Draft date: 7/24/23

2023 Summer National Meeting
Seattle, Washington

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Sunday, 8/13/2023
8:00 - 9:00 a.m.
Regency Ballroom A - Level 7 - Hyatt Regency Seattle

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Sheila Travis	Alabama	Michael Muldoon	Nebraska
Thomas Reedy	California	Jennifer Li	New Hampshire
Wanchin Chou	Connecticut	Seong-min Eom	New Jersey
Dalora Schafer	Florida	Bill Carmello	New York
Vincent Tsang	Illinois	Andrew Schallhorn	Oklahoma
Mike Yanacheak	Iowa	Rachel Hemphill	Texas
Fred Andersen	Minnesota	Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

AGENDA

1. Consider Adoption of its June 22; April 14; and Spring National Meeting Minutes—*Philip Barlow (DC)* — Attachments A-C

2. Consider Adoption of the 2023 Life Risk-Based Capital Newsletter —*Philip Barlow (DC)* — Attachment D

3. Consider Adoption of the 2022 Life RBC Statistics—*Philip Barlow (DC)* — Attachment E

4. Consider Adoption of its Working Agenda—*Philip Barlow (DC)* — Attachment F

5. Discuss Repurchase Agreements—*Philip Barlow (DC)* — Attachment G

6. Discuss C-2 Mortality Risk—*Philip Barlow (DC)*

7. Discuss Any Other Matters Brought Before the Working Group —*Philip Barlow (DC)*

8. Adjournment

Draft: 7/30/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
June 22, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 22, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Vincent Tsang (IL); Mike Yanacheak (IA); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello and Roberto Paradis (NY); Andy Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted the Generator of Economic Scenarios (GOES) (E/A) Subgroup Charges

Barlow said a new joint subgroup of the Working Group and the Life Actuarial (A) Task Force has been formed and the charges need to be adopted by both groups. Hemphill made a motion, seconded by Yanacheak, to adopt the charges of the Generator of Economic Scenarios (GOES) (E/A) Subgroup. The motion passed unanimously.

2. Discussed Proposal 2023-08-L Custody Control Accounts

Barlow said there was one comment letter received on this proposal (Attachment 1). Paradis said this is not a credit for reinsurance issue but whether the security interest is sufficient to mitigate the counterparty risk and results in the risk-based capital (RBC) charge. He said the proposal leaves control over the supporting assets with the reinsurer and does not seem to mitigate the counterparty credit exposure for the cedant. Andrew Holland (Sidley Austin) said the intention is that there is a security interest that is affected either through the reinsurance agreement or a separate security agreement. Barlow asked if Holland and Paradis would be willing to discuss this further to come to a consistent understanding so the Working Group can move forward with this proposal. Both agreed.

3. Discussed the Working Agenda

Slutsker suggested adding all payout annuities to the scope of the work on longevity. Barlow asked Slutsker to work with staff on the wording to be changed.

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

Draft: 7/29/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
April 14, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 14, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Wanchin Chou (CT); Mike Yanacheak and Carrie Mears (IA); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Andy Schallhorn (OK); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. <u>Adopted Proposal 2023-05-L Removal of Dual Trend Test</u>

Barlow said the dual presentation is no longer needed and one comment letter was submitted in support of the proposal. Brian Bayerle (American Council of Life Insurers—ACLI) confirmed that the ACLI supports the proposal. Chou made a motion, seconded by Andersen, to adopt the proposal. The motion passed unanimously.

2. <u>Adopted Proposal 2023-06-L C-2 Mortality Structure and Instruction Changes</u>

Barlow said one comment letter (Attachment 1) was received. Bayerle said the two items the ACLI noted are a minor edit and also a request for clarification on some of the language if the American Academy of Actuaries (Academy) could provide that in writing or on a future call. Dave Fleming (NAIC) said the first item the ACLI noted has already been addressed. He said, while the Academy provided two alternatives for the Working Group to consider, one, noted as update two, that included the introduction of a new financial statement note to facilitate population of the schedule, that alternative is not contingent upon the note being in place and could be adopted with a simple line description change to company records along with a guidance document from the Working Group. Barlow asked Bayerle if he had any questions or concerns. Bayerle said the ACLI is comfortable with the note if it is adopted but the path that Fleming suggests in terms of clarifying the sources makes sense. Connie Jasper Woodroof (CJW Associates) said she submitted a comment letter to both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group but should have included this working group. She said she does not have a problem with having a note to pull information from for RBC but believes the proposed note goes above and beyond what the proposed purpose of the note. Additionally, she said the proposed note includes information that is already available in the annual statement and one of the things the Blanks (E) Working Group has been charged with is reducing redundant reporting. She said she had submitted an alternative to the proposed note that would address those pieces needed for RBC that cannot be pulled from the annual statement. To be clear, Barlow said it sounds like the proposed note might change but that will not impact what the Working Group needs to decide upon. Fleming agreed and said if the note changes or is not in place the dynamic is the same and requires only a simple line description change to company records along with a guidance document from the Working Group. Andersen made a motion, seconded by Reedy, to adopt the proposal. Slutsker said his understanding of the new language in the Academy's proposal is that the RBC treatment and categorization could be different depending upon reinsurance and suggested this be part of discussions about the proposed note. The motion passed unanimously.

