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  Chlora 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

W:\QA\RBC\CADTF\2020 Meeting Materials\Aug cc
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 adopt 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,
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.
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.


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.

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.
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.
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.


5. Discussed the possibility of using the NAIC as a centralized location for reinsurer designations.

6. Discussed the R3 credit risk and Reat contingent credit risk charges.


8. Forwarded the request for extension to the Restructuring Mechanisms (E) Subgroup.


11. Discussed Line 1 underwriting risk reserves and premium methodology.
# Capital Adequacy (E) Task Force

**RBC Proposal Form**

| [ ] Catastrophe Risk (E) Subgroup | [ ] Investment RBC (E) Working Group | [ ] SMI RBC (E) Subgroup |
| [ ] C3 Phase II/ AG43 (E/A) Subgroup | [ ] P/C RBC (E) Working Group | [ ] Stress Testing (E) Subgroup |

**DATE:** 03/02/2020

**CONTACT PERSON:** Crystal Brown

**TELEPHONE:** 816-783-8146

**EMAIL ADDRESS:** cbrown@naic.org

**ON BEHALF OF:** Health RBC (E) Working Group

**NAME:** Steve Drutz

**TITLE:** Chief Financial Analyst/Chair

**AFFILIATION:** WA Office of Insurance Commissioner

**ADDRESS:** 5000 Capitol Blvd SE

**Tumwater, WA 98501**

---

**DISPOSITION**

- [x] ADOPTED
- [ ] REJECTED
- [ ] DEFERRED TO
- [ ] REFERRED TO OTHER NAIC GROUP
- [ ] EXPOSED
- [ ] OTHER (SPECIFY)

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

- [x] Health RBC Blanks
- [ ] Health RBC Instructions
- [ ] Other ___________________
- [ ] Life and Fraternal RBC Blanks
- [ ] Life and Fraternal RBC Instructions
- [ ] Property/Casualty RBC Blanks
- [ ] 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

©2018 National Association of Insurance Commissioners
**CALCULATION OF TOTAL ADJUSTED CAPITAL (XR025)**

<table>
<thead>
<tr>
<th>Company Amounts</th>
<th>Annual Statement Source</th>
<th>(1) Amount</th>
<th>(2) Factor</th>
<th>Adjusted Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Capital and Surplus</td>
<td>Page 3, Col 3, Line 33</td>
<td>$0</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

**Subsidiary Adjustments**

| (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**

| (16) ACA Fee (Data Year Amount to be Paid in the Fee Year Note 22B) | |
| (17) Total Adjusted Capital Less ACA Fee | Line (6) less Line (16) | |

| (18) Authorized Control Level RBC | XR026 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4) | |
| (19) ACA Fee RBC Ratio | Line (17) / Line (18) | 0.000% |

§ 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)

<table>
<thead>
<tr>
<th>Company Amounts</th>
<th>Annual Statement Source</th>
<th>Statement Value</th>
<th>Factor</th>
<th>Adjusted Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Capital and Surplus</td>
<td>Page 3 Column 1 Line 38</td>
<td>X 1.000</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>(2) Asset Valuation Reserve</td>
<td>Page 3 Column 1 Line 24.01 §</td>
<td>X 1.000</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>(3) Dividends Appropriated for Payment</td>
<td>Page 3 Column 1 Line 6.1, in part</td>
<td>X 0.500</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>(4) Dividends Not Yet Appropriated</td>
<td>Page 3 Column 1 Line 6.2, in part</td>
<td>X 0.500</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>(5) Hedging Fair Value Adjustment</td>
<td>Company Records</td>
<td>X -1.000</td>
<td>=</td>
<td></td>
</tr>
</tbody>
</table>

| Life Subsidiary Company Amounts | | |
| (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 | = |

| Property and Casualty and Other Non-U.S. Affiliated Amounts | | |
| (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) | | |

| Credit for Capital Notes | | |
| (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 (3) 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) | | |

### Tax Sensitivity Test

| Company Amounts | | |
| (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 | = |

| Subsidiary Amounts | | |
| (15) Deferred Tax Asset (DTA) Value | Company Records | X -1.000 | = |
| (16) Deferred Tax Liability (DTL) Value | Company Records | X 1.000 | = |


### Ex DTA ACL RBC Ratio Sensitivity Test

| (18) Deferred Tax Asset-Company Amounts | Page 2 Column 3 Line 18.2 | X 1.000 | = |
| (19) Total Adjusted Capital - 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) | | |

### ACA Fee RBC Ratio Sensitivity Test

| Company Amounts | | |
| (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) | | |

| Note | |
| --- | |
| * 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

<table>
<thead>
<tr>
<th>Annual Statement Reference</th>
<th>Statement Value</th>
<th>Factor</th>
<th>Adjusted Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Capital and Surplus</td>
<td>P C1 L37</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(2) Non-Tabular Discount - Losses</td>
<td>Sch P P1-Sum C32 L12</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(3) Non-Tabular Discount - Expense</td>
<td>Sch P P1-Sum C33 L12</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(4) Discount on Medical Loss Reserves Reported as Tabular in Schedule P</td>
<td>Company Records</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(5) Discount on Medical Expense Reserves Reported as Tabular in Schedule P</td>
<td>Company Records</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(6) P&amp;C Subs Non-Tabular Discount - Losses</td>
<td>Subs Sch P P6-Sum C32 L12</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(7) P&amp;C Subs Non-Tabular Discount - Expense</td>
<td>Subs Sch P P6-Sum C33 L12</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(8) P&amp;C Subs Discount on Medical Loss Reserves Reported as Tabular in Schedule P</td>
<td>Subs/ Company Records</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(9) P&amp;C Subs Discount on Medical Expense Reserves Reported as Tabular in Schedule P</td>
<td>Subs/ Company Records</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(10) AVR - Life Subs §</td>
<td>Subs P3 C1 L24.01 §</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(11) Dividend Liability - Life Subs</td>
<td>Subs P C1 L6.1 L6.2</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>(12) Total Adjusted Capital Before Capital Notes</td>
<td>Line (1)-L(2)-L(3)-L(4)-L(5)-L(6)-L(7)-L(8)-L(9)+L(10)+L(11)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

#### Credit for Capital Notes

<table>
<thead>
<tr>
<th>Line Ref.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13.1) Surplus Notes</td>
<td>Page 3 Column 1 Line 33</td>
</tr>
<tr>
<td>(13.2) Limitation on Capital Notes</td>
<td>0.5(Line 12)-Line 13.1, but not less than zero</td>
</tr>
<tr>
<td>(13.3) Capital Notes Before Limitation</td>
<td>PR028 Column (4) Line (18)</td>
</tr>
<tr>
<td>(13.4) Credit for Capital Notes</td>
<td>Lesser of Column (1) Line (13.2) or Line (13.3)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Adjusted Capital (Post-Deferred Tax)</th>
<th>Line (12) - Line (13.4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

