

Date: 7/31/20

*Conference Call*

**CAPITAL ADEQUACY (E) TASK FORCE**

**Wednesday, August 5, 2020**

**2:00 p.m. ET / 1:00 p.m. CT / 12:00 p.m. MT / 11:00 a.m. PT**

**ROLL CALL**

Jillian Froment, Chair	Ohio	Steve Kelley	Minnesota
Todd E. Kiser, Vice Chair	Utah	Chloria Lindley-Myers	Missouri
Jim L. Ridling	Alabama	Bruce R. Ramge	Nebraska
Lori K. Wing-Heier	Alaska	Barbara D. Richardson	Nevada
Alan McClain	Arkansas	Marlene Caride	New Jersey
Ricardo Lara	California	Mike Causey	North Carolina
Andrew N. Mais	Connecticut	Glen Mulready	Oklahoma
Karima M. Woods	District of Columbia	Elizabeth Kelleher Dwyer	Rhode Island
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Dean L. Cameron	Idaho	Kent Sullivan	Texas
Robert H. Muriel	Illinois	Mike Kreidler	Washington
Doug Ommen	Iowa	Mark Afable	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jane Barr/Lou Felice

**AGENDA**

1. Consider Adoption of its June 30 Minutes—*Tom Botsko (OH)* Attachment One
2. Consider Adoption of its Working Group Reports and Minutes—*Tom Botsko (OH)*
  - a. Health Risk-Based Capital (E) Working Group Attachment Two
  - b. Investment Risk-Based Capital (E) Working Group Attachment Three
  - c. Life Risk-Based Capital (E) Working Group Attachment Four
  - d. Property and Casualty Risk-Based Capital (E) Working Group Attachment Five
3. Consider Adoption of its Working Agenda—*Tom Botsko (OH)* Attachment Six
4. Expose Proposal 2020-02-CA (ACA Fee Sensitivity Test Removal) —*Steve Drutz (WA)* Attachment Seven
5. Expose its Proposed 2021 Charges—*Tom Botsko (OH)* Attachment Eight
6. Consider Adoption of Proposal 2020-03-L (C-3 Instructions and C-3 Guidance) —*Philip Barlow (DC)* Attachment Nine
7. Discuss Any Other Matters
8. Adjournment

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Draft: 7/13/20

Capital Adequacy (E) Task Force  
Conference Call  
June 30, 2020

The Capital Adequacy (E) Task Force met via conference call June 30, 2020. The following Task Force members participated: Jillian Froment, Chair, represented by Tom Botsko (OH); Todd E. Kiser, Vice Chair, represented by Jake Garn (UT); Lori K. Wing-Heier represented by David Phifer and Wally Thomas (AK); Jim L. Ridling represented by Blase Abreo (AL); Alan McClain represented by Mel Anderson (AR); Ricardo Lara represented by Perry Kupferman (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); David Altmaier represented by Jason Reynolds (FL); Doug Ommen represented by Mike Yanacheak (IA); Dean L. Cameron represented by Eric Fletcher (ID); Robert H. Muriel represented by Kevin Fry (IL); Vicki Schmidt represented by Tish Becker (KS); Chlora Lindley-Myers represented by John Rehagen and William Leung (MO); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge represented by Rhonda Ahrens (NE); Barbara D. Richardson represented by Joel Bengo (NV); Glen Mulready represented by Andrew Schallhorn and Diane Carter (OK); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Raymond G. Farmer represented by Michael Shull (SC); Kent Sullivan represented by Mike Boerner (TX); Mike Kreidler represented by Steve Drutz (WA); and Mark Afable represented by Randy Milquet (WI).

1. Adopted its 2019 Fall National Meeting Minutes

Mr. Yanacheak made a motion, seconded by Mr. Boerner, to adopt the Task Force's Dec. 8, 2019, minutes (Attachment One). The motion passed unanimously.

2. Adopted its Jan. 27 and April 30 Minutes

The Task Force met Jan. 27 to adopt the 2019 Catastrophe Event List and its April 30 minutes. The Task Force met April 30 and took the following action: 1) adopted proposal 2019-16-CA (20 Designation Bond Structure for Year-End 2020); and 2) adopted proposal 2019-13-L (Longevity Risk Structure).

Mr. Phifer made a motion, seconded by Mr. Yanacheak, to adopt the Task Force's Jan. 27 (Attachment Two) and April 30 (Attachment Three) minutes. The motion passed unanimously.

3. Adopted Proposal 2020-05-CA

Mr. Botsko explained that the purpose of this proposal is to insert the word "Overview" in the page heading and modify the table of contents in the risk-based capital (RBC) instructions for page references. The proposal was exposed for a 30-day public comment period ending May 15, and no comments were received.

Mr. Leung made a motion, seconded by Mr. Chou, to adopted proposal 2020-05-CA (Attachment Four). The motion passed unanimously.

4. Adopted Proposal 2020-06-L (Longevity Risk for Life/Fraternal Instructions)

Mr. Barlow explained that a new schedule in the life/fraternal RBC formula for longevity risk should be considered to determine the appropriate guardrails and factor. Therefore, more information must be obtained in order to develop the guardrails and factors, and it is important that the instructions indicate that the 2020 year-end factors will be zero in order to collect this information for analysis in determining the factor for 2021.

Mr. Barlow made a motion, seconded by Ms. Crawford, to adopt proposal 2020-06-L (Attachment Five). The motion passed unanimously.

5. Adopted Property and Casualty Proposals

- a. Proposal 2018-19-P (Vulnerable 6 or Unrated Risk Charge) (Attachment Six) is to modify the instructions to reflect that the factors for all uncollateralized reinsurance recoverables from unrated reinsurers be the same for authorized,

unauthorized, certified and reciprocal reinsurance. The factor is being updated to be more aligned with risk-indicated factors used by rating agencies.

- b. Proposal 2020-01-P (Line 1 Premium and Reserve Underwriting Factors) (Attachment Seven) is an annual update for the underwriting factors for premium and reserves.

Mr. Chou made a motion, seconded by Mr. Milquet, to adopt proposal 2018-19-P and proposal 2020-01-P. The motion passed unanimously.

6. Discussed Other Matters

Mr. Botsko said the Task Force will be discussing hybrid bonds on its next conference call to determine if it should receive the same 20 designations as other bonds. NAIC staff mentioned that the Securities Valuation Office (SVO) would be treating hybrids like all other bonds with a designation classification between 1 and 20.

