 Bloomington, IN 47407-8815

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Rather than work against stakeholders, CATF's energy should be directed toward improved consumer protection and greater transparency. To that end, I propose the following:

1. Reject proposal 2024-16-CA
2. Improve transparency by adding the statutory statement RBC information to the NAIC website as part of the Consumer Information Search Financial Overview Report, so that it's easily searchable and accessible to all stakeholders.

In closing, the rationale for the proposal is severely flawed - it's just an attempt to mask the real problem - the toxic mixture of non-existent guardrails and weak enforcement, that would allow a company's RBC to go from 600 to negative 20,000 in one year (A-Cap). If the objective is to bury and ignore the problem, simply drop all references to RBC in the Model Code and eliminate the Capital Adequacy (E) Task Force.

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

Peter Gould

Peter Gould



May 8, 2025

Mike Yanacheak
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners

Re: [Proposal 2024-16-CA](#) (Revised Preamble)

Dear Chair Yanacheak,

On behalf of the Risk Management and Financial Reporting Practice Council's Prudential Regulation Committee (the Committee) of the American Academy of Actuaries,¹ I appreciate the opportunity to provide input to the Capital Adequacy Task Force (CADTF) on the re-exposed revisions to the Risk-Based Capital Preamble, 2024-16-CA (the Re-exposure). The Academy's mission is to serve the public and the U.S. actuarial profession. As part of that mission, the Academy has historically closely collaborated with the NAIC and state regulators in updating components of the NAIC's risk-based capital (RBC) framework to maintain it as an appropriate solvency monitoring tool. The Committee provided comments on the initial 2024-16-CA exposure in 2024, and this letter reiterates those comments and responds to the additional questions in the Re-exposure.

The Use of RBC Information

The Committee appreciates the edits in the Re-exposure regarding certain misuses of RBC, such as use for ranking individual companies or for detailed comparisons. While we recognize that there are instances in which public data can be used for purposes that are not appropriate, the edits to the Preamble, in our view, go too far in critiquing nonregulator use of publicly available RBC information and in critiquing any use beyond identifying potentially weakly capitalized companies.

We understand and agree with the additions made in section E about RBC being developed and calibrated for its primary use. However, we disagree with the implication that any nonregulator use of RBC is inappropriate, including the use of RBC information outside of specific RBC action levels. For example, excess capital above the defined Authorized Control Level RBC provides useful information for company management and is regularly used by those focused on financial management and solvency risk, including actuaries. Part of sound risk management involves an assessment of statutory-required and available capital levels in baseline and stressed conditions which can inform risk-based decision making. In addition, some companies can reasonably use RBC as their primary capital management tool to the extent that they have performed an analysis and determined that it effectively captures their solvency risks. Finally, the public at large may also benefit from understanding to what extent a given company's capitalization exceeds a regulatory action level.

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We also observe that RBC is utilized within other regulatory review tools such as Own Risk Solvency Assessment (ORSA) and Group Capital Calculation (GCC), and the added language in Section E appears inconsistent with this practice of regulators using RBC for broader purposes. For GCC specifically, the excess relative ratio scaling approach adopted by the NAIC indicates that capital levels above minimum requirements are relevant for understanding group solvency. As such, we believe the emphasis on RBC as solely identifying potentially weakly capitalized companies is too narrow, and we recommend tempering the language in Section E.

Question 2 of the Re-exposure requests examples of how RBC ratios are used beyond their primary purpose for regulators to identify potentially weakly capitalized companies. As noted earlier, companies use RBC ratios in baseline and stressed conditions to inform risk-based decision making, and some companies use RBC as their primary capital management tool. From our perspective, these examples are reasonable uses of RBC information, and the edits to the preamble could be interpreted to dissuade such uses.

The Benefits of RBC

We also observe that the proposed edits emphasize some of the misuses of RBC without fully highlighting the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general. The proposed changes to paragraphs 11 and 14 and the new Section E may be interpreted by some readers as critical of RBC generally. While we understand the purpose of these paragraphs in terms of outlining RBC's limitations, they may call into question the perceived validity and reliability of RBC when it has worked well for its purpose for many years.

Question 1 of the Re-exposure asks whether there are any objections to adopting the proposed edits as-is. In addition to acknowledging the other valid uses of RBC noted earlier, we suggest the CADTF include in Section E (paragraphs 18-21) a presentation that identifies the value that RBC has provided to date alongside critiques that have been raised regarding other uses of RBC. For example, the overarching statements in paragraphs 18 (e.g., "Any other application of RBC would be inappropriate...") and 20 (e.g., "RBC requirements are not appropriate to evaluate the relative or absolute level of risk...") could be replaced by statements that better communicate and/or balance the strength of the RBC framework to external stakeholders.

The Importance of Public RBC Disclosures

While we understand that the Re-exposure does not include edits to the 5-year Historical Data page in the Annual Statement Blanks, the past discussion at the CADTF and the proposed edits to the Preamble could be interpreted to advocate for the potential removal of public RBC disclosures. We emphasize that a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime. RBC, in addition to assisting regulators in identifying weakly capitalized companies, has also provided a general and consistent way for other stakeholders to obtain a high-level understanding of a company's solvency position, which promotes public confidence in the insurance system in the United States. In effect, we believe the public disclosure of the RBC level of individual insurance companies has been beneficial to policyholders, consumers, and other external stakeholders.

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's Risk Management and Financial Reporting policy project manager, at behnke@actuary.org.

Sincerely,

Dana Hunt MAAA, FSA

Chairperson, Prudential Regulation Committee

American Academy of Actuaries

Center for Insurance Research

145 South Main Street. • Haverhill, MA 01835

May 9, 2025

Capital Adequacy Task Force
Commissioner Doug Ommen, Chair
Director Judith L. French, Vice Chair
Eva Yeung, NAIC Staff
NAIC Central Office
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comments on Exposure Proposal 2024-16-CA (Revised Preamble)

Dear Members of the Task Force:

I am writing to offer my comments on the re-exposed draft of 2024-16-CA (Revised Preamble) (dated April 24, 2024). I am one of the members of the NAIC consumer liaison program and the Director of the Center for Insurance Research. I also serve on the Consumer Advisory Committee of the Interstate Insurance Product Regulation Commission. The Center for Insurance Research (CIR) is a nonprofit, 501(c)(3) public policy and advocacy organization founded in 1991 that represents consumers on insurance matters nationally.