#### Sensitivity Test :  

<table>
<thead>
<tr>
<th>Line Ref.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(15) Deferred Tax Assets</td>
<td>Page 2, Column 3, Line 18.2</td>
</tr>
<tr>
<td>(15.1) Deferred Tax Liabilities</td>
<td>Page 3, Column 1, Line 7.2</td>
</tr>
<tr>
<td>(16) Deferred Tax Assets for Subsidiary</td>
<td>Company Record</td>
</tr>
<tr>
<td>(16.1) Deferred Tax Liabilities for Subsidiary</td>
<td>Company Record</td>
</tr>
<tr>
<td>(17) Total Adjusted Capital For Sensitivity Test</td>
<td>Line (14) - Line (15.1)+Line (15.1)</td>
</tr>
</tbody>
</table>

#### Ex DTA ACL RBC Ratio Sensitivity Test

<table>
<thead>
<tr>
<th>Line Ref.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(18) Deferred Tax Asset</td>
<td>Page 2 Column 3 Line 18.2</td>
</tr>
<tr>
<td>(19) Total Adjusted Capital Less Deferred</td>
<td>Line (14)-Line (18)</td>
</tr>
<tr>
<td>(20) Authorized Control Level RBC</td>
<td>PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)</td>
</tr>
<tr>
<td>(21) Ex DTA ACL RBC Ratio</td>
<td>Line (19)+Line (20)</td>
</tr>
</tbody>
</table>

#### ACA Fee RBC Ratio Sensitivity Test

<table>
<thead>
<tr>
<th>Line Ref.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(22) ACA Fee (Data Year Amount to be Paid in the Fee Year)</td>
<td>Notes to Financial Statements Item 22B</td>
</tr>
<tr>
<td>(23) Total Adjusted Capital Less ACA Fee</td>
<td>Line (14)-Line (22)</td>
</tr>
<tr>
<td>(24) Authorized Control Level RBC</td>
<td>PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)</td>
</tr>
<tr>
<td>(25) ACA Fee RBC Ratio</td>
<td>Line (19)+Line (24)</td>
</tr>
</tbody>
</table>

* 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.
<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>2020 Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ongoing Items – Life RBC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Life RBC WG</td>
<td>Ongoing</td>
<td>Ongoing</td>
<td>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.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 2 | Life RBC WG | 1 | 2020 or later | A. Evaluate the overall effectiveness of the C3 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.  
B. Develop and recommend changes to C-3 Phases II and AG 43 that implement, for 2018 adoption, the Variable Annuities Framework for Change.  
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 | |
<p>| 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 | |
| <strong>Carry-Over Items Currently being Addressed – Life RBC</strong> | | | | | | | |
| 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/AXXX 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 | Address changes needed due to elimination of the e-fraternal annual statement blank. | | | 9/1/2018 |</p>
<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Life RBC WG</td>
<td>1</td>
<td>2020</td>
<td>Determine if any adjustment is needed due to the changes made to the Life and Health Guaranty Association Model Act, Model #520</td>
<td></td>
<td></td>
<td>9/1/2018</td>
</tr>
<tr>
<td>11</td>
<td>Life RBC WG</td>
<td>1</td>
<td>2020</td>
<td>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.</td>
<td></td>
<td></td>
<td>9/1/2018</td>
</tr>
<tr>
<td>12</td>
<td>Life RBC WG</td>
<td>1</td>
<td>2021</td>
<td>Discuss and determine the bond factors for the 20 designations.</td>
<td>Referral from Investment RBC July/2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Life RBC WG</td>
<td>1</td>
<td>2021</td>
<td>Discuss and determine the need to adjust the real estate factors.</td>
<td>Referral from Investment RBC July/2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Cat Risk SG</td>
<td>1</td>
<td>Year-end 2020 or later</td>
<td>Continue development of RBC formula revisions to include a risk charge based on catastrophe model output: 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 these should be.</td>
<td></td>
<td>The WG agreed to keep the factors the same at this time. We may revisit this issue if needed.</td>
<td>1/25/2018</td>
</tr>
<tr>
<td>15</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>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.</td>
<td>Refer from Operational Risk Subgroup</td>
<td>1) Sent a referral to the Academy on 6/14/18 conference call.</td>
<td>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.</td>
</tr>
<tr>
<td>16</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Summer Meeting or later</td>
<td>Evaluate the impact to RBC on a) Pre-Tax vs. After Tax; b) Tax reform on Total Adjusted Capital.</td>
<td>Tax impact on RBC was not material.</td>
<td></td>
<td>8/4/2018</td>
</tr>
<tr>
<td>17</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2021 or later</td>
<td>Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to P/C RBC Affiliated Investments.</td>
<td></td>
<td></td>
<td>6/10/2019</td>
</tr>
<tr>
<td>18</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Summer Meeting or later</td>
<td>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.</td>
<td></td>
<td></td>
<td>6/10/2019</td>
</tr>
<tr>
<td>19</td>
<td>Cat Risk SG</td>
<td>1</td>
<td>Year-end 2020 or later</td>
<td>Evaluate the possibility of allowing additional third party models to calculate the cat model losses.</td>
<td></td>
<td></td>
<td>12/6/2019</td>
</tr>
<tr>
<td>#</td>
<td>Owner</td>
<td>2020 Priority</td>
<td>Expected Completion Date</td>
<td>Working Agenda Item</td>
<td>Source</td>
<td>Comments</td>
<td>Date Added to Agenda</td>
</tr>
<tr>
<td>----</td>
<td>------------------</td>
<td>---------------</td>
<td>----------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>20</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>Evaluate the RBC impact on two different retroactive reinsurance exception approaches</td>
<td>1/7/20 - received a referral from the SAPWG</td>
<td></td>
<td>1/9/2020</td>
</tr>
<tr>
<td>21</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>Year-end 2020</td>
<td>Evaluate the RBC impact on the modification of the installment fees and expenses reporting guidance</td>
<td>1/7/20 - received a referral from the SAPWG</td>
<td></td>
<td>1/9/2020</td>
</tr>
<tr>
<td>22</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>2021 Spring Meeting</td>
<td>Evaluate if changes should be made to the P/C formula to better assess companies in runoff</td>
<td>1/29/20 - received a referral from the Restructuring Mechanisms (E) WG</td>
<td></td>
<td>2/3/2020</td>
</tr>
<tr>
<td>23</td>
<td>P&amp;C RBC WG</td>
<td>1</td>
<td>2021 Spring Meeting</td>
<td>Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.</td>
<td></td>
<td></td>
<td>7/30/2020</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Ongoing Items – Health RBC</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 24 | Health RBC WG    | 3             | Year-end 2021 RBC or later        | 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 Fee Sensitivity Test | 07/30/2020            |
<p>| 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            |
| 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 &amp; 1 to 2a and 2b. | 12/3/2018            |</p>
<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>2020 Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>Health RBC WG</td>
<td>1</td>
<td>Year-end 2020 or later</td>
<td>Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.</td>
<td>HRBCWG</td>
<td>Review if changes are required to the Health RBC Formula</td>
<td>4/7/2019</td>
</tr>
<tr>
<td>New Items – Health RBC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Health RBC WG</td>
<td>1</td>
<td>2021 Spring Meeting</td>
<td>Review and consider the formula for the MAX function in Line 17 of the Excessive Growth Charge.</td>
<td>HRBCWG</td>
<td>2020-04-H</td>
<td>4/3/2020</td>
</tr>
<tr>
<td>32</td>
<td>Health RBC WG</td>
<td>1</td>
<td>Year-End 2021 or later</td>
<td>Consider impact of COVID-19 and pandemic risk in the Health RBC formula.</td>
<td>HRBCWG</td>
<td></td>
<td>7/30/2020</td>
</tr>
<tr>
<td>New Items – Task Force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>CADTF</td>
<td>1</td>
<td>2020</td>
<td>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.</td>
<td>IRBCWG - Dec 2019</td>
<td>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</td>
<td></td>
</tr>
<tr>
<td>Ongoing Items – Task Force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>CADTF</td>
<td>2</td>
<td>2022</td>
<td>Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016</td>
<td>Ad Hoc Group</td>
<td>Ad Hoc group will provide periodic updates on their progress.</td>
<td></td>
</tr>
<tr>
<td>Carry-Over Items not Currently being Addressed – Task Force</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>CADTF</td>
<td>2-3</td>
<td>2021</td>
<td>Receivable for Securities factor</td>
<td></td>
<td>Consider evaluating the factor every 3 years. (2018, 2021, 2024 etc.)</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>CADTF</td>
<td>3</td>
<td>2021 or Later</td>
<td>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.</td>
<td>Referral from SAPWG 8/13/2018</td>
<td>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.</td>
<td>10/11/2018</td>
</tr>
<tr>
<td>37</td>
<td>CADTF</td>
<td>3</td>
<td>2021 or Later</td>
<td>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.</td>
<td>Referral from SAPWG April 16, 2019</td>
<td>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.</td>
<td>8/4/2019</td>
</tr>
</tbody>
</table>
# Working Agenda Items for Calendar Year 2020