3. <u>Adopted Proposal 2023-07-L CM6 & CM7 Mortgage Structure Change</u>

Barlow said no comments were received on the proposal. Andersen made a motion, seconded by Leung, to adopt the proposal. The motion passed unanimously.

4. <u>Exposed Proposal 2023-08-L Comfort Trusts for Comment</u>

The Working Group agreed to expose the proposal for a public comment period of 45 days.

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

Draft Pending Adoption

Attachment XX
Capital Adequacy (E) Task Force
XX/XX/23

Draft: 4/3/23

Life Risk-Based Capital (E) Working Group
Louisville, Kentucky
March 22, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met March 22, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Lei Rao-Knight (CT); Carolyn Morgan (FL); Mike Yanacheak (IA); Vincent Tsang and Bruce Sartain (IL); Fred Andersen and Ben Slutsker (MN); William Leung (MO); Michael Muldoon (NE); Seong-min Eom (NJ); Bill Carmello (NY); Andy Schallhorn (OK); Aaron Hodges (TX); and Tomasz Serbinowski (UT). Also participating was: Tom Botsko (OH).

1. Adopted its Jan. 26, 2023, and 2022 Fall National Meeting Minutes

The Working Group met Jan. 26, 2023, and took the following action: 1) exposed the American Academy of Actuaries (Academy) C2 Mortality Risk Work Group's proposal for a 30-day public comment period ending March 1; 2) exposed proposed revisions to the CM6 and CM7 mortgage risk-based capital (RBC) factors and formula for a 45-day public comment period ending March 16; and 3) exposed proposed revisions to remove the dual presentation of the trend test for a 15-day public comment period ending Feb. 14.

Yanacheak made a motion, seconded by Schallhorn, to adopt the Working Group's Jan. 26, 2023 (Attachment), and Dec. 13, 2022 (*see NAIC Proceedings – Fall 2022, Capital Adequacy (E) Task Force, Attachment*) minutes. The motion passed unanimously.

2. Discussed C-2 Mortality Risk

Chris Trost (American Academy of Actuaries—Academy), chair of the Academy's C2 Mortality Risk Work Group, reminded the Working Group that the updates that the Academy proposed were to add a new category for group permanent life and to add a new financial statement note that would include the information necessary to populate the risk-based capital (RBC) schedule. Dave Fleming (NAIC) said the proposed structural change will be considered for adoption in a meeting to be scheduled in April. He said the Blanks (E) Working Group has exposed the new financial note for a public comment period.

2. Discussed its Working Agenda and Priorities

Nancy Bennett (Academy) said her comments would be at a higher level as opposed to discussing specific changes on where some formula enhancements could be put in place with the purpose of getting feedback from the Working Group on its priorities. She discussed the individual risk components and the current status of work being done on them. With respect to the C1 risk component, she noted the recent updating of the bond factors along with the current discussion of updating other asset factors by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and asked about the interest in having a similar discussion in this Working Group. Noting the update on the work being done on C2, Bennett discussed the C3 risk component. She said this has been a carryover item on the working agenda for several years, and the Academy is looking to see when the Working Group is interested in restarting the project and discussing possible convergence among the different phases, which involve different methods that have been implemented over different time periods. She said there was a field study conducted in 2014, which, ultimately, had no action taken on it. While work in this area may be somewhat stalled due to the current work on the economic scenario generator (ESG), she said there are other concepts that have to be worked through irrespective of the generator that is used in the calculations. With the current interest rate environment, she said it is probably a good time to start looking at this area again to ensure that the methodology is capturing the interest rate risk as intended, so the Academy would appreciate the Working Group's input.

Bennett said another possible area of work is the covariance adjustment, and apart from a change made to separate the common stock component, there really has not been any update to the adjustment made to reflect the correlation of risks. She said things to consider could include the correlation of risks within a component, such as mortality and longevity, and whether the original square root formula still makes sense or if there is a reason to make a change to that. This would be a large project, and she said it could have a material impact, so the Academy would like to see if there is interest in moving forward in this area.