I am writing to express my opposition to the Revised Preamble draft to the extent it criticizes the public disclosure of Total Adjusted Capital and the Authorized Control Level in the Five Year Historical page of the Annual Statement Blank. I believe it is vital to maintain public access to these data elements¹ to consumers and consumer intermediaries (such as CIR and academics who research insurance topics) because: 1) RBC disclosures are an important tool for groups like mine, who use these elements for their intended purposes; 2) transparency of the summary RBC results is necessary to meet the objectives of state insurance regulators, the NAIC and consumer intermediaries in maintaining a strong, state-based system of financial oversight; and 3) access

¹ My comments pertain specifically to the summary ACL and TAC data elements as they appear in the current Annual Statement Blanks. The calculation of these numbers involves confidential, non-public information and CIR does not oppose the confidentiality of formula inputs as necessary to protect trade secrets and regulatory decision-making.

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to summary RBC result data is already established in existing state laws and regulations across the country and the contemplated revisions would create gaps and/or conflicts with existing statutory law and complicate the freedom of information obligations of state insurance departments.

As a preliminary matter, I wish to express my agreement with the comments of the industry interested parties:

- *TransAmerica/Aegon* – CIR agrees wholeheartedly that it “is important for investors to have accurate information” and that “Making RBC confidential would make state regulation an outlier and in contravention of international standards.”
- *American Academy of Actuaries* – CIR fully endorses the Academy’s statement that “maintaining public disclosure of the RBC level of individual insurance companies is beneficial to policyholders, consumers, and other external stakeholders” and that “a transparent basis of evaluating insurance company solvency is essential for an insurance regulatory regime” in accordance with global insurance supervision standards. CIR also agrees that the Exposure does not full highlight “the benefits that RBC has provided to companies, regulators, policyholders, and the industry in general for many years.”
- *American Council of Life Insurers* – CIR concurs the “ability of companies to share their RBC ratio in public forums” strengthens public perceptions of the U.S. state-based insurance regulation system. ACLI is also correct in noting that numerous regulatory and statutory standards² require that RBC data be disclosed, such as GAAP rules, foreign jurisdiction requirements for multi-national companies, and IAIS standards. CIR further agrees that removing the RBC data elements could “lead to a significant lack of transparency into an insurer’s financial health for

² As the ACLI notes, disclosure is expressly contemplated by the NAIC Model Act – which has been enacted as statutory law in many jurisdictions and removing the disclosure from Annual Statements could lead to serious conflict of laws issues and result in public records law violations for insurance departments as discussed further below.

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consumers and policyholders.” Furthermore, ACLI is correct in noting that removing the reported data elements would just result in the use of alternate metrics – ones that are not subject to the design and oversight of state insurance regulators – which would not be available to consumers, consumer intermediaries and academics due to prohibitive costs.³

1) RBC disclosures are an important tool for consumers and consumer intermediaries.

While concern about the potential mis-use of RBC data elements is understandable, it does not justify concealing summary RBC data elements from members of the public. As acknowledged in the Exposure itself, there are already existing prohibitions on the mis-use of reported RBC data elements contained in the NAIC Model Risk-Based Capital Acts (Model Acts no. 312 and 315) that expressly prohibit “the making, publishing, disseminating, circulation or placing before the public, ... an advertisement, announcement or statement ... containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component.” These prohibitions have been enacted as statutory law in jurisdictions across the country, so current state laws expressly allow for the disclosure of certain RBC data elements and provide regulators with the authority to curb abuse.

CIR has never used the RBC data elements reported in statutory annual statements to “rank” insurers or to develop financial strength comparisons for use by consumers. Nor is CIR aware of any other consumer group that has used RBC data elements for these purposes.

³ For example, the A.M. Best Company calculates its own financial solvency score (as do other rating agencies) called BCAR. Based on our review, BCAR seems to produce similar results as the RBC calculation, but is instead a proprietary method owned by a private company that charges tens of thousands of dollars for access to its data. While an expense of that magnitude may be acceptable to corporations (though ultimately paid by policyholder premiums), it is beyond the means of individual consumers, academics and consumer groups. Thus, removing RBC summary results from the annual statement blank will prevent transparency to policyholders and consumers who lack the resources to pay exorbitant sums to private data providers.

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I can state that RBC data elements – and particularly those reported on the 5 Year Historical Page – have been vital in reviewing proposed corporate transactions such as mutual to stock conversions, mergers and acquisitions that impact insurance policyholders. CIR has acquired a certain level of expertise in evaluating corporate reorganizations and how they might impact insurance policyholders through our work on demutualizations and other transactions. As such, we are often consulted by other non-profits across the country about reviewing proposed reorganizations including mergers, MHC reorganizations, mutual to stock conversions, and the acquisition and/or conversion of non-profit health plans (like Blue Cross and Blue Shield plans). Typically, in seeking policyholder approval (and/or customer disclosures distributed to explain the nature of the transaction), a reorganizing company will provide numerous rationales for proposed changes in their corporate or financial structure. Often this includes statements regarding the need for additional capital or financial flexibility because of potential market pressures on current capital resources. In order for policyholders to fairly evaluate these potential benefits (just as investors are entitled to financial transparency as noted by the industry commentators), they must be able review the basic financial data – and the Five Year Historical page of the Annual Statement and the existing RBC disclosures in particular are a valuable resource. By consulting the Five Year Historical exhibit, consumers and consumer intermediaries like myself can get a five year snapshot of the finances of a company. The RBC elements are not being used to compare one company to another, or rank different companies, but instead to monitor and review the trends of a single company which the consumer does business with. If the Five Year Historical exhibit shows a trend in the RBC calculations, it informs consumers that capital flexibility might in fact be an important issue in support of a corporate transaction – but if it does not then policyholders can learn that it is a potential benefit of a transaction, but not the most immediately impactful aspect of a reorganization. This is clearly an appropriate use of summary RBC data elements. Consumers should not be left in the dark about the finances of companies that they rely upon to protect their property and loved ones, particularly in light of the fact that an insurance contract can be a decades long commitment between a policyholder and their insurance carrier.

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2) Transparency of RBC results is necessary to maintain a strong, state-based system of financial oversight as acknowledged by the NAIC.

The NAIC and state regulators have made RBC the centerpiece of the modern state-based financial regulation system. RBC is a crucial component of the Group Capital Calculation (GCC) developed by insurance regulators to provide a state-focused method of solvency regulation comparable to solvency regulation systems in other jurisdictions – particularly the the IAIS. This permits industry to operate world-wide without becoming subject to duplicative and unnecessary levels of financial regulation. With the RBC being so vital to the state-based financial solvency system, it is inappropriate (especially in the modern data age) to withhold summary RBC results from the public.