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

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*2020 Summer National Meeting  
Virtual Meeting*

**HEALTH RISK-BASED CAPITAL (E) WORKING GROUP**

**Thursday, July 30, 2020**

**4:00 p.m. ET / 3:00 p.m. CT / 2:00 p.m. MT / 1:00 p.m. PT / 12:00 p.m. AT / 10:00 a.m. HT**

**Meeting Summary Report**

The Health Risk-Based Capital (E) Working Group met July 30, 2020. During this meeting, the Working Group:

1. Adopted its Dec. 17, 2019, minutes, which included the following action:
  - a. Adopted its 2019 Fall National Meeting minutes.
  - b. Discussed the Draft Health Bond Structure, specifically the bond portfolio adjustment; investment grade bond factors; investment income; and the time horizon.
2. Approved the 2019 Health Risk-Based Capital (RBC) Statistics to be posted on the Working Group's webpage.
3. Discussed and referred the federal Affordable Care Act (ACA) Fee Sensitivity Test proposal to the Capital Adequacy (E) Task Force for exposure for all formulas.
4. Adopted proposal 2020-04-H to add the MAX Function to the formula included in the RBC forecasting file for Line 17 of the excessive growth charge on page XR021 of the health RBC formula.
5. Heard comments on the Health Bond Factors from the American Academy of Actuaries (Academy) to address questions raised regarding investment income and the time horizon used in the development of the factors. The Working Group agreed to ask the Academy to review the inclusion of investment income in the underwriting risk component of the health RBC formula. The Working Group also exposed the letter including the two- and five-year time horizon factors for the purposes of impact analysis for a 32-day public comment period.
6. Adopted updates to the 2020 health RBC working agenda that included:
  - a. Added proposal 2020-02-CA to the item "Evaluation of the impact of the Federal Health Care Law."
  - b. Added the "Review and consideration of the formula for the inclusion of the MAX function on Line 17 of the excessive growth charge as proposal 2020-04-H" and "Consideration of the impact of COVID-19 and pandemic risk on the Health RBC formula" as new items to the working agenda.
7. Discussed the impact of COVID-19 and pandemic risk in the health RBC formula. The Working Group agreed to continue discussing this on a future call.
8. Heard comments on the Health Care Receivable Guidance. The Working Group will continue to look at the guidance and work with the Academy to draft revised guidance and a proposal to clarify the instructions in the Annual Statement filing and send the final proposal to the Blanks (E) Working Group. The Health Risk-Based Capital (E) Working Group will discuss the guidance in more detail on their next call.
9. Heard an update on the Health Test Ad Hoc Group. The Ad Hoc Group will continue to move forward in evaluating the health test language and annual statement blanks. The Ad Hoc Group will meet Sept. 1.

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Draft: 3/6/20

Investment Risk-Based Capital (E) Working Group  
Conference Call  
February 25, 2020

The Investment Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call Feb. 25, 2020. The following Working Group members participated: Kevin Fry, Chair, and Vincent Tsang (IL); Philip Barlow, Vice Chair (DC); Kathy Belfi, Wanchin Chou and Manny Hidalgo (CT); Robert Ridenour (FL); Chut Tee (KS); Anna Taam and Victor Agbu (NY); Tom Botsko (OH); Tim Hays (WA); and Randy Milquet (WI). Also participating was: Steve Ostlund (AL); Alice Fontaine (AZ); Mitchell Bronson (CO); Adrienne Lupo (DE); Carrie Mears (IA); Rhonda Ahrens (NE); and Mike Boerner and Rachel Hemphill (TX).

1. Discussed Comments Regarding Bond Proposals

Mr. Fry said during the Capital Adequacy (E) Task Force conference call Dec. 30, 2019, the proposed expansion for risk-based capital (RBC) bond structures were exposed for a 45-day public comment period ending Feb. 14, 2020. He indicated that the proposed structure would provide an opportunity to collect data needed for the sensitivity analysis in the future. He also stated that the Task Force and Working Group received four comment letters during the exposure period.

Nancy Bennett (American Academy of Actuaries—Academy) said that the Academy supports the expansion of the bond designations to a 20-factor structure for any asset type that currently utilizes a 6-factor structure. However, the current exposure does not expand the designations for unaffiliated preferred stock, surplus and capital notes, derivative instruments, and separate accounts with guarantees or synthetic guaranteed investment contracts. Ms. Bennett also recommended that the Working Group consider adopting the expanded structure at the same time for both asset valuation reserves (AVR) and life RBC. Mr. Fry said it will make sense to have the same expansion to other types of assets. Dave Fleming (NAIC) said a proposal that will apply the same expanded presentation to the AVR as it is used to populate the life RBC formula will be exposed by the Blanks (E) Working Group during the Spring National Meeting.

Paul S. Graham (American Council of Life Insurers—ACLI) said that the ACLI continues to support the expansion of the bond factors from 6 categories to 20 categories. Additionally, the same issues that the Academy presented earlier were identified. Mr. Graham said the ACLI recommended that the Working Group consider clarifying language in the RBC bond instructions. Mr. Fleming said the Working Group will expose the modified instruction in April.

Jonathan Rogers (National Association of Mutual Insurance Companies—NAMIC) said that NAMIC supports the NAIC performing an impact analysis of the 20 new bond designations against the current factors for designation 1 through 6. He believed that performing a cost/benefit analysis is necessary, as the purpose of the RBC is for state insurance regulators to have the ability to identify weakly capitalized companies. He also recommended that the Working Group expose the analysis for public comment in the future. Mr. Fry agreed that the sensitivity analysis will be able to determine how material affects the industry. The Working Group will be sure to provide a proper exposure period to the interested parties to analyze the results.

Connie Jasper Woodroof (Sapiens) said that as she noticed some inconsistency between the RBC proposed structure and the Annual Statement instructions, suggested mechanical corrections related to the bond proposals for each of the RBC formulas were submitted to the NAIC staff. Eva Yeung (NAIC) said the modified structure that the Working Group will consider exposing will address most of the issues that Sapiens identified. She encouraged her to review the modified structure and provide feedback to the Working Group afterwards. Julie Gann (NAIC) suggested the change of Line 1 description in Property and Casualty and Health structures to “NAIC U.S. Government – Direct and Guaranteed / NAIC U.S. Direct Obligations / Full Faith and Credit Exempt Money Market Mutual Funds List.” Mr. Fry said that all the changes will be included in the upcoming exposure.

2. Re-Exposed Bond Proposals

Mr. Fry said that after the NAIC staff reviewed the comments received, along with the changes to the 2020 Annual Statement blanks, the structure modifications were made to the property and casualty and health RBC formulas. He also indicated that the life formula pulls from the Annual Statement AVR; there were only minor changes needed to the life RBC formula and AVR. He also stated that the purpose of this structure change is to allow NAIC staff to perform an impact analysis on the 2020 data; further modification of the structure will likely be necessary for year-end 2021 reporting for the purpose of increased

transparency and auditability. Ms. Belfi said the state of Connecticut supports looking into the mechanism to get a second opinion on this proposal. Mr. Barlow commented that he does not see the need for engaging a third party to do the review. He believed the work that the Academy did supports the factor that they developed. Mr. Graham said the ACLI supports the comment from Connecticut. The ACLI will discuss the project funding aspect with the members soon; funding will be provided in the upcoming meeting. Mr. Fry said the outstanding discussion will be continued at the Spring National Meeting.

In order to allow the industry parties to have time to review the changes of the structures, the Working Group agreed to re-expose the structures for a 10-day public comment period ending March 6, 2020.

### 3. Discussed Other Matters

Mr. Fry said the Working Group will meet at the Spring National Meeting on Sunday, March 22, 2020, at 7:30 a.m. The main purpose of this meeting is to hear the Academy's final summary of the bond report. Mr. Fry stated that the Working Group plans to finalize the bond and real estate equity proposal for 2021 RBC reporting.