Bennett said there may be an opportunity to have a discussion on the aggregate effectiveness of the life RBC formula in actually identifying weakly capitalized companies. While that is its often-stated purpose, she said it is well known that the actual purposes extend far beyond that and include use by rating agencies and use in the investment decisions made by insurers. She suggested it might be useful to have analysis to provide insight as to where the formula is, or more importantly, is not working, which would then drive the appropriate enhancements. She said it is known that there are inconsistencies that exist within the formula, as well as inconsistencies between RBC and statutory reserves and other parts of the balance sheet. In looking at the effectiveness of the formula or the overarching solvency framework, she said the Academy is looking to see if there is an appetite in trying to eliminate those inconsistencies or move some of these topics onto the Working Group's priority list.

Barlow said the work being done by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group would eventually come to the individual RBC working groups but asked the Working Group how much update it believes is needed. Slutsker said the Working Group has many initiatives to focus on while that work is ongoing and believes some brief updates would be adequate until something comes to the Working Group. With respect to C-3, Barlow asked how much of this work can be done solely through this Working Group and how much has ramifications for the Life Actuarial (A) Task Force on the reserve side. Slutsker said he chairs the Valuation Manual (VM)-22 (A) Subgroup, and there is a lot of work on the principle-based reserve methodology for non-variable annuities that would potentially connect to any update for C-3 Phase I. He said he is not necessarily concerned about pursuing any specific C-3 projects right now but believes it would be good to get things in motion as it is likely a multiyear process, and there is probably enough progress on the reserve side that there can be some work done on the RBC side.

Slutsker and Eom noted different field tests, and Barlow asked if these would assist with the C-3 working agenda item, which he believes is more comprehensive. Bennett said she believes so and said she believes there are some basic threshold decisions that need to be made based upon the Working Group's discussion of the various aspects. She said she agrees that it is a good time to get this work started.

Brian Bayerle (American Council of Life Insurers—ACLI) agreed that it is critical to determine what questions there are and let the Working Group determine what direction it wishes to pursue. He suggested approaching this work as holistically as possible because there are so many inter-dependencies. If possible, Barlow said he would like to have an all-encompassing approach.

With respect to the covariance adjustment, Barlow said this is something he has been in favor of reviewing for a long time. He said he believes the ability to properly reflect covariance, and the understanding of how to do that

Draft Pending Adoption

in the RBC calculation has probably improved significantly since the inception of the formula. He asked if this was an item for the Capital Adequacy (E) Task Force as each of the RBC formulas has a covariance adjustment. Botsko said the Task Force is going to recommend starting ad hoc groups to look at different aspects of RBC, and this could be one. Barlow asked if the Academy has a group looking at this and if there is input from the Working Group it would like. Bennett said the Academy has formed a group that is developing some conceptual ideas about correlation and higher-level considerations. Barlow said it would be helpful for the Academy to provide something for consideration whether it be for this Working Group or the Task Force.

With respect to reviewing the overall effectiveness of the formula, Barlow said several Working Group members have been working on reviewing the RBC statistics to attempt to determine better ways to evaluate formula results. He said there has been some good work done in this area, and while it has stalled a bit due to other projects, he would like to see that work continue.

3. Discussed Runoff Companies

Barlow said the Working Group discussed this previously, and he believes the consensus of the Working Group is that nothing specific to life insurance companies is needed for RBC. The Working Group agreed that no changes were needed to the life formula specific to runoff companies.

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

SharePoint/NAIC Support Staff Hub/Committees/CADTF/2023-1-Spring/LRBCWG/Life RBC 3-22-23.docx

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2023 for Life and Fraternal RBC:

Date: July 2023
Volume: 29

Page 1: Intro Section:

What RBC Pages Should Be Submitted?

For year-end 2023 life and fraternal risk-based capital (RBC), submit hard copies of pages LR001 through LR049 to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. However, a portable document format (PDF) file representing the hard copy filing is part of the electronic filing.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hard copy filing. Starting with year-end 2008 RBC, the actuarial certifications were also part of the electronic RBC filing as PDF files, similar to the financial annual statement actuarial opinion.

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted. However, they still need to be retained by the company as documentation.

Page 1+: Items Adopted for 2023:

Removal of Dual Trend Test

The Capital Adequacy (E) Task Force adopted proposal 2023-05-L to remove the dual presentation of the trend test during its April 28 meeting. This proposal eliminates the presentation of the test at the former 2.5 threshold while member jurisdictions transitioned to the current 3.0 threshold. That transition is now complete, so the dual presentation is not needed.

CM6 and CM7 Mortgages

The Capital Adequacy (E) Task Force adopted proposal 2023-07-L during its April 28 meeting. This proposal aligns the CM6 and CM7 factors for non-performing commercial and farm mortgages with the factors for Schedule A and Schedule BA investments in real estate as those factors were adjusted in 2021. It also adopts the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages.