The importance of demonstrating and explaining the RBC system to the public to build confidence in the state based financial regulation system has been recently acknowledged by the NAIC. In February, the Executive Committee created a new task force directly under EX to further enhance and develop the RBC system – the Risk-Based Capital Model Governance (EX) Task Force. On February 9, 2025, the RBC Capital Model Governance Task Force released a memorandum detailing its duties which noted (in relevant part):

- “... as the insurance market has become more global and large insurers have become internationally active, there has been an increase in the need for global insurance supervisors to understand differences across regulatory jurisdictions to effectively supervise these groups. Through these collaborative efforts, U.S. regulators and NAIC staff continue to engage with international stakeholders in efforts to improve understanding and knowledge of the U.S. state-based regulatory system, including the role of RBC. In short, this initiative will not only serve as an opportunity for an update to RBC governance; it is also an opportunity to define and communicate the strengths of the RBC framework to a global audience.”
- “Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.”

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See NAIC Memorandum Re: Risk-Based Capital Model Governance (EX) Task Force (February 9, 2025) (<https://content.naic.org/sites/default/files/inline-files/2025%20Task%20Force%20Memo.pdf>) (emphasis added). This public messaging and education about RBC and the state-based insurance regulation system was also acknowledged in a press release issued by the NAIC and newly formed Task Force later in February about the charges of the Task Force:

- The Task Force will “design a communication campaign highlighting the RBC formulas’ strengths in the U.S. state-based system of financial regulation and solvency oversight.”
- Wisconsin Insurance Commissioner Nathan Houdek was quoted: “The new RBC Task Force will not only serve as an opportunity for state regulators to enhance RBC; it is also an opportunity to reinforce the global competitiveness of the U.S. RBC framework as we educate international stakeholders on these guidance updates.”
- “Oversee the development of an education and public messaging campaign to highlight the benefits and strengths of the RBC framework as an important part of the U.S. state-based insurance regulatory system.”

See NAIC Executive Committee Launches Risk Based Capital Task Force to Improve Governance NAIC News Release (Feb. 20, 2025) (<https://content.naic.org/article/naic-executive-committee-launches-risk-based-capital-task-force-improve-governance>) (emphasis added).

Given the importance of the RBC to determination of the GCC and its importance in establishing the ability of the state-based regulatory system to be accepted internationally (so that U.S. based insurers can operate world-wide), and the fact that the Executive Committee of the NAIC has recently formed a new task force expressly charged with developing a public messaging and education system around the use of RBC as the cornerstone of the U.S. state-based financial regulation system, it would be counter-productive for the Capital Adequacy Task Force to recommend removing summary RBC data elements from the annual statement blanks.

If the Task Force has not done so already, any decision on this matter should be delayed pending a potential referral to the new RBC Capital Model Governance (EX) Task Force to ensure such a change would not be undermining

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the work of the newly formed Capital Model Governance Task Force. If the Executive Committee has determined that public messaging and education about the RBC system are necessary for the continuation of the state-based regulatory system, then this Task Force should not be removing RBC information from the public purview.

3) Removing summary RBC data element disclosures is contrary to existing state statutes and could create gaps and/or conflicts that could create unnecessary FOIA compliance work and potential FOIA liability for insurance departments.

As ACLI has noted, the NAIC Model Acts governing RBC (which have been enacted as statutes in accredited states) expressly contemplate public disclosure of summary RBC data elements and rather prohibit misuse of RBC numbers to promote insurers or other communications. This is the law of the land in virtually every jurisdiction, and removing RBC data elements from the annual statement blanks will not alter the laws of each individual state (nor could it), but rather only make it more difficult for insurance departments to comply with open records laws in their states.

In the current environment, a consumer or consumer intermediary need only consult an annual statement to find the summary RBC data elements, many of which are easily accessible through company or department websites without the need to engage in the time-consuming process of submitting a FOIA and spending department resources in responding to information requests. However, if the summary RBC data elements are stripped from the annual statement, organizations like mine will be forced to submit more frequent FOIA requests to departments. Altering the Preamble also creates the specter of a conflict of laws. If the Preamble suggests that summary RBC data elements are non-public, but state law provides they are appropriate for public disclosure (so long as they are not mis-used), then insurance department staff may be placed in the difficult position of choosing which to comply with. And violation of public information laws can have serious consequences for state agencies. Public records laws in many jurisdictions convey strict fines and penalties for non-compliant agencies. There is no need to create this sort of confusion or exposure risk for state insurance departments when it is established law that there are valid uses of summary RBC data elements and when it would undermine the stated goals of the Executive Committee to make the RBC system understood and accepted in the global marketplace.

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For foregoing reasons, I recommend this Task Force reject the proposed revisions to the Preamble that suggest or imply the summary RBC data elements are non-public and should be removed from the annual statement blanks.

Thank you for the consideration of these comments.

Sincerely,

/s/

Brendan Bridgeland
Director
insuranceresearch@comcast.net

insuranceresearch@comcast.net

RBC Purposes and Guidelines Ad Hoc
Sept. 19, 2023

Participating in the call were: Tom Botsko (OH), Steve Broadie (American Property Casualty Insurance Association—APCIA), Crystal Brown (NAIC), Maggie Chang (NAIC), Kevin Clark (IA), Steve Drutz (WA), Rachel Hemphill (TX), Matthew Richard (TX), Todd Sells (NAIC), Ed Toy (Risk & Regulatory Consulting), Eva Yeung (NAIC), and Ali Zaker-Shahrak (CA).

Hemphill said that at a high level, the intent of the meeting is to look at the risk-based capital (RBC) preamble and reiterate the purpose of RBC. She said in previous RBC calls, it's been noted that there could be a conflict in maintaining RBC for regulatory use versus structuring it for non-regulatory purposes. Hemphill said there was an initial review of the preamble to see how it was drafted and where emphasis was placed. Section B reiterated that the purpose of RBC is to identify potentially weakly capitalized companies and facilitate regulatory actions that ensure insurers can meet their obligations.

Botsko asked if the first sentence in Section B could be all caps and bold. Hemphill said that this is an example of what the group is considering, as there are pieces of the preamble that are being ignored, and she wants to call them out. She suggested merging the first and second sentences in Section B.9 and bolding them to emphasize the purpose of RBC. Richard and Broadie suggested additional modifications to the first two sentences which further clarify the regulatory aspect of RBC.