## Carry-Over Items Currently being Addressed – Task Force

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>CADTF</td>
<td>3</td>
<td>2021 or Later</td>
<td>Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2</td>
<td>Referral from VOSTF 9/21/2018</td>
<td>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.</td>
<td>11/16/2018</td>
</tr>
</tbody>
</table>

## Carry-Over Items Currently being Addressed – Investment RBC

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>CADTF</td>
<td>2</td>
<td>2020 or Later</td>
<td>XXX/AXXX Captive Reinsurance RBC Shortfall</td>
<td>Referral from Reinsurance Task Force/RITF</td>
<td>Referred to Life RBC WG for consideration and comment</td>
<td>11/1/2017</td>
</tr>
<tr>
<td>40</td>
<td>CADTF</td>
<td>2</td>
<td>2020 or Later</td>
<td>Payout Annuities for RBC</td>
<td>Referral from Allstate and IL DOI</td>
<td>Referred to Life RBC WG for consideration and comment</td>
<td>3/25/2018</td>
</tr>
<tr>
<td>41</td>
<td>CADTF</td>
<td>2</td>
<td>2020 or Later</td>
<td>Guaranty Association Assessment Risk</td>
<td>Referral from Receivership and Insolvency (E) Task Force 5/1/2018</td>
<td>Referred to the Life RBC WG and Health RBC WG for consideration and comment.</td>
<td>6/30/2018</td>
</tr>
</tbody>
</table>

## Carry-Over Items Currently being Addressed – Investment RBC

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Investme nt RBC-WG</td>
<td>1</td>
<td>2020 or later</td>
<td>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.</td>
<td>Rating Agency WG Referral March 2010</td>
<td>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</td>
<td></td>
</tr>
</tbody>
</table>

## Carry-Over Items Not Currently being Addressed – Investment RBC

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>Investme nt RBC-WG</td>
<td>2</td>
<td>Year-End 2021</td>
<td>Consideration should be given to recalibrate the RBC formulae to require different levels of capital for municipal, corporate and structured securities.</td>
<td>Rating Agency WG Referral March 2010</td>
<td>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</td>
<td></td>
</tr>
</tbody>
</table>
### Working Agenda Items for Calendar Year 2020

<table>
<thead>
<tr>
<th>#</th>
<th>Owner</th>
<th>Priority</th>
<th>Expected Completion Date</th>
<th>Working Agenda Item</th>
<th>Source</th>
<th>Comments</th>
<th>Date Added to Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>Investment RBC-WG</td>
<td>1</td>
<td>Year-End 2021</td>
<td>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.</td>
<td>CAdTF</td>
<td>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</td>
<td>2/10/2015 8/17/2015</td>
</tr>
<tr>
<td>45</td>
<td>Investment RBC-WG</td>
<td>2</td>
<td>Year-End 2021</td>
<td>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.</td>
<td>CDS WG referrals</td>
<td>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</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Investment RBC-WG</td>
<td>2</td>
<td>Year-End 2021</td>
<td>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.</td>
<td>Rating Agency WG Referral March 2010</td>
<td>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</td>
<td></td>
</tr>
</tbody>
</table>
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.

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
identifies the capital adequacy task force

RBC Proposal Form

[ ] Catastrophe Risk (E) Subgroup [ ] Investment RBC (E) Working Group [ ] Operational Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup [ ] P/C RBC (E) Working Group [ ] Longevity Risk (A/E) Subgroup

DATE: 6/6/19
CONTACT PERSON: Dave Fleming
TELEPHONE: 816-783-8121
EMAIL ADDRESS: dfleming@naic.org
ON BEHALF OF: Life Risk-Based Capital (E) Working Group
NAME: Philip Barlow, Chair
TITLE: Associate Commissioner of Insurance
AFFILIATION: District of Columbia
ADDRESS: 1050 First Street, NE Suite 801
Washington, DC 20002

FOR NAIC USE ONLY
Agenda Item # 2020-03-L(MOD)
Year 2020

DISPOSITION
[ X ] ADOPTED 2/14/20
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ X ] EXPOSED 1/13/20
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED
[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [ x ] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions [ ] Property/Casualty RBC Instructions [ ] Life and Fraternal RBC Blanks
[ ] OTHER ____________________________

DESCRIPTION OF CHANGE(S)
This proposal modifies the C-3 RBC instructions for 2020 and creates guidance for 2019 reporting. It also includes the deletion of instructions specific to 2019 which are not applicable for 2020 and beyond.