Structure and Instruction Changes to Update the Treatment of C-2 Mortality Risk

The Capital Adequacy (E) Task Force adopted update 2 in proposal 2023-06-L during its April 28 meeting. This proposal makes structural changes and instructional changes for LR025, Life Insurance. The proposal assigns the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility. The proposal also included a new financial statement note to develop the net amounts at risk in the categories needed for the Life C-2 schedule to create a direct link to a financial statement source. The new note was deferred for yearend 2023 which will necessitate the line references to the new note to be company records for 2023 and will be supplemented by guidance from the Life Risk-Based Capital (E) Working Group.

Residual Tranches

The Capital Adequacy (E) Task Force adopted proposals 2023-03-IRE and 2023-04-IRE during its April 28 meeting. These proposals added a line to isolate residual tranches reported on Schedule BA and the asset valuation reserve for a specific base factor and to add lines for residual tranches to the sensitivity testing exhibits, respectively. During its June 30 meeting, the Capital Adequacy (E) Task Force adopted proposals 2023-09-IRE and 2023-10-IRE. The first proposal applies a base factor of .30 for yearend 2023 and a base factor for yearend 2024 of .45 which is subject to adjustment based on additional information. The second proposal applies a .15 factor for sensitivity testing for yearend 2023 to be adjusted for yearend 2024.

Modification to the Affiliated Investment Structure and Instructions

The Capital Adequacy (E) Task Force adopted proposal 2022-09-CA during its March 23, 2023 meeting, to revise the instructions and structure of the Affiliated Investment pages to provide consistent treatment of affiliated investments between the Health, Life and Property and Casualty Risk-Based Capital formulas.

Underwriting Risk Factors – Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2022-16-CA during its June 30, 2023 meeting. This proposal updated the comprehensive medical, Medicare supplement and dental and vision factors to include a 5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0-$3 Million	0.1434	0.0980	0.1148
$3-$25 Million	0.1434	0.0603	0.0711
Over $25 Million	0.0838	0.0603	0.0711

Stop Loss Premiums

The Capital Adequacy (E) Task Force adopted proposal 2023-01-CA during its June 30 meeting. This proposal clarifies the instructions for stop loss premiums in the Underwriting Risk – Experience Fluctuation Risk, Other Underwriting Risk and Stop Loss Interrogatories.

Last Page: RBC Forecasting & Warning:

RBC Forecasting and Instructions

The Life and Fraternal RBC forecasting spreadsheet calculates RBC using the same formula presented in the 2023 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies, and it is available to download from the NAIC Account Manager. The 2023 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies publication is available for purchase in electronic format through the NAIC Publications Department. This publication is available on or about November 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

Warning: The RBC Forecasting Spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2023 National Association of Insurance Commissioners:

2023 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Life Risk-Based Capital Newsletter Volume 29. Published annually or whenever needed by the NAIC for insurance regulators, professionals and consumers.

Direct correspondence to: Dave Fleming, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: (816) 783-8121. Email: dfleming@naic.org.

