

Draft date: 8/5/24

2024 Summer National Meeting  
Chicago, Illinois

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

Wednesday, August 14, 2024

9:00 – 10:00 a.m.

McCormick Place Convention Center—S105—Level 1

**ROLL CALL**

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

NAIC Support Staff: Dave Fleming

**AGENDA**

1. Consider Adoption of its June 18, April 19, and Spring National Meeting Minutes—*Philip Barlow (DC)* Attachments A–C
2. Receive Updates from its Subgroups—*Philip Barlow (DC)*
  - A. Generator of Economic Scenarios (GOES) (E/A) Subgroup
  - B. Longevity Risk (E/A) Subgroup
  - C. Variable Annuities Capital and Reserve (E/A) Subgroup
3. Consider Adoption of the 2024 Life Risk-Based Capital (RBC) Newsletter—*Philip Barlow (DC)* Attachment D
4. Consider Adoption of the 2023 Life RBC Statistics—*Philip Barlow (DC)* Attachment E
5. Receive a Referral from the Statutory Accounting Principles (E) Working Group for Investments in Tax Credit Structures—*Philip Barlow (DC)* Attachment F
6. Discuss the Schedule BA Proposal for Non-Bond Debt Securities—*Philip Barlow (DC)* Attachment G
7. Consider Adoption of its Working Agenda—*Philip Barlow (DC)* Attachment H



8. Discuss Any Other Matter Brought Before the Working Group—*Philip Barlow (DC)*
9. Adjournment

Draft: 8/5/24

Life Risk-Based Capital (E) Working Group  
Virtual Meeting  
June 18, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 18, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Lei Rao-Knight (CT); Carolyn Morgan (FL); Mike Yanacheak (IA); Vincent Tsang and Bruce Sartain (IL); William Leung (MO); Michael Muldoon (NE); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Aaron Hodges (TX); and Tomasz Serbinowski (UT). Also participating was: Tom Botsko (OH).

1. Adopted Proposal 2024-15-L Collateral Loans

The Working Group considered proposal 2024-15-L to add collateral loan instructional changes and add a line reference.

Leung made a motion, seconded by Reedy, to adopt proposal 2024-15-L (Attachment 1). The motion passed unanimously.

2. Adopted Proposal 2024-17-L BA Mortgage

The Working Group considered proposal 2024-17-L to add a factor for the line added to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component as part of proposal 2024-05-L.

Slutsker made a motion, seconded by Reedy, to adopt proposal 2024-17-L (Attachment 2). The motion passed unanimously.

3. Discussed Covariance

Paul Navratil (American Academy of Actuaries—Academy) presented an update on the Academy's work on correlation. He provided background and the justification for the presentation (Attachment 3) And discussed the correlation between C-risks as well as the correlation within individual C-risks (such as within C-1o). He said the Academy is in the process of gathering data from publicly available sources and other regulatory frameworks to calibrate the top three elements (credit, interest rate, and equity markets) and would come back to the Working Group later in the year with specific recommendations. He said this is a good time to review the formula and correlation because these have not been reviewed in a while.

Tsang said risk-based capital (RBC) is not an individual company's instrument but an instrument for the entire industry. He urged regulators to keep in mind that covariance would not affect every company the same way, and therefore, they should not expect the new matrix presented to solve the problem.

Navratil responded by saying the purpose of applying RBC as a tool for individual companies is to help regulators identify companies that may be weakly capitalized, but the impact of correlation would be different across companies. However, he said his goal is to establish a guiding principle that aligns with each company's risk profile in a way that helps regulators distinguish between companies with concentrated risk exposure and little benefit from diversification of risks from companies that are well-capitalized due to diversified risks.

Barlow asked if other regulatory frameworks could be pulled together and compared side by side. Navratil said it is possible and that the Academy would provide an overview of what is done in other regulatory frameworks. This would give insights and an understanding of why and how they arrived at the correlations that they chose. Barlow said the Working Group is looking forward to additional work by the Academy, and it will assist the Academy as needed.