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

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*2020 Summer National Meeting  
Virtual Meeting*

**LIFE RISK-BASED CAPITAL (E) WORKING GROUP**

**Thursday, July 30, 2020**

**3:00 – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / 12:00 – 1:00 p.m. PT**

**Meeting Summary Report**

The Life Risk-Based Capital (E) Working Group met July 30, 2020. During this meeting, the Working Group:

1. Adopted its July 10, June 30, June 11, and Spring National Meeting minutes, which included the following action:
  - a. Adopted industry requested risk-based capital (RBC) mortgage reporting guidance for:
    - i. Construction loans.
    - ii. Origination and valuation dates, property values, and 90 days past due.
    - iii. Contemporaneous property values.
  - b. Deferred industry requested RBC mortgage reporting guidance for net operating income (NOI).
  - c. Adopted the instruction and factors for 2020 longevity risk.
  - d. Adopted its Feb. 14 and 2019 Fall National Meeting minutes.
2. Adopted the Life RBC Newsletter.
3. Discussed the 2019 RBC statistics.
4. Heard an update from industry on their request for RBC reporting guidance for NOI.
5. Discussed the Working Group's working agenda and upcoming conference calls.

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*2020 Summer National Meeting  
Virtual Meeting*

**PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP**

**Thursday, July 30, 2020**

**1:00 – 2:00 p.m.**

**Meeting Summary Report**

The Property and Casualty Risk-Based Capital (E) Working Group met July 30, 2020. During this meeting, the Working Group:

1. Adopted its Feb. 3 minutes, which included the following action:
  - a. Adopted its 2019 Fall National Meeting minutes.
  - b. Adopted its e-vote minutes.
  - c. Adopted proposal 2019-19-P (Vulnerable 6 or Unrated Risk Charge) and agreed to refer the Schedule F proposal to the Blanks (E) Working Group.
  - d. Received referrals from the Statutory Accounting Principles (E) Working Group and the Restructuring Mechanisms (E) Subgroup.
2. Adopted the report of the Catastrophe Risk (E) Subgroup, which included the following action:
  - a. Adopted its Feb. 3 minutes.
  - b. Heard a presentation from Karen Clark & Company (KCC) on its catastrophe model.
  - c. Discussed the possibility of allowing additional third-party commercial vendor models.
  - d. Discussed the internal catastrophe model evaluation process.
3. Adopted 2020 Property/Casualty (P/C) Risk-Based Capital (RBC) Newsletter.
4. Discussed 2020 P/C RBC statistics.
5. Discussed the possibility of using the NAIC as a centralized location for reinsurer designations.
6. Discussed the R3 credit risk and Rcat contingent credit risk charges.
7. Discussed referrals from the Statutory Accounting Principles (E) Working Group.
8. Forwarded the request for extension to the Restructuring Mechanisms (E) Subgroup.
9. Discussed 2020 P/C RBC working agenda.
10. Heard updates on current P/C RBC projects from the American Academy of Actuaries (Academy).
11. Discussed Line 1 underwriting risk reserves and premium methodology.

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## 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"/> Investment RBC (E) Working Group	<input type="checkbox"/> SMI RBC (E) Subgroup
<input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup	<input type="checkbox"/> P/C RBC (E) Working Group	<input type="checkbox"/> Stress Testing (E) Subgroup

<p style="text-align: right;"><b>DATE:</b> <u>03/02/2020</u></p> <p><b>CONTACT PERSON:</b> <u>Crystal Brown</u></p> <p><b>TELEPHONE:</b> <u>816-783-8146</u></p> <p><b>EMAIL ADDRESS:</b> <u>cbrown@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Health RBC (E) Working Group</u></p> <p><b>NAME:</b> <u>Steve Drutz</u></p> <p><b>TITLE:</b> <u>Chief Financial Analyst/Chair</u></p> <p><b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u></p> <p><b>ADDRESS:</b> <u>5000 Capitol Blvd SE</u> <u>Tumwater, WA 98501</u></p>	<p style="text-align: center;"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2020-02-CA</u></p> <p>Year <u>2021</u></p> <p style="text-align: center;"><b><u>DISPOSITION</u></b></p> <p><input type="checkbox"/> ADOPTED _____</p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> EXPOSED _____</p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

<input checked="" type="checkbox"/> Health RBC Blanks	<input type="checkbox"/> Health RBC Instructions	<input type="checkbox"/> Other _____
<input type="checkbox"/> Life and Fraternal RBC Blanks	<input type="checkbox"/> Life and Fraternal RBC Instructions	
<input type="checkbox"/> Property/Casualty RBC Blanks	<input type="checkbox"/> Property/Casualty RBC Instructions	

### DESCRIPTION OF CHANGE(S)

Delete the ACA Fee Sensitivity Test from each formula.

### REASON OR JUSTIFICATION FOR CHANGE \*\*

The purpose of the proposal is to delete the ACA Fee Sensitivity test from each formula as a result of the repeal of the ACA HIT tax for 2021. The SAP Working Group is also drafting a Form A to remove the disclosures of the ACA fee in 2021.

### Additional Staff Comments:

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

Revised 11-2013

**CALCULATION OF TOTAL ADJUSTED CAPITAL (XR025)**

	<u>Annual Statement Source</u>	<u>(1)</u> <u>Amount</u>	<u>Factor</u>	<u>(2)</u> <u>Adjusted Capital</u>
<b>Company Amounts</b>				
(1) Capital and Surplus	Page 3, Col 3, Line 33	\$0	1.000	
<b>Subsidiary Adjustments</b>				
(2) AVR - Life Subsidiaries	Affiliate's statement §		1.000	
(3) Dividend Liability - Life Subsidiaries	Affiliate's statement		0.500	
(4) Tabular Discounts - P&C Subsidiaries	Affiliate's statement		-1.000	
(5) Non-Tabular Discounts - P&C Subsidiaries	Affiliate's statement		-1.000	
(6) Total Adjusted Capital, Post-deferred Tax				

**Sensitivity Test:**

(7) DTA Value for Company	Page 2, Col 3, Line 18.2		1.000	
(8) DTL Value for Company	Page 3, Col 3, Line 10.2		1.000	
(9) DTA Value for Insurance Subsidiaries	Company Records		1.000	
(10) DTL Value for Insurance Subsidiaries	Company Records		1.000	
(11) Total Adjusted Capital, Pre-deferred Tax (sensitivity)	L(6) - L(7) + L(8) - L(9) + L(10)			

**Ex DTA ACL RBC Ratio Sensitivity Test**

(12) Deferred Tax Asset	Page 2 Column 3 Line 18.2		1.000	
(13) Total Adjusted Capital Less Deferred Tax Asset	Line (6) less Line (12)			
(14) Authorized Control Level RBC	XR026 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			
(15) Ex DTA ACL RBC Ratio	Line (13) / Line (14)			0.000%

**ACA Fee RBC Ratio Sensitivity Test**

<del>(16) ACA Fee (Data Year Amount to be Paid in the Fee Ye Note 22B-</del>		<del>1.000</del>	<del>\$0</del>
<del>(17) Total Adjusted Capital Less ACA Fee</del>	<del>Line (6) less Line (16)</del>		<del>\$0</del>
<del>(18) Authorized Control Level RBC</del>	<del>XR026 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)</del>		<del>\$0</del>
<del>(19) ACA Fee RBC Ratio</del>	<del>Line (17) / Line (18)</del>		<del>0.000%</del>

§ 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 filing software.