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 adopted (DBF)
* 3-23-20: 2019 specific instruction deletion approved by Working Group and exposed for comment with no comments received. (DBF)

** This section must be completed on all forms.

©2019 National Association of Insurance Commissioners
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 CTEAT (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 CTEAT (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:

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

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 2019 RBC New over 2019 RBC

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*(6) plus 0.6*(3) {40% prior year ratio and 60% current year ratio}.  

3
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 uninsured 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
This page intentionally left blank.
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.
This page intentionally left blank.
INTEREST RATE RISK AND MARKET RISK
LR027

The following instructions for the Interest Rate Risk and Market Risk will remain effective independent of the status of the sunset provision, Section 8, of Actuarial Guideline XLVIII (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.

Cash Flow Modeling for C-3 RBC Requirements for Variable Annuities and Similar Products:

Instructions for 2019:

2019 is a transition year to a new modeling framework. A company must follow one of two options to develop the C-3 RBC amount:

A. If the company has elected to apply the requirements of VM-21 from the 2020 version of the NAIC valuation manual to determine reserves for the Variable Annuities for 12/31/19, the company shall follow the instructions beginning on page 16 labeled “Instructions for 2020 and Later” for determining the C-3 RBC requirement on the Variable Annuities and similar contracts, but may not apply the phase-in provisions of paragraph E on page 18. Otherwise,

B. The company shall follow the nine-step process below through page 15.

Overview (2019)

The amount reported on Line (37) is calculated using a nine-step process. As in Step 3 of the Single Scenario C-3 Measurement Considerations section of Appendix 1a—Cash Flow Testing for C-3 RBC Methodology, existing AVR-related assets should not be included in the initial assets used in the C-3 modeling unless AVR has been excluded from TAC due to its use in the asset adequacy analysis supporting reserves. AVR-related assets may be included with C-3 testing to the extent that the AVR has been used in the cash flow testing and is therefore excluded from TAC, and that portion of the AVR-related assets relates to the business being tested. These assets are available for future credit loss deviations over and above expected credit losses. These deviations are covered by C-1 risk capital. Similarly, future AVR contributions should not be modeled. However, the expected credit losses should be in the C-3 modeling. (Deviations from expected are covered by both the AVR and C-1 risk capital and should not be modeled).

IMR assets should be used for C-3 modeling. If negative cash flows are handled by selling assets, then appropriate modeling of contributions to and amortization of the IMR need to be reflected in the modeling.
The first step is determined by applying the methodology described in the report “Recommended Approach for Setting Risk-Based Capital Requirements for Variable Annuities and Similar Products Presented by the American Academy of Actuaries’ Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioners’ Capital Adequacy Task Force (June 2005)” to calculate the total asset requirement. Although Appendix 2 in the Report notes path dependent models under a different set of initialization parameters might produce scenarios that do not satisfy all the calibration points shown in Table 1, to be in compliance with the requirements in this first step, the actual scenarios used for diversified U.S. equity funds must meet the calibration criteria. The scenarios need not strictly satisfy all calibration points in Table 1 of Appendix 2, but the actuary should be satisfied that any differences do not materially reduce the resulting capital requirements. See the Preamble to the Accounting Practices and Procedures Manual for an explanation of materiality. Include the Tax Adjustment as described in the report using the enacted maximum federal corporate income tax rate. If using the Alternative Method for GMDB Risks, use 1 minus the enacted maximum federal corporate income tax rate in place of the 65% adjustment contained in paragraph 4 (page 55) and the enacted maximum federal corporate income tax rate in place of 35% Income Tax Rate shown in Table 8-9 (page 78). The discount rate in Table 8-9 should also be adjusted for the appropriate enacted maximum federal corporate income tax rate.

The second step is to reduce the amount calculated in (1) above by the interest rate portion of the risk (i.e., only the separate account market risk is included in this step).

The third step is to calculate the Standard Scenario Amount.

Take the greater of the amounts from steps (2) and (3).

Apply the smoothing and transition rules (if applicable) to the amount in step (4).

Add the general account interest rate portion of the risk to the amount in step (5).

Subtract the reported statutory reserves for the business subject to the Report from the amount calculated in step (6). Floor this amount at $0.

Divide the result from step (7) by $(1 - \text{enacted maximum federal corporate income tax rate})$ to arrive at a pre-tax amount.

Split the result from step (8) into an interest rate risk portion and a market risk portion. Note that the interest rate portion may not equal the interest rate portion of the risk used in steps (2) and (6) above even after adjusting these to a pre-tax basis. The interest rate portion of the risk should be included in Line (35) and the market risk portion in Line (37).

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

Calculation of the Total Asset Requirement

The method of calculating the Total Asset Requirement is explained in detail in the AAA’s June 2005 report, referenced above. In summary, it is as follows:

A—Aggregate the results of running stochastic scenarios using prudent best estimate assumptions (the more reliable the underlying data is, the smaller the need for margins for conservatism) and calibrated fund performance distribution functions. If utilizing prepackaged scenarios as outlined in the American Academy of Actuaries’ report, Construction and Use of Pre-Packaged Scenarios to Support the Determination of Regulatory Risk Based Capital Requirements for Variable Annuities and Similar Products, Jan. 13, 2006, the Enhanced C-3 Phase I Interest Rate Generator should be used in generating any interest rate scenarios or regenerating pre-packaged fund scenarios for funds that include the impact of bond yields. Details concerning the Enhanced C-3 Phase I Interest Rate Generator can be found on the American Academy of Actuaries webpage at the following address http://www.actuary.org/pdf/life/c3supp_jan06.pdf. The Enhanced C-3 Phase I Interest Rate Generator with its ability to use the yield curve as of the run date and to regenerate pre-packaged fund returns using interest rate scenarios based on the current yield curve replaces the usage of the March 2005 pre-packaged scenarios.
B. Calculate required capital for each scenario by calculating accumulated statutory surplus, including the effect of federal income taxes at the enacted maximum federal corporate income tax rate, for each calendar year-end and its present value. The negative of the lowest of these present values is the asset requirement for that scenario. These values are recorded for each scenario and the scenarios are then sorted on this measure. For this purpose, statutory surplus is modeled as if the statutory reserve were equal to the working reserve.