#### 4. Discussed C-3 Risk

Link Richardson (Academy) presented C-3 methodology considerations and suggestions (Attachment 4) and highlighted nine key differences between C-3 Phase 1 and Phase 2 frameworks. Slutsker asked if the proposed instructions would be included in the field test for Valuation Manual (VM)-22 and asked if it would make sense to have the Academy bring the instructions to the Working Group as part of a formal process or just make them part of the field test. Richardson said that it would make sense to bring the instructions back to the Working Group for consideration.

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

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/CADTF/2024\_Summer/LRBCWG/Life RBC 6-18-24 Minutes (tpr).docx

Draft: 6/3/24

Life Risk-Based Capital (E) Working Group  
Virtual Meeting  
April 19, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 19, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Mike Yanacheak (IA); Vincent Tsang (IL); William Leung (MO); Lindsay Crawford (NE); Jennifer Li (NH); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); and Rachel Hemphill (TX).

1. Adopted Proposal 2024-04-L to Add a Line to TAC Adjustment for Non-Admitted Affiliates

The Working Group considered proposal 2024-04-L to add a line to “Total Adjusted Capital (TAC) Adjustment for Non-Admitted Affiliates.”

Leung made a motion, seconded by Slutsker, to adopt proposal 2024-04-L. The motion passed.

2. Adopted Proposal 2024-05-L to Add a Line to the Schedule BA Mortgages for Omitted AVR Line

The Working Group next considered proposal 2024-05-L to add a line to the “Schedule BA Mortgages for Omitted Asset Valuation Reserve (AVR) Line,” a structural change that would be implemented in 2024.

Reedy made a motion, seconded by Schallhorn, to adopt proposal 2024-05-L. The motion passed.

3. Exposed the ACLI’s Collateral Loan Proposal for Instructional and Line Reference Changes

The Working Group next considered the American Council of Life Insurers’ (ACLI’s) collateral loan proposal and exposed the following items for a 30-day public comment period.: 1) the ACLI’s collateral loan changes proposal; 2) a proposal for instructional change; and 3) a proposal to add a line reference change.

4. Discussed the ACLI’s Repurchase Agreement Proposal

The Working Group took the following action regarding the ACLI’s repurchase agreement proposal: 1) suspended further re-exposure of the proposal (however, the Working Group is still open to receiving any comments from the other interested groups); and 2) deferred the adoption of the proposal until 2025.

5. Discussed the Other Long-Term Assets Proposal

The Working Group took the following action regarding the other long-term assets proposal: 1) deferred proposal consideration until 2025 due to other changes being made to the statutory accounting principle (SAP); 2) agreed to monitor other work or changes regarding the proposal and whether they necessitate that the proposal be considered as a standalone proposal or that it incorporate the changes in its present form for a bigger holistic review of the proposal.

6. Discussed Other Matters

The Working Group was informed of upcoming updates from the American Academy of Actuaries (Academy) regarding matters being handled on behalf of the Working Group, which will be scheduled for a later date. The Working Group will discuss covariance during another meeting that has yet to be scheduled.

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

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Draft: 3/28/24

Life Risk-Based Capital (E) Working Group  
Phoenix, Arizona  
March 17, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Phoenix, AZ, March 17, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Wanchin Chou (CT); Jason Reynolds (FL); Mike Yanacheak (IA); Vincent Tsang (IL); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Seong-min Eom (NJ); Bill Carmello (NY); Andres Schallhorn (OK); and Rachel Hemphill (TX). Also participating was: Peter Weber (OH).

1. Adopted its Jan. 25, 2024, and 2023 Fall National Meeting Minutes

The Working Group met Jan. 25, 2024. During this meeting, it took the following action: 1) exposed the American Council of Life Insurers' (ACLI's) repurchase agreement proposal for a 30-day public comment period; 2) exposed a proposal to add a line for total adjust capital (TAC) adjustment for non-admitted affiliates for a 30-day public comment period; and 3) exposed a proposal to add a line to schedule BA mortgages for omitted asset valuation reserve (AVR) for a 30-day public comment period.