Hemphill emphasized that repeating the purpose of RBC throughout the document should be a strong consideration, as well as reiterating in Section B.10 that RBC reports and adjusted reports are provided solely for commissioner use. She said that improving the language to make it stronger and clearer would be beneficial. Hemphill noted that the group may want to further clarify the language in Section B.11 and emphasize that RBC is not intended to rank insurers and mention the problems associated with ranking insurers by RBC. Hemphill said in Section D.13, where it said no single formula is right, that means that RBC is not perfect, and the group is not trying to make it perfect. She suggested trying to tie this sentiment to the purpose.

Hemphill summarized Section E—Limited Use of Risk-Based Capital (Attachment). The section reiterates how RBC should be used, which is to identify “potentially weakly capitalized companies to facilitate regulatory oversight,” and she said that another use of RBC would not be appropriate. RBC is not intended to rank insurers, as it would not give a clear or meaningful ranking of insurers. She said an example would be an RBC change that would not correspond to a meaningful interpretation of the RBC level and the financial strength. There could be two completely analogously situated insurers, where one voluntarily chose to strengthen assumptions for reserving, and the other did not. The RBC ratio would generally be reduced for the insurer that had taken the prudent action of strengthening their assumptions without it impacting their financial situation.

Hemphill said regulators are considering a more complete picture of what is going on for an insurer to appropriately follow up on RBC action levels. She said a concern with using RBC beyond its intended purpose would create perverse incentives for companies that are not actually at risk of triggering an action level but because of the perception that might get used as more of a ranking tool, the company manages their RBC level rather than their business. She said because RBC is a broad tool to facilitate regulatory oversight. RBC can fluctuate without a corresponding change in the insurer's financial strength. Therefore,

the group should not attempt to parse granular RBC differences and, instead, should consider RBC as having specific thresholds and action levels.

Toy said the changes being discussed are related to the RBC ratio and action levels and how they should be appropriately or not appropriately used. He said that the individual components, such as the RBC factors, are not meant to suggest that it is a measure of capital risk in the near term. Hemphill agreed and said that something should be added to the preamble on the components of RBC, as well. She said she has seen reviews of reserve setting where companies were relying on an RBC factor to develop an assumption and said that she is concerned about having too large of an approximation for a specific purpose.

Broadie thinks the group should not extensively include how RBC is a blunt tool instrument because the International Association of Insurance Supervisors (IAIS) is assessing whether the aggregation method is comparable with its insurance comparable standard, as the U.S. is largely based on RBC. He said the group strongly wants this assessment to be completed and, again, cautioned on referencing RBC as a blunt tool instrument. Hemphill said that RBC is not tailored to an individual company and its specific risks. Organizations will always need a company-specific review and assessment to understand their risk profile. RBC isn't designed for every situation, and it's not expected that any international standard would be either. Clark said that regulators assess RBC on where the company stands relative to trigger level, which is consistent with typical regulatory practice.

Zaker-Shahrak asked what the RBC ratio should convey once it's calculated. Hemphill reiterated that RBC is a tool used to identify potentially weakly capitalized companies, and companies must still evaluate their businesses on an individual basis, and they should not take the RBC level as the definitive stay on a company, as RBC could evolve over time. However, RBC is still a useful tool. Zaker-Shahrak asked how useful RBC is and if the group can identify what it covers. He asked specifically what one could conclude from a company whose RBC ratio is 300%. Brown said that prior to the implementation of RBC, there were fixed minimum capital and surplus requirements, and some states still have these requirements. However, states have different requirements, and these can vary among lines of business. She said that RBC was designed to give regulators and commissioners the authority to act through the *Risk-Based Capital (RBC) Model Act* (#312). If a company goes below 200%, the commissioner has the authority to act because the company has triggered an action level. Brown said that RBC was not designed to be used as a stand-alone tool. Brown said RBC is one tool in the regulatory toolbox and gives regulators the ability to act.

Clark said that if he saw a company with a 250% RBC ratio, without any other context, it wouldn't provide much information because RBC alone doesn't reveal much. Hemphill reiterated that RBC is useful, but it's not a complete picture. Brown said that if a regulator does see a 250% RBC ratio, they may look further at the individual components to identify the biggest driver of the authorized control level change or if there was a significant change in total adjusted capital, which could show what may require further investigation.

Zaker-Shahrak said the RBC ratio is not meaningful because of how it was calculated. Richard said that it is a rule of thumb, and it has not been calibrated based on a one- and 200-year scenario. RBC is not a risk measure, but it is a rule of thumb that regulators use to identify companies that require further investigation. Toy said he did not want to underplay the value of RBC, as it is a very important regulatory tool, but it cannot be used on its own. He said there are other factors that explain the RBC ratio, and regulators have steps in place for when they see an RBC ratio at a certain level or trending in a particular

direction, that is what the ratio was designed for. He said RBC is basically a tripwire mechanism, notifying regulators as to when they should be concerned and consider taking regulatory action. When RBC is at an extreme level, regulators are required to act, and then they should look at what is driving the RBC ratio—is it because of excessive investment risk, operational risk, or is there a liabilities issue? Toy said RBC is a vital regulatory tool, but it is one of many and is meant to warn regulators to potentially take certain actions. Hemphill agreed and said that the distinction the group is trying to make is that RBC is vital and useful, but it is something that prompts action and is not a conclusion. The group's concern is that is not how RBC is being used and its being taken as something that on its own you make a summary conclusion based.

Broadie said that historically, RBC was the first risk-sensitive capital measure developed in the regulatory community around the world. It was developed in response to a time when companies were experiencing significant insolvency, and this was a tool developed to prevent this. Broadie asked where the ranking issue is being seen. He said he was not aware of it on the property/casualty insurance sector but noted that it has been a concern. Botsko said that investment companies are saying that they cannot sell their products because it has a negative impact on their RBC. Toy said that this highlights some investment issues such as labeling investments to achieve a specific RBC charge, which is not the point of statutory accounting or RBC. A company should be investing based on the risk. Hemphill emphasized that the real concern is taking actions that are not prudent in a broader business sense to specifically manage RBC when it's not to avoid an action level.