C. The Total Asset Requirement is set at the 90 Conditional Tail Expectation by taking the average of the worst 10 percent of all the scenarios’ asset requirements (capital plus starting reserve). Risk-based capital is calculated as the excess of the Total Asset Requirement above the statutory reserves. For products with no guaranteed living benefit, or just a guaranteed death benefit, an alternative method is allowed, as described in the AAA report.

D. Risk-based capital is calculated as the excess of the Total Asset Requirement above the statutory reserves. Except for the effect of the Standard Scenario and the Smoothing and Transition Rules (see below), this RBC is to be combined with the C-1cs component for covariance purposes.

E. A provision for the interest rate risk of the guaranteed fixed fund option, if any, is to be calculated and combined with the current C-3 component of the formula.

F. The way grouping (of funds and of contracts), sampling, number of scenarios, and simplification methods are handled is the responsibility of the actuary. However, all these methods are subject to Actuarial Standards of Practice, supporting documentation and justification.

G. Certification of the work done to set the RBC level will be required to be submitted with the RBC filing. Refer to Appendices 10 and 11 of the AAA LCAS C-3 Phase II RBC Report (June 2005) for further details of the certification requirements. The certification should specify that the actuary is not opining on the adequacy of the company's surplus or its future financial condition. The actuary will also note any material change in the model or assumptions from that used previously and the impact of such changes (excluding changes due to a change in these NAIC instructions). Changes will require regulatory disclosure and may be subject to regulatory review and approval. Additionally, if hedging is reflected in the stochastic modeling, additional certifications are required from an actuary and financial officer of the company.

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

H. An actuarial memorandum should be constructed documenting the methodology and assumptions upon which the required capital is determined. The memorandum should also include sensitivity tests that the actuary feels appropriate, given the composition of their block of business (i.e., identifying the key assumptions that, if changed, produce the largest changes in the RBC amount). This memorandum will be confidential and available to regulators upon request.

Application of the Tax Adjustment

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 tax reserves assumed in the projection are set equal to Working Reserves and if tax reserves actually exceed Working Reserves at the beginning of the projection, a tax adjustment is required.

A tax adjustment is not required in the following situations:

• Tax reserves are projected directly; that is, it is not assumed that projected tax reserves are equal to Working Reserves, whether these are cash values or other approximations.
• Tax reserves at the beginning of the projection period are equal to Working Reserves.
• Tax reserves at the beginning of the projection period are lower than Working Reserves. This situation is only possible for contracts without cash surrender values and when these contracts are significant enough to dominate other contracts where tax reserves exceed Working Reserves. In this case the modeled tax results are over stated each year for reserves in the projection, as well as the projected tax results reversed at the time of claim.
If a tax adjustment is required, the Total Asset Requirement (TAR) 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 measured approximately 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 TAR may be approximated as the corporate tax rate times \( f \) times the difference between tax reserves and Working Reserves at the start of the projections. For this calculation, \( f \) is calculated as follows: For the scenarios reflected in calculating 90 CTE, the lowest of these present values of accumulated statutory surplus is determined for each calendar year-end 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 90 CTE scenarios, and \( f \) is one minus this average ratio. If instead, RBC is determined under the standard scenario method then \( f \) is based on the ratio at the worst duration under that scenario. If the Alternative Method is used, \( f \) is approximated as 0.5.

**Calculation of the Standard Scenario Amount**

**Standard Scenario for C-3 Phase II Risk Based Capital (RBC) Determination**

1. **Overview**
   
   **A) Application to Determine RBC:**
   
   A Standard Scenario Amount shall be determined for all of the contracts under the scope described in the June 2005 report, “Recommended Approach for Setting Risk-Based Capital Requirements for Variable Annuities and Similar Products.” If the Standard Scenario Amount is greater than the Total Asset Requirement less any amount included in the TAR but attributable to and allocated to C-3 (Interest Rate Risk) otherwise determined based on the Report, then the Total Asset Requirement before tax adjustment used to determine C-3 Phase II (Market Risk) RBC shall be the Standard Scenario Amount.

   The Standard Scenario Amount shall be the sum of the following:

   1. For contracts for which RBC is based on the Alternative Methodology applied without a model office using 100 percent of the MGDB mortality table, the Standard Scenario Amount shall be the sum of the total asset requirement before tax adjustment from the Alternative Methodology applied to such contracts.

   2. For contracts without guaranteed death benefits for which RBC is based on the Alternative Methodology applied without a model office, the Standard Scenario Amount shall be the sum of the total asset requirements before tax adjustment from the Alternative Methodology applied to such contracts.

   3. For contracts under the scope of the Report other than contracts for which paragraphs 1 and 2 apply, the Standard Scenario Amount is determined by use of The Standard Scenario Method described in Section III. The Standard Scenario Method requires a single projection of account values based on specified returns on the assets supporting the account values. On the valuation date an initial drop is applied to the account values based on the supporting assets. Subsequently, account values are projected at the rate earned on supporting assets less a margin. Additionally, the projection includes the cash flows for certain contract provisions, including any guaranteed living and death benefits using the assumptions in Section III. Thus, the calculation of the Standard Scenario Amount will reflect the greatest present value of the accumulated projected cost of guaranteed benefits less the accumulated projected revenue produced by the margins in accordance with Subsection III (D).

   **B) The Standard Scenario Amount under the Standard Scenario Method:**

   The Standard Scenario Amount for all contracts subject to the Standard Scenario Method is determined as of the valuation date under the Standard Scenario Method described in Section III based on a rate, \( DR \). \( DR \) is the annual effective equivalent of the 10-year constant maturity treasury rate reported by the Federal Reserve for the month of valuation plus 50 basis points. However, \( DR \) shall not be less than 3 percent or more than 9 percent. If the 10-year constant maturity treasury rate is no longer available, then a substitute rate determined by the National Association of Insurance Commissioners shall be used. The accumulation rate, \( AR \), is the product of \( DR \) and one minus the tax rate defined in paragraph III(D)(10).
No modification is allowed from the requirements in Section III unless the Domiciliary Commissioner approves such modification as necessary to produce a reasonable result.

C) Illustrative Application of the Standard Scenario Method to a Projection, Model Office and Contract by Contract

To provide information on the significance of aggregation, a determination of the Standard Scenario Amount based on paragraphs III(B)(1) and III(B)(2) is required for each contract subject to paragraph I(A)(3). The sum of all such Standard Scenario Amounts is described as row B in Table A. In addition, if the Conditional Tail Expectation Amount in the Report is determined based on a projection of an inforce prior to the statement date and/or by the use of a model office, which is a grouping of contracts into representative cells, then additional determinations of the Standard Scenario Amount shall be performed on the prior inforce and/or model office. The calculations are for illustrative purposes to assist in validating the reasonableness of the projection and or the model office and to determine the significance of aggregation.