Chou made a motion, seconded by Yanacheak, to adopt the Working Group's Jan. 25, 2024 (Attachment xx) and Dec. 2, 2023 (*see NAIC Proceedings – Summer 2023, Capital Adequacy (E) Task Force, Attachment*) minutes. The motion passed unanimously.

2. Received Updates from its Subgroups

A. GOES (E/A) Subgroup

Yanacheak provided an update on the Generator of Economic Scenarios (GOES) (E/A) Subgroup. He said there was a large amount of discussion during the Life Actuarial (A) Task Force's session during the Spring National Meeting on the Subgroup's work to make decisions on key properties of the scenario generator, which include: 1) moving forward with a correlation-based approach for the relationship between expected equity returns and interest rates, rather than the structural linkage present in the base Conning equity model. The correlation approach, which was recommended by the American Council of Life Insurers (ACLI), will also be paired with revised equity acceptance criteria; and 2) using the Conning corporate model for bond fund returns.

The American Academy of Actuaries (Academy) had recommended an alternative corporate model that was fully documented. However, regulators on the Subgroup largely agreed that they wanted a model that would benefit from Conning's continued research and development. Additionally, Conning expanded access to the detailed technical documentation to all (non-competitor) companies that sign a nondisclosure agreement, which resolved some of the regulator concerns around documentation. Yanacheak said that with the key items resolved along with others, Conning now has the guidance needed to recalibrate the GOES and produce new scenario sets for use in an unaggregated field test expected to run from late March to the end of June. Scenario sets will be released as soon as possible for review by regulators and interested parties. Relevant statistics from the scenario sets will be discussed during an upcoming meeting of the Subgroup. If confirmed then by the Subgroup, unaggregated field test participants can then begin their testing. Upon completion of the field testing, companies will share their results confidentially in regulator-to-regulator discussion. The NAIC and its consultant, Oliver Wyman, will also perform model office analysis and share the results of that testing in public meetings. Comments were also received on a revised set of GOES acceptance criteria from the Academy, the ACLI, and others.

Some of the commenters pushed for additional acceptance criteria. However, Life Actuarial (A) Task Force members noted a desire to move forward with a more concise set of acceptance criteria, noting that it could make sense to add additional criteria as part of an ongoing governance process later on.

#### B. Longevity Risk (E/A) Subgroup

Eom provided an update on the Longevity Risk (E/A) Subgroup. The Subgroup has not met since the 2023 Fall National Meeting. However, it will resume meetings once the currently exposed VM-22 principle-based reserving (PBR) methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.

#### C. Variable Annuities Capital and Reserve (E/A) Subgroup

Weber provided an update on the Variable Annuities Capital and Reserve (E/A) Subgroup. He said that although the Subgroup has been idle for a long time, it will be starting up work, which will be focused on the reserve side for now.

### 3. Heard a Presentation from the Academy on C-3 risks

Link Richardson (Academy) provided an update on the Academy's work on C-3 risks. He said the Academy is looking for feedback from state insurance regulators on the basics before putting this work into specific recommendations. He presented the Academy's methodology, considerations, and suggestions (Attachment xx). He discussed the alignment of the C-3 approaches between Phase I and Phase II, which were implemented at different times and have some significant differences that the Academy believes would make sense to reduce or eliminate. He discussed the key differences, which include: 1) scope; 2) scenarios; 3) metric; 4) models; 5) default costs; 6) assumptions; 7) interim reserves; 8) discounting; and 9) factor-based floor versus floor on reserves but not on risk-based capital (RBC). Richardson said the Academy would like to meet on this to go into more detail. Barlow said this project has been off and on for many years but is very important. He said the Academy's work is appreciated, so a meeting will be scheduled to provide the feedback the Academy is looking for.

### 4. Re-Exposed the ACLI's Repurchase Agreement Proposal

Barlow said one comment letter was received in response to the January exposure of the ACLI's repurchase agreement proposal. He also noted that the Working Group had requested input from the Statutory Accounting Principles (E) Working Group, which suggested that the Life Risk-Based Capital (E) Working Group defer consideration of this proposal.