AGGREGATED LIFE RBC AND ANNUAL STATEMENT DATA
2022 Data as of 7/6/2023

		Year-End 2022	Year-End 2021	Year-End 2020	Year-End 2019	Year-End 2018	Year-End 2017	Year-End 2016	Year-End 2015	Year-End 2014	Year-End 2013
# of Companies Filed RBC		742	750	760	772	703	704	718	725	727	750
# of Companies Filed Annual Statement		755	766	774	786	722	729	739	750	763	770
% of RBC Companies		98%	98%	98%	98%	97%	97%	97%	97%	95%	97%
Company Action Level - Trend Test at 300%		6	8	5	7	6	6	3	2	6	6
Company Action Level - Trend Test at 250%		1	1	1	3	4	4	2	1	4	3
Company Action Level	1	2	3	2	4	2	3	4	6	5	5
Regulatory Action Level	2	0	1	0	0	2	4	1	1	0	1
Authorized Control Level	3	0	0	0	1	1	0	1	1	1	1
Mandatory Control Level	4	3	3	4	3	3	3	3	4	2	4
Total		12	16	12	18	18	20	14	15	18	20
		1.62%	2.13%	1.58%	2.33%	2.56%	2.84%	1.95%	2.07%	2.48%	2.67%
# of Companies with RBC Ratio > 10,000%		45	55	52	50	47	56	57	53	61	67
# of Companies with RBC Ratio >1000 & < 10,000%		298	292	306	312	275	311	319	338	333	337
# of Companies with RBC Ratio >500 & <1,000%		313	315	317	332	311	275	274	270	270	279
# of Companies with RBC Ratio >300 & <500%		**69**	**73**								
# of Companies with RBC Ratio >250 & <300%		**9**	**9**								
# of Companies with RBC Ratio >250 & < 500%				78	68	58	50	57	53	52	56
# of Companies with RBC Ratio > 200 & < 250%		3	2	2	4	4	5	3	4	7	4
# of Companies with RBC Ratio < 200% & <> 0%		5	4	5	6	8	7	8	7	4	6
# of Companies with RBC Ratio of Zero		0	0	0	0	0	0	0	0	0	1
Total		742	750	760	772	703	704	718	725	727	750
Total Adjusted Capital		696,198,240,900	710,746,904,192	635,213,337,716	606,901,270,691	540,392,904,821	526,559,144,783	508,747,679,200	495,365,058,593	486,612,658,608	472,894,118,204
Authorized Control Level RBC		81,640,007,079	80,264,014,541	74,177,610,650	70,095,026,244	64,286,923,366	56,351,687,796	53,371,992,970	51,286,679,826	49,962,064,876	49,205,729,081
Aggregate RBC %		853%	886%	856%	866%	841%	934%	953%	966%	974%	961%
Median RBC %		931%	965%	972%	964%	945%	1024%	1040%	1080%	1066%	1053%
Total C-0 Asset Risk - Affilates		33,786,700,697	32,282,896,095	27,669,014,696	25,328,213,376	23,856,057,914	21,480,358,294	19,961,695,520	19,307,626,448	18,663,109,500	19,306,580,061
Total C-1cs Asset Risk - Common Stock		54,900,737,718	55,182,980,709	45,635,935,886	42,580,467,817	36,644,436,197	29,944,288,495	26,649,848,001	25,801,853,730	26,039,253,312	23,483,229,549
Total C-1o Asset Risk - All Other		64,146,694,016	62,725,689,661	60,109,306,053	55,635,242,506	50,712,357,646	43,686,249,070	42,489,721,515	40,179,612,473	38,560,998,099	37,913,777,872
Total C-2 Insurance Risk		31,195,104,008	37,296,986,893	29,241,196,797	29,733,905,846	28,086,687,917	25,145,118,818	24,540,625,751	24,094,786,786	23,232,226,881	22,969,556,371
Total C-3a Interest Rate Risk		17,190,092,747	16,066,024,280	16,792,371,276	15,883,584,969	15,698,296,624	16,323,727,158	15,229,088,812	14,970,305,244	14,530,687,343	13,910,184,618
Total C-3b Health Credit Risk		18,337,840	111,552,562	104,729,771	92,196,729	88,414,538	77,374,674	36,706,313	2,309,153	2,081,557	5,892,497
Total C-3c Market Risk		3,529,226,438	4,295,739,257	6,181,583,664	5,209,040,590	4,036,702,207	2,288,518,186	2,208,998,999	1,906,066,557	2,224,840,425	2,669,688,425
Total C-4a Business Risk		10,224,912,322	9,240,542,060	8,816,493,013	8,678,807,068	8,042,986,598	7,739,505,134	7,747,940,544	7,357,039,841	6,998,502,423	6,829,950,654
Total C-4b Business Risk Admin. Expenses		583,359,049	620,386,794	680,883,943	652,941,471	679,693,954	584,193,165	649,189,658	677,624,067	647,290,652	688,425,241
		215,575,164,835	217,822,798,311	195,231,515,099	183,794,400,372	167,845,633,595	147,269,332,994	139,513,815,113	134,297,224,299	130,898,990,192	127,777,285,288
Total C-0 Asset Risk - Affilates		15.67%	14.82%	14.17%	13.78%	14.21%	14.59%	14.31%	14.38%	14.26%	15.11%
Total C-1cs Asset Risk - Common Stock		25.47%	25.33%	23.38%	23.17%	21.83%	20.33%	19.10%	19.21%	19.89%	18.38%
Total C-1o Asset Risk - All Other		29.76%	28.80%	30.79%	30.27%	30.21%	29.66%	30.46%	29.92%	29.46%	29.67%
Total C-2 Insurance Risk		14.47%	17.12%	14.98%	16.18%	16.73%	17.07%	17.59%	17.94%	17.75%	17.98%
Total C-3a Interest Rate Risk		7.97%	7.38%	8.60%	8.64%	9.35%	11.08%	10.92%	11.15%	11.10%	10.89%
Total C-3b Health Credit Risk		0.01%	0.05%	0.05%	0.05%	0.05%	0.05%	0.03%	0.00%	0.00%	0.00%
Total C-3c Market Risk		1.64%	1.97%	3.17%	2.83%	2.41%	1.55%	1.58%	1.42%	1.70%	2.09%
Total C-4a Business Risk		4.74%	4.24%	4.52%	4.72%	4.79%	5.26%	5.55%	5.48%	5.35%	5.35%
Total C-4b Business Risk Admin. Expenses		0.27%	0.28%	0.35%	0.36%	0.40%	0.40%	0.47%	0.50%	0.49%	0.54%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets		8,439,367,712,664	8,832,312,765,460	8,297,856,845,231	7,697,670,761,108	6,932,444,757,225	7,116,411,490,040	6,721,817,618,789	6,430,733,066,141	6,358,609,540,768	6,091,050,647,565
Total Invested Assets		5,312,077,013,619	5,159,452,752,770	4,907,504,359,175	4,582,985,123,381	4,209,696,503,206	4,155,136,070,920	3,976,564,473,802	3,787,990,147,128	3,712,771,901,125	3,565,197,915,336
Reserves (Liabilities Line 1 + 2)		3,580,757,824,976	3,468,243,938,821	3,394,241,406,583	3,285,116,770,876	3,075,849,385,426	3,012,277,013,582	2,923,377,679,259	2,790,917,216,424	2,714,010,331,232	2,596,164,893,854
Surplus (Liabilities Line 37)		589,231,822,136	599,394,009,357	543,174,466,456	521,516,943,871	475,856,634,572	465,945,183,027	452,449,163,848	439,868,508,114	426,214,329,287	410,481,152,085
Premiums Earned (Page 4 Line 1)		714,406,215,905	649,749,402,737	635,918,317,202	691,912,622,389	603,752,144,878	597,830,528,981	601,805,999,830	640,574,026,890	647,586,767,390	580,738,513,565
Claims Incurred (Page 4 Lines 10 Through 13)		327,099,260,850	345,503,167,520	319,751,913,923	308,204,032,091	290,149,583,149	280,435,511,539	270,358,842,590	262,562,416,881	249,920,819,580	265,507,549,061