**CALCULATION OF TOTAL ADJUSTED CAPITAL (LR033)**

(Including Total Adjusted Capital Tax Sensitivity Test)

		(1)		(2)	
	<u>Annual Statement Source</u>	<u>Statement Value</u>	<u>Factor</u>	<u>Adjusted Capital</u>	
<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	=	_____
<u>Property and Casualty and Other Non-U.S. Affiliated Amounts</u>					
(8) 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 8 Line 0599999 and Line 1499999, in part	_____ X	1.000	=	_____
(9) Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (7) less Line (8)	_____			_____
<u>Credit for Capital Notes</u>					
(10.1) Surplus Notes	Page 3 Column 1 Line 32	_____			
(10.2) Limitation on Capital Notes	0.5 x [Line (9) - Line (10.1)] - Line (10.1), but not less than 0	_____			
(10.3) Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)	_____			
(10.4) Credit for Capital Notes	Lesser of Column (1) Line (10.2) or Line (10.3)	_____			_____
(11) XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)				_____
(12) Total Adjusted Capital	Line (9) + Line (10.4) - Line (11)				=====
<u>Tax Sensitivity Test</u>					
<u>Company Amounts</u>					
(13) Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2	_____ X	-1.000	=	_____
(14) Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2	_____ X	1.000	=	_____
<u>Subsidiary Amounts</u>					
(15) Deferred Tax Asset (DTA) Value	Company Records	_____ X	-1.000	=	_____
(16) Deferred Tax Liability (DTL) Value	Company Records	_____ X	1.000	=	_____
(17) Tax Sensitivity Test: Total Adjusted Capital	Line (12)+(13)+(14)+(15)+(16)				_____
<u>Ex DTA ACL RBC Ratio Sensitivity Test</u>					
(18) Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2	_____ X	1.000	=	_____
(19) Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (12) less Line (18)				=====
(20) Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)	_____ X	1.000	=	_____
(21) Ex DTA ACL RBC Ratio	Line (19) / Line (20)				0.000%
<u>- ACA Fee RBC Ratio Sensitivity Test</u>					
(22) ACA Fee (Data Year Amount to be Paid in the Fee Year)	Note 22B	_____ X	1.000	=	_____
(23) Total Adjusted Capital Less ACA Fee	Line (12) less Line (22)				_____
(24) Authorized Control Level RBC-	LR034 Risk-Based Capital Level of Action Line (4)				_____
(25) ACA Fee RBC Ratio	Line (23) / Line (24)				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.

## CALCULATION OF TOTAL ADJUSTED CAPITAL PR029

			(1)	(2)	
			Statement Value*	Factor	Adjusted Capital
(1)	Capital and Surplus	P3 C1 L37	0	1.000	0
(2)	Non-Tabular Discount - Losses	Sch P P1-Sum C32 L12	0	1.000	0
(3)	Non-Tabular Discount - Expense	Sch P P1-Sum C33 L12	0	1.000	0
(4)	Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(5)	Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(6)	P&C Subs Non-Tabular Discount - Losses	Subs' Sch P P1-Sum C32 L12	0	1.000	0
(7)	P&C Subs Non-Tabular Discount - Expense	Subs' Sch P P1-Sum C33 L12	0	1.000	0
(8)	P&C Subs Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(9)	P&C Subs Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(10)	AVR - Life Subs §	Subs P3 C1 L24.01 §	0	1.000	0
(11)	Dividend Liability - Life Subs	Subs P3 C1 L6.1 + L6.2	0	0.500	0
(12)	Total Adjusted Capital Before Capital Notes	L(1)-L(2)-L(3)-L(4)-L(5)-L(6)-L(7)-L(8)-L(9)+L(10)+L(11)			0
<b>Credit for Capital Notes</b>					
(13.1)	Surplus Notes	Page 3 Column 1 Line 33	0		
(13.2)	Limitation on Capital Notes	0.5x[Line(12)-Line(13.1)]-Line 13.1, but not less than zero	0		
(13.3)	Capital Notes Before Limitation	PR028 Column (4) Line (18)	0		
(13.4)	Credit for Capital Notes	Lesser of Column (1) Line (13.2) or Line (13.3)			0
(14)	Total Adjusted Capital (Post-Deferred Tax)	Line (12) + Line (13.4)			0
<b>Sensitivity Test :</b>					
(15)	Deferred Tax Assets	Page 2, Column 3, Line 18.2	0	1.000	0
(15.1)	Deferred Tax Liabilities	Page 3, Column 1, Line 7.2	0	1.000	0
(16)	Deferred Tax Assets for Subsidiary	Company Record	0	1.000	0
(16.1)	Deferred Tax Liabilities for Subsidiary	Company Record	0	1.000	0
(17)	Total Adjusted Capital For Sensitivity Test	Line (14) - Line (15)+(15.1)-(16)+(16.1)			0
<b>Ex DTA ACL RBC Ratio Sensitivity Test</b>					
(18)	Deferred Tax Asset	Page 2 Column 3 Line 18.2	0	1.000	0
(19)	Total Adjusted Capital Less Deferred Tax Asset	Line (14) less Line (18)			0
(20)	Authorized Control Level RBC	PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			0
(21)	Ex DTA ACL RBC Ratio	Line (19) / Line (20)			0.000%
<b>ACA Fee RBC Ratio Sensitivity Test</b>					
(22)	ACA Fee (Data Year Amount to be Paid in the Fee Year)	Notes to Financial Statements Item 22B	0	4.000	0
(23)	Total Adjusted Capital Less ACA Fee	Line (14) - Line (22)			0
(24)	Authorized Control Level RBC	PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			0
(25)	ACA Fee RBC Ratio	Line (23) / Line (24)			0.000%

\* Report amounts in this column as whole dollars.

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

§ 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.

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
<b>Ongoing Items – Life RBC</b>							
1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
2	Life RBC WG	1	2020 or later	<del>A. Evaluate the overall effectiveness of the C-3 Phase 2 and AG 43 methodologies by conducting an in-depth analysis of the models, modeling assumptions, processes, supporting documentation and results of a sample of companies writing variable annuities with guarantees and to make recommendations to the Capital Adequacy Task Force or Life Actuarial Task Force on any changes to the methodologies to improve their overall effectiveness.</del> <del>B. Develop and recommend changes to C-3 Phases II and AG 43 that implement, for 2018 adoption, the Variable Annuities Framework for Change.</del> 1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements	CATF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
3	Life RBC WG	1	2020 or later	Provide recommendations for recognizing longevity risk in statutory reserves and/or RBC, as appropriate.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
<b>Carry-Over Items Currently being Addressed – Life RBC</b>							
4	Life RBC WG	1	2020 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities	AAA		
5	Life RBC WG	2	2020 or later	Develop guidance, for inclusion in the proposed NAIC contingent deferred annuity (CDA) guidelines, for states as to how current regulations governing risk-based capital requirements, including C-3 Phase II, should be applied to contingent deferred annuities (CDAs). Recommend a process for reviewing capital adequacy for insurers issuing CDAs and prepare clarifying guidance, if necessary, due to different nomenclature then used with regard to CDAs. The development of this guidance does not preclude the Working Group from reviewing CDAs as part of any ongoing or future charges where applicable and is made with the understanding that this guidance could change as a result of such a review.	10/21/13 Referral from A Committee	It is important to consider the implications of work being done by the CDA and VA Issues Working Groups to ensure consistency in addressing these charges. The Working Group is monitoring the progress of that work.	
6	Life RBC WG	1	2020	Review and evaluate company submissions for the RBC Shortfall schedule and corresponding adjustment to Total Adjusted Capital.			10/16/2015
7	Life RBC WG	1	2020	Review and evaluate company submissions for the Primary Security Shortfall schedule and corresponding adjustment to Authorized Control Level.			10/16/2015
8	Life RBC WG	1	2020	Continue consideration impacts and modifications necessary due to the Federal Tax Cuts and Jobs Act and develop guidance for users of RBC on those impacts.			3/24/2018
9	Life RBC WG	1	2020	Determine if any adjustment is needed to the XXX/XXXX RBC Shortfall calculation to address surplus notes issued by captives.	11/1/17 Referral from the Reinsurance (E) Task Force		3/24/2018
10	Life RBC WG	1	2019	<del>Address changes needed due to elimination of the e fraternal annual statement blank</del>			9/1/2018