Table A identifies the Standard Scenario Amounts required by this section. The Standard Scenario Amounts required are based on how the Conditional Tail Expectation projection or Alternative Methodology is applied. For completeness, the table also includes the Standard Scenario Amount required by paragraph I(A)(3). The amounts in Table A should be included as part of the certifying actuary’s annual supporting memorandum specified in paragraph (H) of the “Calculation of the Total Asset Requirement” section of the RBC instructions.

- Standard Scenario Amounts in rows A and B in Table A are required of all companies subject to paragraph I(A)(3). No additional Standard Scenario Amounts are required if a company’s stochastic or alternative methodology result is calculated on the statement date using individual contracts (i.e., without a model office).
- A company that uses a model office as of the statement date to determine its stochastic or alternative methodology result must provide the Standard Scenario Amount for the model office. This is row C.
- A company that uses an aggregation by duration of contract by contract projection of a prior inforce to determine its stochastic or alternative methodology with result PS and then projects requirements to the statement date with result S must provide the Standard Scenario Amount for the prior inforce, row D.
- A company that uses a model office of a prior inforce to determine its stochastic or alternative methodology requirements with result PM and then projects requirements to the statement date with result S must provide the Standard Scenario Amount for the model office on the prior inforce date, row E.
Table A

<table>
<thead>
<tr>
<th>Standard Scenario Amounts</th>
<th>Guideline Variations</th>
<th>Validation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Model Office</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Projection of Prior-Inforce</td>
</tr>
<tr>
<td>A. Aggregate valuation on the statement date on inforce contracts required in I(A)(3)</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>B. Seriatim valuation on the statement date on inforce contracts</td>
<td>None: Compare to A</td>
<td>None</td>
</tr>
<tr>
<td>C. Aggregate valuation on the statement date on the model office</td>
<td>If not material to model office validation</td>
<td>A/C compare to 1.00</td>
</tr>
<tr>
<td>D. Aggregate valuation on a prior inforce date on prior inforce contracts</td>
<td>If not material to projection validation</td>
<td>None</td>
</tr>
<tr>
<td>E. Aggregate valuation on a prior inforce date of a model office</td>
<td>If not material to model office or projection validation.</td>
<td>(A/E—S/PM) compare to 0</td>
</tr>
</tbody>
</table>

Modification of the requirements in Section III when applied to a prior inforce or a model office is permitted if such modification facilitates validating the projection of inforce or the model office. All such modifications should be documented. No modification is allowed for row B as of the statement date unless the Domiciliary Commissioner approved such modification as necessary to produce a reasonable result under the corresponding amount in row A.

II) Basic Adjusted Reserve

For purposes of determining the Standard Scenario Amount for Risk-Based Capital, the Basic Adjusted Reserve for a contract shall be the Working Reserve, as described in the Report, as of the valuation date.

III) Standard Scenario Amount—Application of the Standard Scenario Method

A) General

Where not inconsistent with the guidance given here, the process and methods used to determine results under the Standard Scenario Method shall be the same as required in the calculation under the modeling methodology required by the Report. Any additional assumptions needed to apply the Standard Scenario Method to the inforce shall be explicitly documented.
B) Results for the Standard Scenario Method.

The Standard Scenario Amount is equal to (1) + (2) − (3) where:

1) Is the sum of the Basic Adjusted Reserve as described in Section II for all contracts for which the Standard Scenario Amount is being determined,

2) Is zero or if greater the aggregate greatest present value for all contracts measured as of the end of each projection year of the negative of the Accumulated Net Revenue described below using the assumptions described in Subsection III(D) and a discount rate equal to the Accumulation Rate, AR. The Accumulated Net Revenue at the end of a projection year equals (i) + (ii) − (iii) where:

   (i) Is the Accumulated Net Revenue at the end of the prior projection year accumulated at the rate AR to the end of the current projection year. The Accumulated Net Revenue at the beginning of the projection (i.e., time 0) is zero.

   (ii) Are the margins generated during the projection year on account values as defined in paragraph III(D)(1) multiplied by one minus the tax rate and accumulated at rate AR to the end of current projection year, and

   (iii) Are the contract benefits paid in excess of account value applied plus the Individual reinsurance premiums (ceded less assumed) less the Individual reinsurance benefits (ceded less assumed) payable or receivable during the projection year multiplied by one minus the tax rate and accumulated at rate AR to the end of current projection year. Individual reinsurance is defined in paragraph III(D)(2).

3) Is the value of approved hedges and Aggregate reinsurance as described in paragraph III(E)(2). Aggregate reinsurance is defined in paragraph III(D)(2).

C) The actuary shall determine the projected reinsurance premiums and benefits reflecting all treaty limitations and assuming any options in the treaty to the other party are exercised to decrease the value of reinsurance to the reporting company (e.g., options to increase premiums or terminate coverage). The positive value of any reinsurance treaty that is not guaranteed to the insurer or its successor shall be excluded from the value of reinsurance. The commissioner may require the exclusion of any portion of the value of reinsurance if the terms of the reinsurance treaties are too restrictive (e.g., time or amount limits on benefits correlate to the Standard Scenario Method).

D) Assumptions for Paragraph III (B) (2) Margins and Account Values.

1) Margins on Account Values. The bases for return assumptions on assets supporting account values are shown in Table I. The Initial returns shall be applied to the account values assigned to each asset class on the valuation date as immediate drops, resulting in the Account Values at time 0. The "Year 1" and "Year 2+" returns are gross annual effective rates of return and are used (along with other decrements and/or increases) to produce the Account Values as of the end of each projection year. For purposes of this section, money market funds shall be considered part of the Bond class.

The Fixed Fund rate is the greater of the minimum rate guaranteed in the contract or 3.5 percent but not greater than the current rates being credited to Fixed Funds on the valuation date.

Account Values shall be accumulated after the initial drop using the rates from Table I with appropriate reductions applied to the supporting assets. The appropriate reductions for account values supported by assets in the Equity, Bond or Balance Classes are all fund and contract charges according to the provisions of the funds and contracts. The appropriate reduction for Account Values supported by Fixed Funds is zero.
The margins on Account Values are defined as follows:

a) During the Surrender Charge Period:
   i. 0.10% of Account Value; plus
   ii. The maximum of:
       • 0.20% of Account Value; or
       • Explicit and optional contract charges for guaranteed living and death benefits.

b) After the Surrender Charge Period:
   i. The amount determined in (a) above; plus
   ii. The lesser of:
       • 0.65% of Account Values; and
       • 50% of the excess, if any, of all contract charges over (a) above.