Source: NAIC Financial Data Repository

Priority 1 – High Priority
Priority 2 – Medium Priority
Priority 3 – Low Priority

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2023

2023 #	Owner	2023 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	1	202~~2~~<u>3</u> or later	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.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L3	Life RBC WG	1	202~~2~~<u>3</u> or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the ~~new~~ <u>updated</u> longevity factors <u>and consider expanding the scope to include all payout annuities.</u>~~.~~	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
<u>L4</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2023 or later</u>	<u>Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria</u>		<u>Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup</u>	
Carryover Items Currently being Addressed – Life RBC							
L4	Life RBC WG	1	202~~2~~<u>3</u> or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities with consideration of contingent deferred annuities as well	AAA		
~~L5~~	~~Life RBC WG~~	~~1~~	~~2022 or later~~	~~Work with the Life Actuarial (A) Task Force and Conning to develop the economic scenario generator for implementation.~~			
L6	Life RBC WG	1	202~~2~~<u>3</u>	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted.			
L7	Life RBC WG	1	202~~2~~<u>3</u>	Work with the Academy on creating guidance for the adopted C-2 mortality treatment for ~~2022~~ <u>2023</u> and next steps ~~for 2023~~.			

Attachment G

ACLI
Financial Security for Life

ACLI Proposal on RBC Treatment of Repurchase Agreements

August 2023

Executive Summary

With minor reporting modifications, industry proposes to align the 1.26% C-0 charge for conforming repurchase agreements (repo) with the 0.2% C-0 charge for conforming securities lending programs

The capital alignment proposal is supported by:

- Enhanced Blanks reporting for repo since 2018 organized by SAPWG has improved transparency
- Proposed expanded disclosures in RBC Instructions and General Interrogatories address liquidity risk in repo, the rationale for the C-0 charge
- Counterparty bankruptcy protections in sec lending and repo are nearly identical
- Current RBC framework disincentivizes insurers to diversify counterparty exposure/financial interconnectedness away from primary dealers

ACLI Proposal for Repo RBC

Establish "conforming program criteria" option for repurchase agreements through the General Interrogatories. A "conforming" program is managed against clear operational and risk guidelines, including that the collateral margin applied to transactions is within the industry standard. Reporting insurers can attest compliance for the conforming portion of their repo program.

Proposed C-0 RBC for conforming repo programs is the sum of:

- 0.20% charge for conforming repo assets
- Additional RBC applied to insurer's net counterparty exposure (Slide 9)

All other repo programs maintain existing 1.26% C-0 RBC charge

[1] The ACLI proposal is strictly limited to repurchase agreements and does not include similar contracts such as reverse repo or dollar rolls.