**CAPITAL ADEQUACY (E) TASK FORCE**  
**WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020**

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
10	Life RBC WG	1	2020	Determine if any adjustment is needed due to the changes made to the <i>Life and Health Guaranty Association Model Act, Model #520</i> .			9/1/2018
11	Life RBC WG	1	2020	Determine if any adjustment is needed to the reinsurance credit risk in light of changes related to collateral and the changes made to the property RBC formula.			9/1/2018
				<b>New Items – Life</b>			
12	Life RBC WG	1	2021	Discuss and determine the bond factors for the 20 designations.	Referral from Investment RBC July/2020		
13	Life RBC WG	1	2021	Discuss and determine the need to adjust the real estate factors.	Referral from Investment RBC July/2020		
<b>Carry-Over Items Currently being Addressed – P&amp;C RBC</b>							
14	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2020	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.			
			Year-end-2020	b) Evaluate the AEP vs OEP factors.		The WG agreed to keep the factors the same at this time. We may revisit this issue if needed.	
15	P&C RBC WG	1	Year-end 2020 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsurers that do not trigger growth risk in their own right.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
<del>16</del>	<del>P&amp;C-RBC WG</del>	<del>1</del>	<del>Year-end-2020</del>	<del>Evaluate the impact to RBC on a) Pre-Tax vs. After Tax; b) Tax reform on Total-Adjusted Capital</del>		Tax impact on RBC was not material.	<del>1/25/2018</del>
16	P&C RBC WG	1	2020 Summer Meeting or later	Continue development of RBC formula revisions based on the Covered Agreement: a) consider eliminating the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers; b) consider whether the factor for uncollateralized, unrated reinsurers, runoff and captive companies should be adjusted; c) Evaluate the possibility of using NAIC as a centralized location for reinsurer designations.		12/5/19 - The WG exposed Proposal 2018-19-P (Vulnerable 6 or unrated risk charge) for a 30-day exposure period. 2/3/20 - The WG adopted Proposal 2018-19-P. However, the WG intended to evaluate the data annually until reaching any agreed upon change to the factor and the structure.	8/4/2018
17	P&C RBC WG	1	Year-end 2021 or later	Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to P/C RBC Affiliated Investments			6/10/2019
18	P&C RBC WG	1	2021 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.			6/10/2019
19	Cat Risk SG	1	Year-end 2020 or later	Evaluate the possibility of allowing additional third party models to calculate the cat model losses			12/6/2019

**CAPITAL ADEQUACY (E) TASK FORCE**  
**WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020**

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
20	P&C RBC WG	1	Year-end 2020	Evaluate the RBC impact on two different retroactive reinsurance exception approaches.		1/7/20 - received a referral from the SAPWG	1/9/2020
21	P&C RBC WG	1	Year-end 2020	Evaluate the RBC impact on the modification of the installment fees and expenses reporting guidance .		1/7/20 - received a referral from the SAPWG	1/9/2020
22	P&C RBC WG	1	2021 Spring Meeting	Evaluate if changes should be made to the P/C formula to better assess companies in runoff.		1/29/20 - received a referral from the Restructuring Mechanisms (E) WG	2/3/2020
23	P&C RBC WG	1	2021 Spring Meeting	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
<b>Ongoing Items – Health RBC</b>							
24	Health RBC WG	3  1	Year-end 2021 RBC or later  2021 Spring Meeting	Evaluate the impact of Federal Health Care Law on the Health RBC Formulas	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes to the health formula as a result of ongoing federal discussions and legislation. Consider and refer proposal 2020-02-CA to the TF for the deletion of the ACA Formula Test	07/30/2020
25	Health RBC WG	3	Year-end 2021 RBC or later	Discuss and monitor the development of federal level programs and actions and the potential impact of these changes to the HRBC formula: - Development of the state reinsurance programs; - Association Health Plans; - Cross-border sales	HRBCWG	Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
<b>Carry-Over Items Currently being Addressed – Health RBC</b>							
26	Health RBC WG	3	Year-End 2023 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA	
27	Health RBC WG	2	Year-end 2023 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.	HRBC WG	Adopted 2016-06-H Rejected 2019-04-H	
28	Health RBC WG	1	Year-end 2022 or later	Establish an Ad Hoc Group to review the Health Test and annual statement changes for reporting health business in the Life and P/C Blanks	HRBCWG	Evaluate the applicability of the current Health Test in the Annual Statement instructions in today's health insurance market. Discuss ways to gather additional information for health business reported in other blanks.	8/4/2018
29	Health RBC WG	1	Year-end 2020 RBC or later	Review the Managed Care Credit calculation in the Health RBC formula - specifically Category 2a and 2b.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	12/3/2018

**CAPITAL ADEQUACY (E) TASK FORCE**  
**WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020**

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
30	Health RBC WG	1	Year-end 2020 or later	Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.	HRBCWG	Review if changes are required to the Health RBC Formula	4/7/2019
<b>New Items – Health RBC</b>							
31	Health RBC WG	1	2021 Spring Meeting	Review and consider the formula for the MAX function in Line 17 of the Excessive Growth Charge.	HRBCWG	2020-04-H	4/3/2020
32	Health RBC WG	1	Year-End 2021 or later	Consider impact of COVID-19 and pandemic risk in the Health RBC formula.	HRBCWG		7/30/2020
<b>New Items – Task Force</b>							
33	CADTF	1	2020	Consideration given to 20 designations for bonds in all RBC formulas so that an impact analysis can be provided on 2020 year-end data to determine the bond RBC factors. The Task Force will need to discuss and determine whether Hybrids are included with the new bond's structure. <u>History</u> In 2012 /13 as part of the Solvency Modernization Initiative “roadmap” and subsequent White Paper roadmap, the Capital Adequacy (E) Task Force identified increased granularity in the asset and investment risk charges as a priority area. It was originally targeted at the Life RBC formula and was referred to as the “C1 factor review”. The project was assigned to a newly formed Investment RBC (E) Working Group in 2013. Work was conducted by the Life C-1 Work Group of American Academy of Actuaries (Academy) at the instructions of the working group using defined criteria for the analysis: The C1 bond factors are defined as the amount needed to pre-fund losses at the 96th percentile minus the amount assumed to be funded in statutory policy reserves. The credit loss distribution is skewed with the mean occurring at approximately the 60th percentile. The RP does not vary by economic scenario.	IRBCWG - Dec 2019	An Academy report issued in 2015 and updated 2017 report recommended an increase in the number of designations. Ultimately, the WG members agreed that the number of designations should be increased to 20.  In 2017//2018, the PRBC and HRBC (E) Working Groups began discussion of the change to 20 designations. In 2019 both working groups concurred with the LRBC WG position that the number of designations should be increased to 19 in their respective formulas Proposal # 2019 – 16CA	
<b>Ongoing Items – Task Force</b>							
34	CADTF	2	2022	Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016	Ad Hoc Group	Ad Hoc group will provide periodic updates on their progress.	
<b>Carry-Over Items not Currently being Addressed – Task Force</b>							
35	CADTF	2-3	2021	Receivable for Securities factor		Consider evaluating the factor every 3 years. (2018, 2021, 2024 etc.)	
36	CADTF	3	2021 or Later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge? Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	10/11/2018
37	CADTF	3	2021 or Later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (i.e. put option or forward contract) that are wrapped by a debt structure.	Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	8/4/2019