Brian Bayerle (ACLI) said a point had been raised with respect to wording in the exposure regarding a dedicated reinvestment portfolio. After more discussion, he said it did seem more appropriate that it was not necessarily a separate portfolio, but a separately identifiable pool of assets. Therefore, the ACLI is asking for a re-exposure with the updated language. He asked the Working Group to consider the possibility of adoption for 2024 if there is an update from the Statutory Accounting Principles (E) Working Group and if they might agree that it would make sense to move forward while finalizing their guidance.

The Working Group agreed to re-expose the ACLI's repurchase agreement proposal for a 30-day public comment period April 15.



#### 5. Heard a Presentation from the Academy on Covariance

Paul Navratil (Academy) said covariance is something the Academy believes is a potential area the Working Group may want to consider (Attachment xx). He said part of the background of the discussion is there have been a lot of reviews and updates to individual factors within the life RBC formula, and the correlation between those factors is one of the items that has not been holistically reviewed. He discussed the rationale for why the Working Group may want to take this up in the spirit of wanting to have a regular maintenance schedule, which has been discussed in the past, for items within the life RBC formula. He said the current correlation is also fairly simple. Every correlation within the formula right now, with the exception of longevity and mortality, which were recently added, is either 0% or 100%. Therefore, it certainly seems possible that a more refined and more useful approach could be achieved without tremendous additional complexity.

Navratil said it is possible that changes and impacts, particularly to individual company levels could be material, which could make it more useful as a tool for state insurance regulators. While there is historical data that is available and will be used to inform any work or recommendations, he said there would certainly be elements where significant judgment would need to go into a proposal. He said the Academy will also want to be aware of other competing priorities that may be before the Working Group and, even if the Working Group believes this is work to pursue, it is also the right time to look at it.

Barlow said he believes this is work that should be done as it has not been reviewed since originally created, except for a couple of tweaks. He said the Working Group will schedule a meeting to discuss this in more detail and provide the Academy with the feedback needed to move forward.

#### 6. Discussed Other Matters

Julie Gann (NAIC) presented a referral from the Statutory Accounting Principles (E) Working Group on reporting changes for collateral loans and the potential impacts to both the AVR and the life RBC formula (Attachment xx). The Working Group directed NAIC staff to review the potential impacts and to draft an initial response to the referral.

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

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## Newsletter Items for Adoption for 2024 for Life and Fraternal RBC

Date: August 2024

Volume: 30

### Page 1: Intro Section:

#### **What Risk-Based Capital Pages Should Be Submitted?**

For year-end 2024 life and fraternal risk-based capital (RBC), submit hard copies of pages LR001 through LR049 to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. However, a PDF 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 2024:

#### **Addition of Line to Total Adjusted Capital**

The Capital Adequacy (E) Task Force adopted proposal 2024-04-L during its April 30 meeting. This proposal adds a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal does not change the treatment but makes the life formula consistent with the other RBC formulas.

## **Addition of Line to Address Omitted Asset Valuation Reserve Item for Schedule BA Mortgages**

The Capital Adequacy (E) Task Force adopted proposal 2024-05-L during its April 30 meeting. This proposal adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. The Task Force adopted proposal 2024-17-L during its June 28 meeting. This proposal applies a factor of 0.0068.

## **Collateral Loans**

The Capital Adequacy (E) Task Force adopted proposal 2024-15-L during its June 28 meeting. This proposal addresses reporting changes of certain mortgage-type investments as collateral loans backed by mortgages in 2024.

## **Residual Tranches or Interests**

The Capital Adequacy (E) Task Force adopted the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's summary report during its June 28 meeting. The Working Group met April 12, May 22, and June 21 to discuss residual tranches or interests and the 45% RBC factor in place for year-end 2024. After considering comments and a review of alternative proposals to bifurcate residual tranches or interests between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC base factor for all residual tranches or interests for year-end 2024 with the sensitivity test factor of zero.

## **Receivable for Securities Factor**

The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting. This changes the factor for the Receivables for Securities (Line [5], Page LR012) to 0.016.