Proposal Benefits

- Closer alignment of capital charges between securities lending and repo transactions would incentivize diversifying sources of short-term funding
- Diversification would reduce exposure to Primary Dealers and the idiosyncratic risk associated with bank balance sheet management
- Diversification would encourage stable funding from alternative sources such as state sponsored funds, asset managers and money market funds
- Non-punitive access to alternative funding options improves insurers' ability to sustain funding through stressed market environments, reducing the risk of asset fire sales
- NAIC has reported expanded use of repurchase agreements among Insurers over time

ACLI

Current Statutory Reporting for Repo: Foundation for Proposed Enhancements

Current statutory reporting for repo occurs primarily through footnotes

- The maximum and ending amount of securities sold under repurchase secured borrowing by book adjusted carrying value and fair value in footnote 5 F (5) b.
- Aggregate collateral reinvestment amounts by remaining maturity by fair value footnote 5 F (10).
- Amount of securities sold under repurchase secured borrowing by book adjusted carrying value in the General Interrogatories - 26.21.

Proposed Reporting Enhancements

Industry proposes a General Interrogatories reporting enhancement to allow regulators to validate that insurer repo programs meet the “conforming” definition.

Industry proposes to mimic General Interrogatory line 25.04/.05 to reflect repurchase amounts, showing the amount of collateral received for conforming programs as well as amounts for other repo programs. Footnote 5 F (5) provides the amount of securities sold and footnote 5 F (7) identifies the reinvested collateral. Would require expansion of LR17 to include both Conforming and Other Repurchase Agreement rows.

Industry also proposes to replicate the existing criteria for sec lending conforming programs in the RBC Instructions with parallel criteria for conforming repo programs.

Proposed General Interrogatories Enhancement

Statement			Notes	Factor	Amount	Status
General Interrogatories	25.04	For the reporting entity's securities lending program, report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions.			500	Current
	25.05	For the reporting entity's securities lending program, report amount of collateral for other programs.			0	Current
	25.06	For the reporting entity's repurchase agreement program, report amount of collateral for conforming programs as outlined in the footnote 5 F (7). Repurchase Agreements Transactions for as Secured Borrowing.	Fair Value Measure - Cash Collateral Received		98	Proposed
	25.07	For the reporting entity's repurchase agreement program, report amount of overcollateralization for conforming programs, as the difference between footnote 5 F (5) and 5 F (7), Repurchase Agreements Transactions for as	Fair Value Measure - Cash Collateral Received minus Fair Value of Collateral Sold		2	Proposed
	25.08	For the reporting entity's repurchase agreement program, report amount of collateral for other programs.			0	Proposed
LR17	(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04	0.20%	500	Current
	(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05	1.26%	0	Current
	(3)	Loaned to Others - Conforming Repurchase Agreement Program Collateral	General Interrogatories Part 1 Line 25.06	0.20%	98	Proposed
	(4)	Loaned to Others - Conforming Repurchase Agreement Program Overcollateralization	General Interrogatories Part 1 Line 25.07	C-1 BBB	2	Proposed
	(5)	Loaned to Others - Repurchase Agreement Programs - Other	General Interrogatories Part 1 Line 25.08	1.26%	0	Proposed

Proposed RBC Instructions Enhancement

Line (2)

Repurchase programs (similar in nature to Securities Lending) that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending like activities (under repurchase agreements) and how cash collateral received will be invested.

2. Written operational procedures to monitor and control the risks associated with securities lending/repurchase agreements. Safeguards to be addressed should, at a minimum, provide assurance of the following:

a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.

b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.

c. Approved borrower lists and loan limits to allow for adequate diversification.

d. Holding excess collateral with margin percentages in line with industry standards, which are currently 98%.

e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 98% of market.

f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

3. A binding repurchase agreement (standard “Master Repurchase Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.

4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Application of RBC Charges

- 0.20% C-0 Repurchase RBC Factor applied to footnote 5 F (7) ending balance for collateral received under secured borrowing (or the conforming amount determined on the proposed enhancement)
- Additional RBC charge applied to the 2% “Overcollateralization Amount”
    - Overcollateralization Amount equals the difference in statement balances for the above-mentioned footnote 5 F (7) ending balance for collateral received under secured borrowing net of the statement balance for Footnote 5 F (5) defining the fair value ending balance for securities sold under repurchase secured borrowing
    - The 2% Overcollateralization Amount is akin to the unsecured credit exposures insurers assume in their bond portfolios. Repo counterparts, often government-only money funds, are typically rated AA or AAA. To be conservative, the C-1 RBC factor for bonds rated BBB (~1.5%) is applied to the Overcollateralization Amount. Counterparties rated below BBB would be ineligible for a conforming repo program