2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
38	CADTF	3	2021 or Later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	11/16/2018

Carry-Over Items Currently being Addressed – Task Force

39	CADTF	2	2020 or Later	XXX/AXXX Captive Reinsurance RBC Shortfall	Referral from Reinsurance Task Force /RITF	Referred to Life RBC WG for consideration and comment	11/1/2017
40	CADTF	2	2020 or Later	Payout Annuities for RBC	Referral from Allstate and IL DOI	Referred to Life RBC WG for consideration and comment	3/25/2018
41	CADTF	2	2020 or Later	Guaranty Association Assessment Risk	Referral from Receivership and Insolvency (E) Task Force 5/1/2018	Referred to the Life RBC WG and Health RBC WG for consideration and comment.	6/30/2018

Investment Risk-Based Capital Working Group

Carry-Over Items Currently being Addressed – Investment RBC

42	Investment RBC WG	1	2020 or later	The Solvency Modernization Initiative (EX) Task Force and the Capital Adequacy (E) Task Force have been discussing reform of the RBC formulae for life, property/casualty and health insurers. The Working Group recommends a comprehensive review of RBC, including a review of whether all RBC formulae should have greater granularity.	Rating Agency WG Referral March 2010	Comprehensive review to be discussed at the Capital Adequacy (E) Task Force. Disband the Investment Risk-Based Capital (E) Working Group effective Aug. 5, 2020	
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Carry-Over Items not Currently being Addressed – Investment RBC

43	Investment RBC WG	2	Year-End 2021	Consideration should be given to recalibrate the RBC formulae to require different levels of capital for municipal, corporate and structured securities.	Rating Agency WG Referral March 2010	Comprehensive review to be discussed at the Capital Adequacy (E) Task Force. Disband the Investment Risk-Based Capital (E) Working Group effective Aug. 5, 2020	
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Priority 1 – High priority  
 Priority 2 – Medium priority  
 Priority 3 – Low priority

**CAPITAL ADEQUACY (E) TASK FORCE**  
**WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020**

**Attachment Seven**  
 Capital Adequacy (E) Task Force

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
44	Investment RBC WG	1	Year-End-2021	Ensure that the RBC formulae, for all business types, for common stock and bonds are consistent with respect to statistical safety levels, modeling assumptions, where appropriate.	CAdTF	Consolidated with items #42, 43 and 44 from the 2015 Working Agenda  Comprehensive review to be discussed at the Capital Adequacy (E) Task Force. Disband the Investment Risk-Based Capital (E) Working Group effective Aug. 5, 2020	2/10/2015 8/17/2015
45	Investment RBC WG	2	Year-End-2021	Consider modifications for investment risk to capture more than credit risk to place less reliance on the rating agencies. Consider modifications to better identify liquidity and asset concentration.	CDS WG referrals	Comprehensive review to be discussed at the Capital Adequacy (E) Task Force. Disband the Investment Risk-Based Capital (E) Working Group effective Aug. 5, 2020	
46	Investment RBC WG	2	Year-End-2021	The asset valuation reserve (AVR) establishes a reserve to offset potential credit-related investment losses on all invested asset categories. Similar to RBC, consideration should be given to making complementary adjustments to AVR to be consistent with changes to RBC.	Rating Agency WG Referral March 2010	Comprehensive review to be discussed at the Capital Adequacy (E) Task Force. Disband the Investment Risk-Based Capital (E) Working Group effective Aug. 5, 2020	

W:\QA\CADTF\ Working Agenda 2020 as of 08-05-2020.xls

Draft: 7/31/20

*Adopted by the Executive (EX) Committee and Plenary, Dec. xx, 2020*

*Adopted by the Financial Condition (E) Committee, Dec. xx, 2020*

*Adopted by the Capital Adequacy (E) Task Force, Aug. xx, 2020*

## 2020 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 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 risk-based capital (RBC) formulas and delivering those recommendations to the Capital Adequacy (E) Task Force.
  - ~~D. 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 risk-based capital (RBC) formulas and delivering those recommendations to the Capital Adequacy (E) Task Force.~~
  - E.
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 risk-based capital (RBC) formulas implemented in 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 April 30 in the year of the change, and 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 April 30 and results in an amended change may be considered by July 30 for those exceptions where the Capital Adequacy (E) Task Force votes to pursue by super-majority (two-thirds) consent of members present, no later than June 30 for the current reporting year.
  - 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 between the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.
3. ~~The **Investment Risk-Based Capital (E) Working Group** will:~~
  - ~~A. 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 risk-based capital (RBC) formulas and delivering those recommendations to the Capital Adequacy (E) Task Force.~~
4. The **Variable Annuities Capital and Reserve (E/A) Subgroup**, a joint 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 reserve framework and risk-based capital (RBC) calculation, and determine if additional revisions need to be made.

- B. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.
5. The **Longevity Risk (A/E) Subgroup**, a joint subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force, will:
- A. Provide recommendations for ~~recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate. Complete by the 2020 Spring National Meeting.~~ **the appropriate treatment of longevity risk transfers by the new longevity factors.**
6. 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 risk-based capital (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.

NAIC Support Staff: Jane Barr

## 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"/> Operational Risk (E) Subgroup         |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group        | <input type="checkbox"/> Longevity Risk (A/E) Subgroup         |

<p style="text-align: right;"><b>DATE:</b> <u>6/6/19</u></p> <p><b>CONTACT PERSON:</b> <u>Dave Fleming</u></p> <p><b>TELEPHONE:</b> <u>816-783-8121</u></p> <p><b>EMAIL ADDRESS:</b> <u>dfleming@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Life Risk-Based Capital (E) Working Group</u></p> <p><b>NAME:</b> <u>Philip Barlow, Chair</u></p> <p><b>TITLE:</b> <u>Associate Commissioner of Insurance</u></p> <p><b>AFFILIATION:</b> <u>District of Columbia</u></p> <p><b>ADDRESS:</b> <u>1050 First Street, NE Suite 801</u>  <u>Washington, DC 20002</u></p>	<p style="text-align: center;"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2020-03-L</u></p> <p>Year <u>2020</u></p> <p style="text-align: center;"><b><u>DISPOSITION</u></b></p> <p><input checked="" type="checkbox"/> ADOPTED <u>2/14/20</u></p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input checked="" type="checkbox"/> EXPOSED <u>1/13/20</u></p> <p><input type="checkbox"/> OTHER (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 Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Blanks                  |
| <input type="checkbox"/> OTHER _____             |   |   |

#### DESCRIPTION OF CHANGE(S)

This proposal modifies the C-3 RBC instructions for 2020 and creates guidance for 2019 reporting.

#### REASON OR JUSTIFICATION FOR CHANGE \*\*

This proposal incorporates changes into the C-3 RBC instructions for 2020 to address an issue with the phase in of the new Variable Annuities Framework and guidance for a related issue with smoothing due to the treatment of voluntary reserves.