Hemphill said there are several options for the group to clarify the purpose: 1) edit the preamble; 2) develop FAQs; 3) add guidance to the handbooks; 4) create a one-page purpose; and 5) potentially removing total adjusted capital (TAC) and authorized control level (ACL) in the annual statement. She also discussed where to post the information. Botsko said that removing TAC and ACL has been brought up in prior years, and there has been significant pressure to keep it on the five-year history page. He said when he reads the preamble, it basically says it should not be publicly available. Clark said he supports the effort but is skeptical that any significant change will happen unless the ratio becomes completely non-public. He said insurance companies are already aware of the purpose of RBC, and that purpose is clearly stated in the preamble, but companies still use it as a financial statement metric. Hemphill agreed and said it is still worthwhile to explore more significant steps such as modifying the public aspects of the annual statement. Richard said that despite regulators' best efforts, if a company still finds it useful to provide this information to investors, they may still provide this information even if it's not the correct way to use it. Chang asked if there was a consequence for a company using the RBC ratio outside of its intended purpose. Brown said that Section 8 of the Model #312 specifies that RBC is confidential, and it shouldn't be used or disseminated anywhere. RBC is a regulator-only tool to be used by the commissioner. Chang said what if there were guardrails for RBCs over 300%, and they could have different accounting treatment. She asked if that would indirectly disclose the RBC ratio or if it has to be very specific information that discloses the ratio. Brown said it was her understanding that it is the ratio and the completed RBC filing that is confidential because TAC and ACL are part of the five-year historical page. She said the reason TAC and ACL was included was for transparency but also confidentiality. She said it was not clear if there was consideration to remove those amounts after a few years.

Drutz said he concurs with the group that changing the wording may not make a difference, but he did think that changing the preamble is important. He also said he thought removing TAC and ACL from the five-year historical page would be good because if Model #312 says it is a regulatory tool, providing it to

the public doesn't make sense, as it then is used as a comparison tool. Drutz said he has heard from companies that rating agencies want the company's RBC ratio at a certain level for a certain rating. Toy said he has had several conversations with different rating agencies on that point, and they say that is an interesting area of miscommunication, because the rating agencies do not put that much emphasis on the NAIC RBC ratio because they have their own capital models. The only time they focus on the NAIC RBC ratio is when it's close to an action level, and there's potential that a regulator could act. He said it is not because the ratio is low but because of the potential that a regulator could act.

Sells said that when developing RBC, the intent was for it to be confidential. Toward the end of its development, right before it was adopted, there were arguments for result indicators. He said at the last minute, even though the entire filing was to be confidential, because of the politics at the time and arguments from the industry, they agreed to make TAC and ACL public so that the TAC could be compared to the ACL. He said that you can figure out the other levels from that one level. He said there was conversation about not including a calculation of a ratio, but the discussion was mainly about comparing TAC to ACL, and how a percentage calculation is not done. He said there was concern that if a calculated ratio was published, it would be easier for people to use that ratio as a ranking mechanism or for comparison rather than just using TAC and ACL. He said that because RBC is a regulatory requirement, and if a company is weakly capitalized, that is an indicator people should know, which is why it was included in the five-year historical page. Yeung said that the TAC and ACL was placed in the five-year historical page because of the potentially weakly capitalized companies; however, over 98% of companies are above a 200% RBC ratio. She asked if those companies should also be disclosed. Sells said that scenario was not contemplated, and he has had to explain that an RBC ratio cannot be used to indicate that one company is better than another company in terms of risk. RBC was designed to identify potentially weakly capitalized companies only, not to rank companies when they are over target levels.

Hemphill said there may be a second phase to see if there is anything the group can do better for the RBC metrics.

Risk-Based Capital Purposes & Guidelines Ad Hoc Subgroup

Oct 10, 2023

Participating in the meeting were: Ali Zaker-Shahrak (CA), Wanchin Chou (CT), Kevin Clark (IA), Rachel Hemphill and Matt Richard (TX), Ray Nelson (America's Health Insurance Plans—AHIP), Rebecca Freitag (Merlinos & Associates), Jim Braue (UnitedHealth Group—UHG), Crystal Brown (NAIC), Maggie Chang (NAIC), and Eva Yeung (NAIC).

Hemphill said that she discussed the preamble with Ed Toy (Risk & Regulatory Consulting), and there are more edits, and the purpose of this meeting is a continuation of last month's meeting to walk through the proposed edits. According to Hemphill, the edits are to re-emphasize certain pre-existing concepts in the preamble, e.g., purpose of risk-based capital (RBC). Hemphill introduced some strengthening language in paragraph 14 to illustrate the point that comparisons of amounts exceeding the threshold standards do not provide a reliable assessment of their relative financial strength. She proposed that this sentence be added to the preamble: "A Company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%."

The most substantial change proposed is Section F—Limited Use of Risk-Based Capital. Paragraph 22 was drafted with Toy's input, and it emphasizes that just like RBC ratios, RBC factors should not be used out of context of the RBC framework. RBC factors are not appropriate to evaluate the relative risk of investments outside of the RBC framework. Hemphill inquired whether paragraph 22 should be made broader in scope to cover not just assets (investments) but also non-assets elements. She also asked the member for feedback on any other edits that should be made.

Hemphill said she envisions that the next step would include drafting a one-pager, FAQs, or another similar document to supplement the current publications, which Brown seconded. Zaker-Shahrak inquired whether there is a clear statement that spells out the purpose of RBC. Hemphill responded that Section B of the preamble describes "Purpose of Risk-Based Capital" to define action levels. Zaker-Shahrak also challenged the addition of "A Company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%."

Hemphill said the statement is true, and there was an example (in paragraph 19 regarding reserving practices) added to illustrate this point, but she was open to expand on examples. Clark pointed out some ancillary uses of RBC ratios. For example, in statutory accounting guidance, admittance of goodwill and deferred taxes are predicated on RBC levels of the insurers, and reserving also hinges on RBC. Clark wondered whether these uses would be perceived as "violations" of RBC purposes. Hemphill said she did not believe so. She said those ancillary uses, including the current interim guidance of negative interest maintenance reserve (IMR) admittance, are consistent with the purposes of RBC, which is to aid identification of potentially weekly capitalized companies. Both agreed that edits to the preamble are warranted to acknowledge these ancillary uses.

Brown drew a parallel between the use of RBC as a guardrail for the admittance of "soft" assets and the practice of trending RBC ratios. Both are preventative and conducted prior to solvency issues surfacing. Hemphill wondered whether the recommendation to remove asset concentration limits (ACL) and total adjusted capital (TAC) from the five-year historical page would hinder the trending analysis. Brown confirmed that trending can still be performed using profiles and financial accounting standards (FAS)

tools, which are the preferable sources of data for trending. (For instance, insurers who updated their RBC filing might not necessarily update TAC and ACL in their annual statements' five-year historical page.)