However, on fixed funds after the surrender charge period, a margin of up to the amount in (a) above plus 0.4% may be used.

<table>
<thead>
<tr>
<th>Equity Class</th>
<th>Initial</th>
<th>Year 1</th>
<th>Year 2+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Class</td>
<td>0</td>
<td>0</td>
<td>4.85%</td>
</tr>
<tr>
<td>Balanced Class</td>
<td>-12%</td>
<td>0</td>
<td>3.74%</td>
</tr>
<tr>
<td>Fixed Separate Accounts and General Account</td>
<td>Fixed Fund Rate</td>
<td>Fixed Fund Rate</td>
<td></td>
</tr>
</tbody>
</table>
3) Lapses, Partial Withdrawals, and Moneyness. Partial withdrawals elected as guaranteed living benefits or required contractually (e.g., a contract operating under an automatic withdrawal provision on the valuation date) are to be included in subparagraph III(B)(2)(iii). No other partial withdrawals, including free partial withdrawals, are to be included. All lapse rates shall be applied as full contract surrenders.

A contract is in the money (ITM) if it includes a guaranteed living benefit and at any time the portion of the future projected account value under the Standard Scenario Method required to obtain the benefit would be less than the value of the guaranteed benefit at the time of exercise or payment. If the projected account value is 90 percent of the value of the guaranteed benefit at the time of exercise or payment, the contract is said to be 10 percent in the money. If the income from applying the projected account value to guaranteed purchase rates exceeds the income from applying the projected benefit base to GMIB purchase rates for the same type of annuity, then there is no GMIB cost and the GMIB is not in the money. A contract not in the money is out of the money (OTM). If a contract has multiple living benefit guarantees then the contract is ITM to the extent that any of the living benefit guarantees are ITM. Lapses shall be at the annual effective rates given in Table II.

<table>
<thead>
<tr>
<th>表II——Lapse Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Death Benefit Only</td>
</tr>
<tr>
<td>Contracts</td>
</tr>
<tr>
<td>All Guaranteed Living</td>
</tr>
<tr>
<td>Benefits OTM</td>
</tr>
<tr>
<td>ITM&lt; 10%</td>
</tr>
<tr>
<td>Any Guaranteed Account</td>
</tr>
<tr>
<td>Balance Benefits ITM</td>
</tr>
<tr>
<td>Any Other Guaranteed</td>
</tr>
<tr>
<td>Living Benefits ITM</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

4) Account Transfers and Future Deposits. No transfers between funds shall be assumed to determine the greatest present value amount required under paragraph III(B)(2) unless required by the contract (e.g., transfers from a dollar cost averaging fund or contractual rights given to the insurer to implement a contractually specified portfolio insurance management strategy or a contract operating under an automatic re-balancing option). When transfers must be modeled, to the extent not inconsistent with contract language, the allocation of transfers to funds must be in proportion to the contract’s current allocation to funds.

Margins generated during a projection year on funds supporting account values are transferred to the Accumulation of Net Revenue at year-end and are subsequently accumulated at the Accumulation Rate. Assets for each class supporting account values are to be reduced in proportion to the amount held in each asset class at the time of transfer of margins or any portion of Account Value applied to the payment of benefits.

No future deposits shall be assumed unless required by the terms of the contract to prevent contract or guaranteed benefit lapse, in which case they must be modeled. When future deposits must be modeled, to the extent not inconsistent with contract language, the allocation of the deposit to funds must be in proportion to the contract’s current allocation to funds.

5) Mortality. Mortality at 80 percent of the 1994 MGDB tables through age 95 increasing by 1 percent each year to 100 percent of the 1994 MGDB table at age 115 shall be assumed in the projection used to determine the greatest present value amount required under paragraph III(B)(2).
6) Projection Frequency. The projection used to determine the greatest present value amount required under paragraph III(D)(2) shall be calculated using an annual or more frequent time step, such as quarterly. For time steps more frequent than annual, assets supporting Account Values at the start of each projection year may be retained in such funds until year-end (i.e., pre-tax margin earned during the year will earn the fund rates instead of the Discount Rate until year-end) or removed after each time step. However, the same approach shall be applied for all years. Subsequent to each projection year-end, Accumulated Net Revenues for the year shall earn the Accumulation Rate. Similarly, projected benefits, lapses, elections and other contract activity can be assumed to occur annually or at the end of each time step, but the approach shall be consistent for all years.

7) Surrender Charge Period. If the surrender charge for the contract is determined based on individual contributions or deposits to the contracts, the surrender charge amortization period may be estimated for projection purposes. Such estimated period shall not be less than the remaining duration based on the normal amortization pattern for the remaining total contract charge assuming it resulted from a single deposit, plus one year.

8) Contract Holder Election Rates. Contract holder election rates to determine amounts in subparagraph III(B)(2)(iii) shall be 15 percent per annum for any elective ITM benefit except guaranteed withdrawal benefits, but only to the extent such election does not terminate a more valuable benefit subject to election. Guaranteed Minimum Death Benefits are not benefits subject to election. Exception: Contract holder election rates shall be 100 percent at the last opportunity to elect an ITM benefit, but only to the extent such election does not terminate a more valuable benefit subject to election. A benefit is more valuable if it is more ITM in absolute dollars using the definition of ITM in paragraph III(D)(3).

For guaranteed minimum withdrawal benefits, a partial withdrawal equal to the applicable percentage in Table III applied to the contract’s maximum allowable partial withdrawal shall be assumed in subparagraph III(B)(2)(iii). However, if the contract’s minimum allowable partial withdrawal exceeds the partial withdrawal from applying the rate in Table III to the contract’s maximum allowable partial withdrawal, then the contract’s minimum allowable partial withdrawal shall be assumed in subparagraph III(B)(2)(iii).

<table>
<thead>
<tr>
<th>Table III—Guaranteed Withdrawal Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawals do not reduce other elective Guarantees that are in the money</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td>Withdrawals reduce elective Guarantees that are in the money</td>
</tr>
</tbody>
</table>

9) GMIBs. For subparagraph III(B)(2)(iii), GMIB cost at the time of election shall be the excess, if positive, of the reserve required for the projected annuitization stream over the available account value. If the reserve required is less than the account value, the GMIB cost shall be zero. The reserve required shall be determined using the Annuity 2000 Mortality Table and a valuation interest rate equal to the Discount Rate. If more than one annuity option is available, chose the option with a reserve closest to the reserve for a life annuity with 10 years of certain payments.