## **Underwriting Risk Factors - Investment Income Adjustment**

The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
\$0-\$3 Million	0.1427	0.0973	0.1143
\$3-\$25 Million	0.1427	0.0596	0.0706
Over \$25 Million	0.0832	0.0596	0.0706

## Last Page: RBC Forecasting & Warning:

### **Risk-Based Capital Forecasting and Instructions**

The Life and Fraternal RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies* (Forecasting & Instructions), and it is available to download from the NAIC Account Manager. The publication is also available for purchase in electronic format through the NAIC Publications Department. This publication is available on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

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

## Last Page: 2024 National Association of Insurance Commissioners:

### 2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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AGGREGATED LIFE RBC AND ANNUAL STATEMENT DATA  
2023 Data as of 6/27/2024

	Year-End 2023	Year-End 2022	Year-End 2021	Year-End 2020	Year-End 2019	Year-End 2018
# of Companies Filed RBC	735	742	750	760	772	703
# of Companies Filed Annual Statement	749	755	766	774	786	722
% of RBC Companies	98%	98%	98%	98%	98%	97%
Company Action Level - Trend Test at 300%	1	6	8	5	7	6
Company Action Level - Trend Test at 250%		1	1	1	3	4
Company Action Level	1	2	3	2	4	2
Regulatory Action Level	2	0	1	0	0	2
Authorized Control Level	3	0	0	0	1	1
Mandatory Control Level	4	3	3	4	3	3
Total	7	12	16	12	18	18
	0.95%	1.62%	2.13%	1.58%	2.33%	2.56%
# of Companies with RBC Ratio > 10,000%	44	45	55	52	50	47
# of Companies with RBC Ratio >1000 & < 10,000%	312	298	292	306	312	275
# of Companies with RBC Ratio >500 & <1,000%	302	313	315	317	332	311
# of Companies with RBC Ratio >300 & <500%	62	69	73			
# of Companies with RBC Ratio >250 & <300%	9	9	9			
# of Companies with RBC Ratio >250 & < 500%				78	68	58
# of Companies with RBC Ratio > 200 & < 250%	1	3	2	2	4	4
# of Companies with RBC Ratio < 200% & <> 0%	5	5	4	5	6	8
# of Companies with RBC Ratio of Zero	0	0	0	0	0	0
Total	735	742	750	760	772	703
Total Adjusted Capital	733,910,634,456	696,198,240,900	710,746,904,192	635,213,337,716	606,901,270,691	540,392,904,821
Authorized Control Level RBC	84,136,361,997	81,640,007,079	80,264,014,541	74,177,610,650	70,095,026,244	64,286,923,366
Aggregate RBC %	872%	853%	886%	856%	866%	841%
Median RBC %	978%	931%	965%	972%	964%	945%
Total C-0 Asset Risk - Affiliates	34,300,788,830	33,786,700,697	32,282,896,095	27,669,014,696	25,328,213,376	23,856,057,914
Total C-1cs Asset Risk - Common Stock	57,768,527,572	54,900,737,718	55,182,980,709	45,635,935,886	42,580,467,817	36,644,436,197
Total C-1o Asset Risk - All Other	66,301,518,772	64,146,694,016	62,725,689,661	60,109,306,053	55,635,242,506	50,712,357,646
Total C-2 Insurance Risk	32,011,834,354	31,195,104,008	37,296,986,893	29,241,196,797	29,733,905,846	28,086,687,917
Total C-3a Interest Rate Risk	16,061,418,244	17,190,092,747	16,066,024,280	16,792,371,276	15,883,584,969	15,698,296,624
Total C-3b Health Credit Risk	19,114,152	18,337,840	111,552,562	104,729,771	92,196,729	88,414,538
Total C-3c Market Risk	2,342,014,491	3,529,226,438	4,295,739,257	6,181,583,664	5,209,040,590	4,036,702,207
Total C-4a Business Risk	11,797,283,285	10,224,912,322	9,240,542,060	8,816,493,013	8,678,807,068	8,042,986,598
Total C-4b Business Risk Admin. Expenses	585,932,801	583,359,049	620,386,794	680,883,943	652,941,471	679,693,954
	221,188,432,501	215,575,164,835	217,822,798,311	195,231,515,099	183,794,400,372	167,845,633,595
<b>Net Basic Operational Risk</b>	<b>518,790,603</b>					
Total C-0 Asset Risk - Affiliates	15.51%	15.67%	14.82%	14.17%	13.78%	14.21%
Total C-1cs Asset Risk - Common Stock	26.12%	25.47%	25.33%	23.38%	23.17%	21.83%
Total C-1o Asset Risk - All Other	29.98%	29.76%	28.80%	30.79%	30.27%	30.21%
Total C-2 Insurance Risk	14.47%	14.47%	17.12%	14.98%	16.18%	16.73%
Total C-3a Interest Rate Risk	7.26%	7.97%	7.38%	8.60%	8.64%	9.35%
Total C-3b Health Credit Risk	0.01%	0.01%	0.05%	0.05%	0.05%	0.05%
Total C-3c Market Risk	1.06%	1.64%	1.97%	3.17%	2.83%	2.41%
Total C-4a Business Risk	5.33%	4.74%	4.24%	4.52%	4.72%	4.79%
Total C-4b Business Risk Admin. Expenses	0.26%	0.27%	0.28%	0.35%	0.36%	0.40%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets	8,915,394,823,594	8,439,367,712,664	8,832,312,765,460	8,297,856,845,231	7,697,670,761,108	6,932,444,757,225
Total Invested Assets	5,470,188,985,349	5,312,077,013,619	5,159,452,752,770	4,907,504,359,175	4,582,985,123,381	4,209,696,503,206
Reserves (Liabilities Line 1 + 2)	3,619,051,443,815	3,580,757,824,976	3,468,243,938,821	3,394,241,406,583	3,285,116,770,876	3,075,849,385,426
Surplus (Liabilities Line 37)	617,441,214,536	589,231,822,136	599,394,009,357	543,174,466,456	521,516,943,871	475,856,634,572
Premiums Earned (Page 4 Line 1)	687,761,484,264	714,406,215,905	649,749,402,737	635,918,317,202	691,912,622,389	603,752,144,878
Claims Incurred (Page 4 Lines 10 Through 13)	346,809,474,331	327,099,260,850	345,503,167,520	319,751,913,923	308,204,032,091	290,149,583,149