Hemphill discussed two instances in the valuation manuals (e.g., VM-20 and VM-21) that reference RBC that she would propose to remove. These removals will help align with the purposes of RBC discussed so far.

Freitag said she views TAC and ACL in the five-year historical page as valuable resources in her role as an appointed actuary and examining actuary. She elaborated that as an appointed actuary, when she is evaluating material adverse deviation to reserves, it is crucial for her to evaluate how a change in liability by a certain amount would trigger what kind of change in RBC. She acknowledged that she can access RBC information and asked if it should be kept confidential and removed from annual statements. She said she finds the current five-year historical disclosure a convenient way to look up RBC information for prior years. As an examining actuary, RBC is one of the key metrics for planning the exam. She used an example of a company that had an RBC ratio on the verge of action level (e.g., 220%). This RBC ratio would suggest the company has heightened incentive to understate reserves, and this expectation would guide her examination effort. However, she agreed with the discussion within the call that an RBC ratio of 400% versus 600% may not have any meaningful indication of the insurers' relative strength.

Hemphill said she appreciated the feedback and said that maybe the pass/fail indicator is not sufficient enough. In Freitag's example, she would need information more than pass/fail. Chou appreciated the importance of the TAC and ACL information during the financial exam and financial analysis. He said another important use is the trending aspect. Significant changes in an RBC ratio year over year can provide an early warning signal. Zaker-Shahrak inquired about the company action levels. Brown walked through the various action levels:

Company Action Level (CAL): When an RBC ratio is between 150% and 200%, CAL is triggered and according to the *Risk-Based Capital (RBC) Model Act* (Model #312), the insurer needs to file an RBC plan with its state insurance commissioner.

Regulatory Action Level (RAC): When an RBC ratio is between 100% and 150%, RAC is triggered.

Authorized Control Level: When an RBC ratio is between 70% and 100%, authorized control level is triggered. Once this happens, besides the need to file an RBC plan and to perform an exam/analysis, the state insurance commissioner is authorized to take regulatory control of the insurance company, if deemed to be in the best interests of the policyholders and creditors.

Mandatory Control Level (MCL): When an RBC ratio is 70% or below, MCL is triggered, and the state insurance commissioner is required to take regulatory control of the company.

Zaker-Shahrak said that one cannot use ratios alone to judge or rank insurance companies. Brown described her prior experience on the NAIC financial analysis team and said that her reviews included facts and circumstances and did not use RBC ratios alone.

Hemphill mentioned that Tom Botsko's (OH) intern is working on a project to see if information in RBC filings is useful in predicting insolvency. However, the project is still in its early stages, and there are no reportable items just yet. However, Hemphill asked the members if there are any aspects or components of the RBC filings that serve well to predict insolvency. Chou and Brown discussed the workstream at the

Health Risk-Based Capital (E) Working Group, which is looking into excessive growth charge. Brown acknowledged that RBC components alone are not enough to shed light on risk, and the Working Group has been analyzing annual statement data as well. The group said that there is need to review Own Risk and Solvency Assessment (ORSA) filings as well. Hemphill said that in conclusion, the use of RBC components alone to pinpoint excessive growth risk is not sufficient.

Hemphill and Brown asked the group members to perform a detailed review of the proposed revisions to preamble and provide feedback prior to next meeting.

Hemphill said she also reviewed the Framework for Regulation of Insurer Investment, which is a holistic review document exposed by the Financial Condition (E) Committee. She attempted to evaluate if there are any inconsistencies between the proposed framework and the proposed changes to the preamble. She discerned no inconsistencies but asked for feedback from the members. Brown announced that comments to the framework have just been posted and asked members to review both the framework and the comment letters. Clark said he is closely involved in the framework, and his personal view is that there is no contradiction between the framework and the discussions within this Ad Hoc Subgroup.

RBC Purposes and Guidelines Ad Hoc

December 12, 2023

Hemphill kicked off the meeting and stated that the purpose of the meeting is to discuss comments received on the proposed edits to preamble (as discussed in Oct 2023 meeting). Brown summarized the comments in Attachment I (also incorporated herein) and was invited to verbally walk through the comments received.

Brown responded to Freitag's question below and Brown said she will need to investigate more but her initial reaction was that since companies at mandatory control level (MCL) are meant to be taken over by state and therefore appear to be the reason why MCL is not included in paragraph C.12.

[Paragraph C.12 – it seems that all RBC levels are noted except for the Mandatory Control Level. Was that intentional?](#)

Brown said the comments received are incorporated into the revised draft preamble, to the extent possible. (Attachment II)

Hemphill gave members opportunities to speak to their comments.

(Paragraph 11) Broadie said ACPI's comment was contributed by a member of ACPI. Hemphill noted that the edit was not meant to be limiting and thought it was a good edit. Botsko concurred.

(Paragraph 12) Hemphill said she herself doesn't know the reason why MCL is left off and she asked for Botsko's input. Botsko was not aware of a specific reason but is open to addition if the group feels like the addition is warranted. Nelson can see why it was left off as it is "mandatory" control level, and there is no "anticipation" required. Brown suggested, if need be, she can incorporate the reference in model law to describe the "required" actions. Broadie explained the importance of highlighting the word "required". The intent was to substantiate the Commissioner's action if the rehabilitation or liquidation were to take to the court, the Commissioner can point to the model law and state it was a requirement. With that, Hemphill agreed to enhance the preamble and add a sentence explaining required actions at MCL (as described in model law). There was no objection.

(Paragraph 14) Nelson suggested to add the words "For example" in front of the added example "A company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%."

(Paragraph 18) Hemphill said the purpose of this paragraph is to make it very clear that ancillary uses of RBC should all serve the same purpose: to aid in identifying potentially weakly capitalized companies. Nelson suggested the addition of the word "potentially" before the phrase "weakly capitalized" in this paragraph to ensure consistency within the preamble.

(Paragraph 19) Botsko suggested replacing the word "would" with "does" in the following sentence. No objection.

[RBC would not provide a complete, clear, or meaningful ranking of insurers.](#)

(Paragraph 20) Hemphill explained that the original paragraph 20 drafted with assistance from Toy was originally targeted for assets. The Subgroup would like to broaden the scope beyond assets therefore

debuted the revised paragraph 20. Toy said he did not object to broadening the scope but suggested the possibility of making it clear what the other examples this paragraph applies. Both Hemphill and Broadie can think of other non-asset factors (reserves, premium etc.) that are derived from historical experience. Clark preferred to be generic and not to spell out all the risk areas as risk evolves over time. Hemphill seconded. Mujala questioned whether this paragraph also applies to C3 phase 1 (model based) calculation or just limited to factor-based components. Clark suggested to change the language of “RBC factors” to “RBC requirements” to accommodate both type of calculations (factor-based vs. model-based). Hemphill agreed.