#### Additional Staff Comments:

- 1-13-20: Proposal was exposed for comments (DBF)
- 2-14-20: Proposal was exposed for comments (DBF)

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

**Revised 2-2019**

## INTEREST RATE RISK AND MARKET RISK

LR027

### *Overview*

The amount reported on Line (35) and Line (37) is calculated using the 7-step process defined below. This calculation applies to all policies and contracts that have been valued following the requirements of AG-43 or VM-21. For contracts whose reserve was determined using the Alternative Methodology (VM-21 Section 7) see step 3 while all other contracts follow steps 1 and 2, then all contracts follow steps 4 - 7.

Step 1 CTE98: The first step is to determine CTE98 by applying the one of the two methodologies described in paragraph A below.

Step 2 C-3 RBC: using the formulas in paragraph B, determine the C-3 RBC amount based on the amount calculated in step (1). Floor this amount at \$0.

Step 3 Determine the C-3 RBC using the Alternative Methodology for any business subject to that requirements as described in paragraph C.

Step 4 As described in paragraph D below, the C-3 RBC amount is the sum of the amounts determined in steps 2 and 3 above, but not less than zero. The Total Asset Requirement is the Reserve based on the requirements of VM-21 prior to the application of any phase-in, plus the C-3 RBC amount.

Step 5: For a company that has elected a Phase-in for reserves following VM-21 Section 2.B., the C-3 RBC amount is to be phased-in over the same time period following the requirements in paragraph E below.

Step 6 Apply the smoothing rules (if applicable) to the C-3 RBC amount in step (4) or (5) as applicable.

Step 7 Divide the amount from Step 4, 5, or 6 (as appropriate) by (1-enacted maximum federal corporate income tax rate). Split this amount into an interest rate risk portion and a market risk portion, as described in paragraph G.

The interest rate portion of the risk should be included in Line (35) and the market risk portion in Line (37).

The C-3 RBC is calculated as follows:

A. CTE (98) is calculated as follows: Except for policies and contracts subject to the Alternative Methodology (See C. below), apply the CTE methodology described in NAIC Valuation Manual VM-21 and calculate the CTE (98) as the numerical average of the 2 percent largest values of the Scenario Reserves, as defined by Section 4 of VM-21. In performing this calculation, the process and methods used to calculate the Scenario Reserves use the requirements of VM-21 and should be the same as used for the reserve calculations. The effect of Federal Income Tax should be handled following one of the following two methods

1. If using the Macro Tax Adjustment (MTA): The modeled cash flows will ignore the effect of Federal Income Tax. As a result, for each individual scenario, the numerical value of the scenario reserve used in this calculation should be identical to that for the same scenario in the Aggregate Reserve calculation under VM-21. Federal Income Tax is reflected later in the formula in paragraph B.1.
2. If using Specific Tax Recognition (STR): At the option of the company, CTE After-Tax (98) (CTEAT (98)) may be calculated using an approach in which the effect of Federal Income Tax is reflected in the projection of Accumulated Deficiencies, as defined in Section 4.A. of VM-21, when calculating the Scenario Reserve for each

scenario. To reflect the effect of Federal Income Tax, the company should find a reasonable and consistent basis for approximating the evolution of tax reserves in the projection, taking into account restrictions around the size of the tax reserves (e.g., that tax reserve must equal or exceed the cash surrender value for a given contract). The Accumulated Deficiency at the end of each projection year should also be discounted at a rate that reflects the projected after-tax discount rates in that year. In addition, the company should add the Tax Adjustment as described below to the calculated CTEAT (98) value.

3. A company that has elected to calculate CTEAT (98) using STR may not switch back to using MTA in the projection of Accumulated Deficiencies without prominently disclosing that change in the certification and supporting memorandum. The company should also disclose the methodology adopted, and the rationale for its adoption, in the documentation required by paragraph J below.
4. Application of the Tax Adjustment: Under the U.S. IRC, the tax reserve is defined. It can never exceed the statutory reserve nor be less than the cash surrender value. If a company is using STR and if the company's actual tax reserves exceed the projected tax reserves at the beginning of the projection, a tax adjustment is required.

The CTEAT (98) must be increased on an approximate basis to correct for the understatement of modeled tax expense. The additional taxable income at the time of claim will be realized over the projection and will be approximated using the duration to worst, i.e., the duration producing the lowest present value for each scenario. The method of developing the approximate tax adjustment is described below.

The increase to CTEAT (98) may be approximated as the corporate tax rate times  $f$  times the difference between the company's actual tax reserves and projected tax reserves at the start of the projections. For this calculation,  $f$  is calculated as follows: For the scenarios reflected in calculating CTE (98), the scenario reserve is determined and its associated projection duration is tabulated. At each such duration, the ratio of the number of contracts in force (or covered lives for group contracts) to the number of contracts in force (or covered lives) at the start of the modeling projection is calculated. The average ratio is then calculated over all CTE (98) scenarios and  $f$  is one minus this average ratio. If the Alternative Method is used,  $f$  is approximated as 0.5.

**B. Determination of RBC amount using stochastic modeling:**

1. If using the MTA: Calculate the RBC Requirement by the following formula in which the statutory reserve is the actual reserve reported in the Annual Statement. in the second term – i.e., the difference between statutory reserves and tax reserves multiplied by the Federal Income Tax Rate – may not exceed the portion of the company's non-admitted deferred tax assets attributable to the same portfolio of contracts to which VM-21 is applied in calculating statutory reserves:

$$25\% \times ((\text{CTE (98)} + \text{Additional Standard Projection Amount} - \text{Statutory Reserve}) \times (1 - \text{Federal Income Tax Rate}) - (\text{Statutory Reserve} - \text{Tax Reserve}) \times \text{Federal Income Tax Rate})$$

2. If the company elects to use the STR: the C-3 RBC is determined by the following formula:

$$25\% \times (\text{CTEAT (98)} + \text{Additional Standard Projection Amount} - \text{Statutory Reserve})$$

The Additional Standard Projection Amount is calculated using the methodology outlined in Section 6 of VM-21.

- C. Determination of C-3 RBC using Alternative Methodology:** This calculation applies to all policies and contracts that have been valued following the requirements of AG-43 or VM-21, for which the reserve was determined using the Alternative Methodology (VM-21 Section 7). The C-3 RBC amount is determined by applying the methodology as defined in Appendix 2 to these instructions.

D. The C-3 RBC amount is the sum of the amounts determined in paragraphs B and C above, but not less than zero. The TAR is defined as the Reserve determined according to VM-21 plus the C-3 RBC amount. All values are prior to any consideration of Phase-in allowances for either reserve or C-3 RBC, or any C-3 RBC smoothing allowance. The RBC values are post-tax.

E. Phase in: A company that has elected to phase-in the effect of the new reserve requirements following VM-21 Section 2.B. shall phase in the effect on C-3 RBC over the same time period, using the following steps:

1. Begin with the C-3 RBC amount from step 7 for Dec. 31, 2019 LR027 Line (37) instructions for all business within the scope of the Variable Annuities modeling requirements as of 12/31/19. Add to this any voluntary reserves which were subtracted from TAR when the C-3 RBC amount reported for 2019 was determined. Also add to this the amount of C-3 RBC computed in the same manner as the 2019 value for any reinsurance ceded that is expected to be recaptured in 2020 and in the scope of the Variable Annuities modeling requirements. This amount is 2019 RBC
2. Determine the C-3 RBC amount as of 12/31/19 using paragraphs A, B, C, and D for the same inforce business as in 1. Exclude any voluntary reserves in these calculations. Labeled as 2019 RBC New.
3. Determine the phase-in amount (PIA) as the excess of 2019RBC New over 2019RBC
4. For 12/31/2020, compute the C-3 RBC following paragraphs A – D above, then subtract PIA times (2/3)
5. For 12/31/2021, compute the C-3 RBC following paragraphs A – D above, then subtract PIA times (1/3)

**Guidance Note:** For a company that has adopted a Phase-in for reserves longer than 3 years, adjust the above formula to reflect the actual period with uniform amortization amounts during that period.