10) Indices. If an interest index is required to determine projected benefits or reinsurance obligations, the index must assume interest rates have not changed since the last reported rates before the valuation date. If an equity index is required, the index shall be consistent with the last reported index before the valuation date, the initial drop in equity returns and the subsequent equity returns in the standard scenario projection up to the time the index is used. The sources of information and how the information is used to determine indexes shall be documented and, to the extent possible, consistent from year to year.

11) Taxes. All taxes shall be based on the enacted maximum federal corporate income tax rate.

E) Assumptions for use in paragraph III (B) (2):
1) The Value of Aggregate Reinsurance. The value of Aggregate reinsurance is the discounted value, at rate AR of the excess of: a) the benefit payments from the reinsurance, over b) the reinsurance premiums, where (a) and (b) are determined under the assumptions described in Subsection III(D).

2) The Value of Approved Hedges. The value of approved hedges shall be calculated separately from the calculation in paragraph III(B)(2). The value of approved hedges is the difference between: a) the discounted value at rate AR of the after-tax cash flows from the approved hedges; less b) their statement values on the valuation date.

To be an approved hedge, a derivative or other investment has to be an actual asset held on the valuation date, be designated as a hedge for one or more contracts subject to the Standard Scenario, and be part of a clearly defined hedging strategy as described in the Report. If the approved hedge also supports contracts not subject to the Standard Scenario, then only that portion of the hedge designated for contracts subject to the Standard Scenario shall be included in the value of approved hedges. Approved hedges must be held in accordance with an investment policy that has been implemented for at least six months and has been approved by the Board of Directors or a subcommittee of Board members. A copy of the investment policy and the resolution approving the policy shall be maintained with the documentation of the Standard Scenario and available on request. Approved hedges must be held in accordance with a written investment strategy developed by management to implement the Board’s investment policy. A copy of the investment strategy on the valuation date, the most recent investment strategy presented to the Board if different and the most recent written report on the effectiveness of the strategy shall be maintained with the documentation of the Standard Scenario and available on request.

The commissioner may require the exclusion of any portion of the value of approved hedges upon a finding that the company’s documentation, controls, measurement, execution of strategy or historical results are not adequate to support a future expectation of risk reduction commensurate with the value of approved hedges.

The item being hedged, the contract guarantees, and the approved hedges are assumed to be accounted for at the average present value of the tail scenarios. The value of approved hedges for the standard scenario is the difference between an estimate of this “tail value” and the “fair value” of approved hedges. For this valuation to be consistent with the statement value of approved hedges, the statement value of approved hedges will need to be held at fair value with the immediate recognition of gains and losses. Accordingly, it is assumed that approved hedges are not subject to the IMR or the equity component of the AVR. Approved hedges need not satisfy SSAP No. 86. In particular, as gains and losses of approved hedges are recognized immediately, approved hedges need not satisfy the requirements for hedge accounting of fair value hedges.

It is the combination of hedges and liabilities that determine which scenarios are the tail scenarios. In particular, scenarios where the hedging is least effective are likely to be tail scenarios and liabilities that are a left tail risk could in combination with hedges become a right tail risk.

The cash flow projection for approved hedges that expire in less than one year from the valuation date should be based on holding the hedges to their expiration. For hedges with an expiration of more than one year, the value of hedges should be based on liquidation of the hedges one year from the valuation date. Where applicable, the liquidation value of hedges shall be consistent with Black-Scholes pricing, a risk free rate of DR, annual volatility implicit as of the valuation date in the statement value of the hedges under Black-Scholes pricing and a risk free rate of DR and the assumed returns in the Standard Scenario from the valuation date to the date of liquidation.

There is no credit in the Standard Scenario for dynamic hedging beyond the credit that results from hedges actually held on the valuation date. There is no credit for hedges actually held on the valuation date that are not approved hedges as the commitment to maintain the level of risk reduction derived from such hedges is not adequate.

3) Retention of Components. For the Standard Scenario Amounts on the statement date the company should have available to the Commissioner the following values:

a) For runs A and B as defined in I(C) by contract and in aggregate the amounts determined in III(B)(1) and III(B)(2).

b) For run A the aggregate amounts determined in III(E)(1) and III(E)(2).

**Smoothing and Transition Rules**
If a company is following a Clearly Defined Hedging Strategy (See “Recommended Approach for Setting Risk-Based Capital Requirements for Variable Annuities and Similar Products” presented by the American Academy of Actuaries’ Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioner’s Capital Adequacy Task Force (June 2005) for the definition of this phrase) on some or all of its business, a decision should be made whether or not to smooth the TAR. In all cases where “cash value” is to be used, the values used must be computed on a consistent basis for each block of business at successive year-ends. For deferred annuities with a cash value option, direct writers will use the cash value. For deferred annuities with no cash value option, or for reinsurance assumed through a treaty other than coinsurance, use the policyholder account value of the underlying contract. For payout annuities, or other annuities with no account value or cash value, use the amount as defined for variable payout annuities in the definition of Working Reserve. 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 value in proportion to the business ceded while the assuming company shall use an amount consistent with the business assumed.

A company who reported an amount in Line (37) last year may choose to smooth the Total Asset Requirement. A company is required to get approval from its domestic regulator prior to changing its decision about smoothing from 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 the step “Reduction for Reported Statutory Reserves.”

Instructions—2007 and Later

1. Determine the Total Asset Requirement as the greater of that produced by the “Recommended Approach for Setting Risk-Based Capital Requirements for Variable Annuities and Similar Products” presented by the American Academy of Actuaries’ Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioner’s Capital Adequacy Task Force (June 2005) or the value produced by the “Standard Scenario” as outlined above.

2. Determine the aggregate cash value for the contracts covered by the Stochastic modeling requirements.

3. Determine the ratio of TAR / CV for current year.

4. Determine the Total Asset Requirement as actually reported for the prior year Line (37).

5. Determine the aggregate cash value for the same contracts for the prior year-end.

6. Determine the ratio of TAR / CV for prior year.

7. Determine a ratio as 0.4*(6) plus 0.6*(3) {40% prior year ratio and 60% current year ratio}.

8. Determine TAR for current year as the product of (7) and (2) \{adjust (2) to be actual 12/31 cash value\}.

Reduction for Reported Statutory Reserves

The amount of the TAR (post-Federal Income Tax) determined using the instructions for the applicable year is reduced by the reserve, net of reinsurance, for the business subject to this instruction reported in the current statutory annual statement.

Allocation of Results to Line (35) and Line (37)

See step (9) located in the overview section at the beginning of the instructions for this line.
Drafting Note: in the material that follows, Oliver Wyman’s proposed instructions are modified to present a more understandable requirement, but the only changes to actual requirements are for: C. Alternative Methodology, E. Phase-in, F. Smoothing, and I. Format of documentation.