(Paragraph 21) No comment or further discussion.

Hemphill then discussed the next step. She believed after revisions (as discussed above) are made, the revised draft preamble is ready to be discussed at the Parent Ad Hoc Group level and thereafter the Capital Adequacy Task Force. Botsko concurred. Tipton brought up that the word “insurers” and “companies” are used interchangeably. Hemphill checked the rest of the preamble and saw this interchangeable use is prevalent in the document. No objection to Hemphill proposal to elevate the preamble to the parent ad hoc group.

Next, Hemphill polled the group and asked if anyone thinks the public disclosure of TAC and ACL in the 5-year historical page is inconsistent with the preamble the group discussed thus far. Drutz found it inconsistent himself. Botsko had recollection that the disclosure of TAC and ACL in the 5-year historical page is for the convenience of regulators. He said if that is true, should the group decided to remove the TAC and ACL disclosure in annual statements, the group may need to consider incorporating the historical data in RBC confidential filing for regulators’ use. Hemphill concurred. Brown reminded the members that historical RBC data is currently available to regulators through the format of Profile report, and it even breaks down to RBC component level.

Botsko asked whether the industry representatives in the group had comments. Broadie said while he had not discussed it with his members (ACPIA), he was pretty sure rating agencies and investors alike are using the data in the past decades. He also cautioned the group to be clear to the public what is the motive of “removing” the disclosure as it could be construed as “hiding” something (e.g., “is the industry in bad shape?”). Chou agreed with the commenters that there are ancillary uses of RBC data. He asked what the benefit of removing the data, apart from holding onto “confidentiality” principle of RBC. Hemphill gave some examples of her current effort to remove references of RBC in VM to avoid perceived inconsistencies. She said since the group just finished discussing the potential “limited use” of RBC as described in preamble paragraph 18, it became the group’s responsibility to evaluate potential unintended use of RBC data. She believes the public disclosure of TAC and ACL in the 5-year historical page might potentially encourage misuse. Mujala wondered if there is benefit there to disclose publicly the potentially weakly capitalized companies and if so, how and where to draw a line. Drutz viewed RBC as a pure regulator tool. He said all the company actions (responses, RBC plan etc.) are all confidential. He thought the unintended use of RBCs could be just as disruptive as not having RBC for public use. He said there are other tools and metrics out there to indicate the strength of insurers and RBC is not designed to serve that purpose. Broadie expressed concern about disruption to publication of industry-level aggregate RBC statistics. Hemphill and Yueng reassured that there is no plan to change the current publication and it will continue to be available to the public no matter what. Hemphill also thought the aggregate statistics would be a good tool to dispel doubt about “health” of the insurance industry should the removal of TAC

and ACL data be proposed. Sells offered historical perspective as to why TAC and ACL are disclosed in 5-Year Historical. The legacy fixed capital RBC framework was transparent and reperformable. As such it led the working group at the time of transition from fixed to risk-based framework to provide more transparency. Tipton inferred Sell suggest removing ACL only but leave TAC in the 5-year historical statement. Sells said it is up to the working group to decide.

Participating in the call: Rachel Hemphill (TX), Matt Richard (TX), Wanchin Chou (CT), Kevin Clark (IA), Tom Botsko (OH), Steve Drutz (WA), Steve Broadie (ACPIA) Ray Nelson (AHIP), Frank Huang (Merlinos & Associates), Ed Toy (RRC), Tip Tipton (Thrivent), Maambo Mujala (NYL), Ron Wilkins (Academy), Crystal Brown (NAIC), Maggie Chang (NAIC), Eva Yeung (NAIC), Todd Sells (NAIC).

Attachment I

Summary of Comments

ACPI – Matt Vece and Steve Broadie:

We have one suggestion: adding the red text, copied below, to paragraph 11 of the preamble. Thanks again and let us know if you have any questions.

11. Comparison of an insurer’s TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act* (#312) or the *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement **(including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts)** containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

Iowa DOI - Kevin Clark:

Edits incorporated into paragraph’s 18 and 20.

Davies – Rebecca Freitag:

Comments on Preamble (and my apologies if any of these comments were raised before I began attending the meetings):

1. Paragraph C.12 – it seems that all RBC levels are noted except for the Mandatory Control Level. Was that intentional? (If I’m behind the times and the Mandatory Control Level has been eliminated, please feel free to let me know).
2. Paragraph D.14 – I think the addition of the sentence shown in Track Changes is good, but I note that it may not be entirely necessary given the greater detail provided in new section E. I’m definitely not opposed to it, though.

Comments on Discussion of TAC/ACL in Five-Year History: I was responding to the idea that perhaps the company’s RBC amount should not appear at all in the publicly available Annual Statements (or perhaps should just appear as a “pass/fail.”) I have a number of concerns about this:

1. From my perspective, as an examining actuary, it is very helpful to know how close a company is to any kind of action level right from the outset. If I’m examining a company and I see that it has an RBC ratio of 250%, I know that there were likely strong operating incentives to make sure the reserves were not “too high” (and whether “too high” really means “conservative” or just “more conservative than we can absorb” depends on the company).

2. As an Appointed Actuary, in determining the materiality standard that I use for my Opinion, I need to know how close a Company is to any kind of RBC level. And I might want to understand how close they have been in the past, and whether this might have impacted any operational decisions. I acknowledge that I could obtain this information from the company confidentially, along with other confidential data that they provide, but it is certainly convenient to have it as part of the Annual Statement.
3. From a public perspective, I believe that this is the type of information that can be put to appropriate use. I understand, based on the discussions in the committee, that it has sometimes been put to erroneous use. But if we believe that an RBC ratio of 200% says something important about a company to the regulators, I think the public has an interest in being able to see the ratio, and getting a feeling as to whether or not it is close to 200% (or any other RBC level). I imagine arguments could be made that other sections of the Annual Statement should be confidential. But it appears to me that for the most part, the Annual Statements are public so that any interested entity can learn important information about the companies that they are working with. Although I understand and appreciate that the inputs to the underlying formula for calculating the company's risk based capital are confidential, I think that it is in the public's interest to be able to calculate the actual ratio, and to see it over time, as is currently the case in the Five Year History Exhibit (P&C blank).

New York Life – Maambo Mujala:

We think the changes to the preamble are really good and emphasize the purpose of RBC. We believe it is important to emphasize the limitations of RBC and to avoid the misuse for other purposes.