Appendices

- Repo transaction structure
- Previous Reporting Enhancements and Impact
- Current Repurchase Reporting Detail

Repo Transaction Structure

- Bi-Lateral - Direct agreement between two counterparties whose custodian banks settle the trade
- Tri-Party - A third-party custodian bank settles the trade between two counterparties
- Collateral - Repurchase agreement standard cash collateral levels are 95%-98% of the loaned securities market value
  - Insurer considers the 2-5% as ‘over-collateralization’ to the borrower
  - The ‘over-collateralization’ is a component of the proposal

Reporting Enhancements

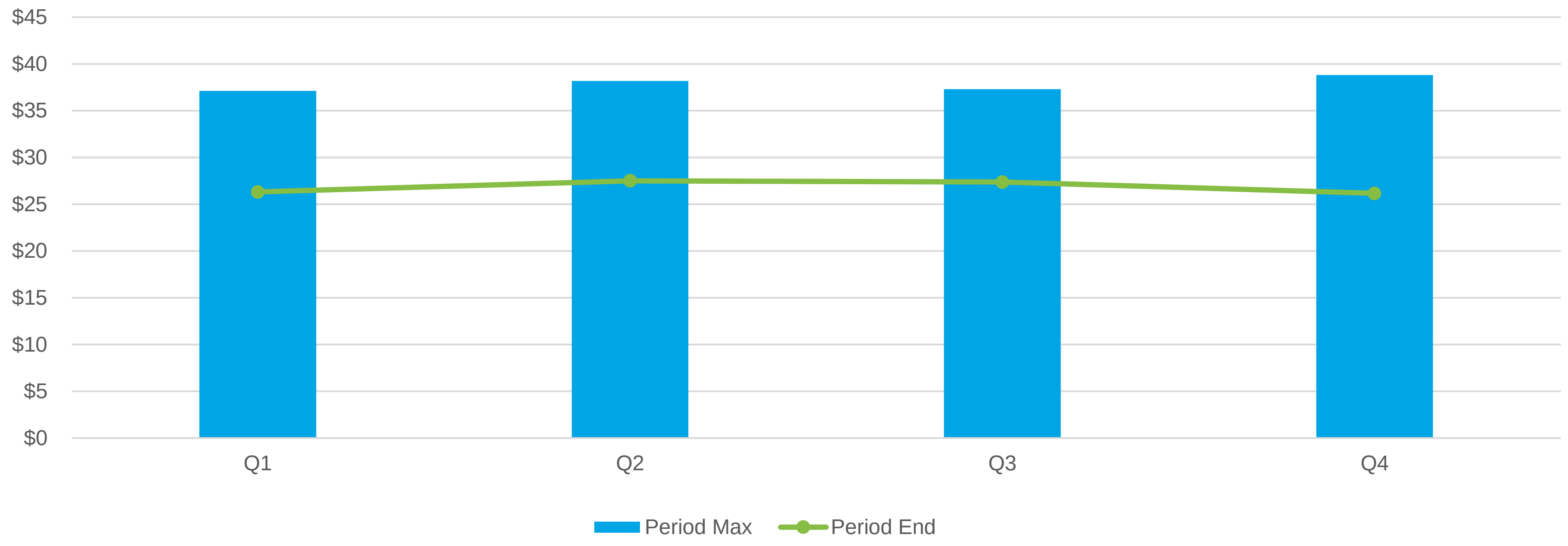
- Industry committed to providing expanded reporting
  - 2015 – The FSB developed process for collecting and aggregating repo data
  - 2017 – The SAPWG approved repurchase agreement disclosure requirements
  - 2018 – The BLANKS Working Group updated the footnote instructions and schedule layout

Limited "Window Dressing"

The chart below illustrates the limited variability of insurer repo activity:

- Highest quarter-end repo outstanding was only 5% greater than year-end
- Intra-quarter maximum outstandings averaged 40% higher than quarter-end

2020 Quarter-End and Quarter-Max Insurer Repo Outstanding (in $ Billion)



Current Repurchase Reporting Detail

1. Summary
2. Repurchase by type
3. Repurchase by maturity bucket
4. Securities sold that resulted in default
5. Securities sold under repurchase secured borrowing by inter-quarter maximum amount and ending balance
6. Securities sold under repurchase secured borrowing by NAIC designation
7. Collateral received under secured borrowing by inter-quarter maximum amount and ending balance
8. Collateral received under secured borrowing by NAIC designation
9. Allocation of aggregate collateral by remaining contractual maturity
10. Allocation of aggregate collateral reinvested by remaining contractual maturity
11. Liability to return collateral under secured borrowing by inter-quarter maximum amount and ending balance