**Guidance Note:** An adjustment is made for voluntary reserves. Voluntary reserve means any reserve that is not required by AG-43, VM-21 and/or a state in which the company is doing business and was subtracted from TAR in 2019 to determine the RBC.

#### F. Smoothing of C-3 RBC amount

A company should decide whether or not to smooth the C-3 RBC calculated in paragraph D or E above to determine the amount in Line (37). For any business reinsured under a coinsurance agreement that complies with all applicable reinsurance reserve credit “transfer of risk” requirements, the ceding company shall reduce the reserve in proportion to the business ceded while the assuming company shall use a reserve consistent with the business assumed.

A company may choose to smooth the C-3 RBC calculated in paragraph D or E above. A company is required to get approval from its domestic regulator prior to changing its decision about smoothing from the prior year. In addition, a company that has elected to smooth the risk-based capital is required to get approval from its domestic regulator prior to smoothing if it has experienced a material change in its Clearly Defined Hedging Strategy from the prior year. For this purpose, a company’s Clearly Defined Hedging Strategy is considered to have experienced a material change if any of the items outlined in VM-21 Section 1.D.2 in the current year differs from that in the prior year.

To implement smoothing, use the following steps. If a company does not qualify to smooth or a decision has been made not to smooth, go to paragraph G.

1. Determine the C-3 RBC amount calculated in paragraph D or E above
2. Determine the aggregate reserve for the contracts covered by the Variable Annuity Stochastic modeling requirements.
3. Determine the ratio of the C-3 RBC / reserve for current year.
4. Determine the C-3 RBC as actually reported for the prior year Lines (35) plus (37) and adjust that amount to a post-tax amount by multiplying by (1- enacted maximum federal corporate income tax rate). Restate the amount to remove the effect of any voluntary reserves held in prior years that materially differ in amount from the voluntary reserves held in the current year.
5. Determine the aggregate reserve for the contracts in scope of these requirements for the prior year-end. Restate the aggregate reserve to remove any voluntary reserves held for the prior year-end that materially differ in amount from the voluntary reserves held as of the current year-end.
6. Determine the ratio of the C-3 RBC / reserve for prior year.
7. Determine a ratio as  $0.4 \times (6)$  plus  $0.6 \times (3)$  {40% prior year ratio and 60% current year ratio}.



8. Determine the risk-based capital for current year as the product of (7) and (2) {adjust (2) to be actual 12/31 reserve}.

- G. The amount determined in paragraphs D., E., or F. above for the contracts shall be divided by (1-enacted maximum federal corporate income tax rate) to arrive at a pre-tax amount. This pre-tax amount shall be split into a component for interest rate risk and a component for market risk. Neither component may be less than zero. The provision for the interest rate risk, if any, is to be reported in Line (35). The market risk component is reported in Line (37).

The amount reported in Line (37) is to be combined with the C-1cs component for covariance purposes.

- H. The way grouping (of funds and of contracts), sampling, number of scenarios, and simplification methods are handled is the responsibility of the company. However, all these methods are subject to Actuarial Standards of Practice, supporting documentation and justification, and should be identical to those used in calculating the company's statutory reserves following VM-21.
- I. Certification of the work done to set the C-3 RBC amount for Variable Annuities and Similar products are the same as are required for reserves as part of VM-31. The certification should specify that the actuary is not opining on the adequacy of the company's surplus or its future financial condition.

The certification(s) should be submitted by hard copy with any state requiring an RBC hard copy.

- J. An actuarial memorandum should be constructed documenting the methodology and assumptions upon which the required capital for the variable annuities and similar products is determined. Since the starting point for the C-3 RBC calculation is the cash flow modeling used for the reserves, the documentation requirements for reserves (VM-31) should be followed for the C-3 RBC. The reserve report may be incorporated by reference, with this C-3 RBC memorandum focused on identifying differences and items unique to the C-3 RBC process, or at the company's option, the documentation of C-3 RBC may be merged into the VA Report with the differences for C-3 RBC discussed in a separate section of the Memorandum as outlined in VM-31.

These differences that would need to be identified either in the RBC Actuarial Memorandum or the VA Report will typically include:

- \* the basis for considering federal income tax,
- \* whether or not smoothing was applied, and the effect of that smoothing,
- \* whether or not a phase in was used, and the impact on the reported values,
- \* If the company elects to calculate CTEAT (98) using STR whereby the effect of Federal Income Tax is reflected in the projection of Accumulated Deficiencies, the company should still disclose in the memorandum the Total Asset Requirement and C-3 RBC that would be obtained if the company had elected to use the MTA method.
- \* Documentation of the alternative methodology calculations, if applicable, and
- \* Documentation of how the C-3 RBC values were allocated to the interest and market risk components.

This actuarial memorandum will be confidential and available to regulators upon request.

The lines on the alternative calculations page will not be required for **2019 or later**.

The total of all annual statement reserves representing exposure to C-3 risk on Line (36) should equal the following:

- Exhibit 5, Column 2, Line 0199999
- Page 2, Column 3, Line 6
- + Exhibit 5, Column 2, Line 0299999
- + Exhibit 5, Column 2, Line 0399999
- + Exhibit 7, Column 1, Line 14
- + Separate Accounts Page 3, Column 3, Line 1 plus Line 2 after deducting (a) funds in unitized separate accounts with no underlying guaranteed minimum return and no unreinsured guaranteed living benefits; (b) non-indexed separate accounts that are not cash flow tested with guarantees less than 4 percent; (c) non-cash-flow-tested experience rated pension reserves/liabilities; and (d) guaranteed indexed separate accounts using a Class II investment strategy.
- Non policyholder reserves reported on Exhibit 7
- + Exhibit 5, Column 2, Line 0799997
- + Schedule S, Part 1, Section 1, Column **12**
- Schedule S, Part 3, Section 1, Column **14**

During the Life Risk-Based Capital (E) Working Group's discussion at the Fall National Meeting, an issue was raised with respect to voluntary reserves and smoothing that may impact those companies that choose to early adopt for 2019. To highlight and address this issue, the Working Group exposed proposed modifications to the 2020 RBC instructions for comment. Additionally, as indicated, the Working Group is also now exposing the following recommendation for 2019 reporting for comment:

**For insurers that meet the following three criteria:**

- 1. Are early adopting the revised methodology for variable annuity reserves and C-3 RBC;**
- 2. Held voluntary reserves in 2018 and intend to reduce or eliminate voluntary reserves in 2019;**
- 3. Are currently smoothing or intend to request permission to smooth for 2019;**

**It is recommended those insurers do not smooth for 2019. Those insurers may then choose to begin smoothing in 2020. The smoothing instructions have been proposed to be revised for 2020 and the impact of the change will be a discontinuity in the C-3 RBC amount between 2019 and 2020 for those companies meeting the criteria identified above. A change in smoothing does require approval from the state of domicile.**