Attachment II

Risk-Based Capital Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.
2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.
3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.
4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risk (health).
5. The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.
6. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The RBC formula largely consists of a series of risk factors that are applied to selected assets, liabilities or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item.

7. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
 - Evaluate emerging “risk” issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.
 - Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
 - Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
 - Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual* and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives
8. The RBC forecasting and instructions were developed and are now maintained in accordance with the mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital specific regulatory requirements based on its size and risk profile.

B. Purpose of Risk-Based Capital

9. The purpose of RBC is to identify potentially weakly capitalized companies in order to facilitate regulatory actions designed to, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies.
10. RBC instructions, RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions.
11. Comparison of an insurer’s TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act* (#312) or the *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

C. Objectives of Risk-Based Capital Reports

12. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.

To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an “RBC event” and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer’s risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

There are several RBC levels with different levels of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next higher level, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action.

D. Critical Concepts of Risk-Based Capital

13. Over the years, various financial models have been developed to try to measure the “right” amount of capital that an insurance company should hold.¹ “No single formula or ratio can give a complete picture of a company’s operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur.”
14. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. A company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company’s RBC results to compare competitors.
15. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise’s ability to maintain itself as a going concern.
16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.

¹ Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.

E. Limited use of Risk-Based Capital

18. Use of RBC is limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate, to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.
19. RBC would not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer's RBC ratio, but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer's financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.
20. RBC factors for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC factors were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC factors would not be appropriate to rely on in other contexts such as reserve setting or risk management, or evaluating the risk of investments. While the development of RBC factors often rely on historical data points, the data used extend over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover the granularity of an analysis for RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC factors are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.
21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength.

RBC Purposes & Guidelines Ad Hoc

January 9, 2024

Participating in the meeting were: Wanchin Chou (CT), Kevin Clark (IA), Tom Botsko (OH), Rachel Hemphill and Matt Richard (TX), Steve Drutz (WA), Steve Broadie and Matt Vece (American Property Casualty Insurance Association—APCIA), Frank Huang (Merlinos & Associates), Todd Moltumyr (America’s Health Insurance Plans—AHIP), Maambo Mujala (New York Life Insurance Company), Jeremy Rosenbaum (Guggenheim Partners), Tip Tipton (Thrivent), Ed Toy (Risk & Regulatory Consulting), Ron Wilkins (American Academy of Actuaries—Academy), Crystal Brown (NAIC), Maggie Chang (NAIC), Julie Gann (NAIC), Holly Weatherford (NAIC), and Eva Yeung (NAIC).

Hemphill kicked off the meeting by recapping key discussions from the Dec 12, 2023, meeting. She indicated that the key agenda item for this meeting is to discuss the removal of total adjusted capital (TAC) and asset concentration limits (ACL) in the five-year historical table in the annual statements.

Rosenbaum was against this proposed removal. He stated that he is from the industry and believes risk-based capital (RBC) data provides useful information to indicate the “health” of companies for regulators and investors alike. He quoted instances where RBC ratios are used in covenants of bilateral agreements in the marketplace. He said RBC ratios are not used as standalone indicators but as “part of the broader fabric” upon which the market assesses insurance companies. He was also aware of certain states that impose certain minimum RBC thresholds when approving transactions.

Toy said that based on his interaction with rating agencies, he is aware of the use of RBC as part of the holistic review of an insurer. The rating agencies have a particular focus on the possibility of regulatory action. Toy provided an example where derivative counterparties would terminate insurers’ derivative agreements if their RBC ratios went below 200%. Toy said he views these uses of RBC ratio as absolute triggers to be detrimental to regulators. Brown pointed out that RBC is a snapshot view of capitalization and won’t reflect, for example, capital contributions, corrective action, etc., that happen after year end. She also disagreed with Rosenbaum’s belief that RBC is an indicator for “health” of insurers.

Tipton sought clarification on which piece of information is proposed to be removed—ACL, TAC, or both. Hemphill said she believes, based on the read of the preamble, the most reasonable approach is to remove both. Tipton said he thought that ACL is harder than TAC to derive from other existing disclosures.

Chou suggested performing a cost-benefit analysis. He would like to see an inventory of how and where ACL and TAC data are currently used, as this could help guide the group in thinking about what practitioners are impacted by the proposal. Hemphill concurred. She said she envisioned there will be a lot of analysis, but they are not going to be performed at this group level.

Botsko stated that the Academy was made aware of this discussion and showed interest in the topic. He said he believes that additional input from the industry and the Academy at the formal group level would be helpful to perform cost-benefit and unintended consequences analysis. He was also curious about the NAIC’s opinion on the subject. Weatherford said the NAIC legal counsel has started looking into the *Risk-Based Capital (RBC) Model Act* (Model #312) and agreed with the proposal. She said the NAIC is ready to perform further analysis, and she will be monitoring the evolving discussions. Weatherford declined to

share her opinion. Brown said that ultimately this is up to regulators, and the NAIC legal counsel will be engaged to ensure compliance with Model #312. Hemphill said that she consulted with the Texas Department of Insurance's (TDI's) legal counsel, which generally agreed with the direction of the proposal based on how Model #312 and the preamble are worded. Based on that discussion, Hemphill said she believed regulators have authority to proceed with the proposal, and it is more of a policy question than legal. Hemphill sought agreement from other regulators on the proposal, which is to remove TAC and ACL from the five-year historical page. Connecticut, Iowa, and Washington supported moving the proposal to the parent ad hoc group.

Hemphill asked Rosenbaum what additional information RBC ratios provide that is deemed as incremental to the rating agencies' strength indicators/ranking. Rosenbaum responded that most asset managers have internal credit analysis departments that gather as much information as they can possibly find to evaluate an investment prior to making a decision. It's a mosaic approach, and no one indicator is suffice. He added that public disclosure of ACL and TAC also forces companies to explain their year-over-year trends. Clark disagreed and stated the use of RBC ratios in investment decisions is exactly what regulators would like to discourage. It deviates from the original intent of RBC. Hemphill said the means may not justify the end to provide transparency for decision making, just as there are other confidential filings with regulators that, despite being useful, are not meant to be disclosed.

Botsko inquired about the historical perspective of disclosing TAC and ACL, and Brown provided a recap of what had been discussed during the Dec. 12, 2023, meeting. Botsko said that the disclosure was meant to be temporary based on Brown's recap. He said that he thought there were concerns expressed by consumer groups.