**MEMORANDUM**

**TO:** Tom Botsko, representing Judith L. French, Chair of the Capital Adequacy (E) Task Force  
Mike Yanacheak, representing Doub Ommen, Vice-Chair of the Capital Adequacy (E) Task Force  
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group  
Ben Slutsker, Vice-Chair of the Life Risk-Based Capital (E) Working Group

**FROM:** Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group  
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

**DATE:** March 27, 2024

**RE:** SAPWG Referral for Investments in Tax Credit Structures

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During the 2024 Spring National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) adopted agenda item *2022-14: New Market Tax Credits*, a new SAP concept to replace *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* with *SSAP No. 93R—Investments in Tax Credit Structures* which expands the scope of statutory guidance to include all qualifying tax credit investments regardless of structure or the underlying state/federal tax credit program. The new guidance will be effective on Jan. 1, 2025.

With this adoption, the Working Group directed NAIC staff to send a referral to both the Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group to inform them of the impending changes to reporting lines. Per the Blanks (E) Working Group proposal (Ref #2024-11BWG), the reporting line, for federal guaranteed programs is proposed to be deleted because these types of tax credit investment structures were substantially eliminated by the *Historic Boardwalk Hall, LLC v. Comm of Internal Revenue* court decision in 2012. The remaining existing Low-Income Housing Tax Credit (LIHTC) Investment Asset Valuation Reserve (AVR) reporting lines are proposed to be renamed and would continue to include LIHTC investments but would also be expanded to include any type of state or federal tax credit program assuming the investment meets the criteria described in paragraph 2 of *SSAP No. 93R*.

As the current RBC factors were specifically developed for investments in LIHTC programs, this change may indicate the need for a review to update new RBC factors and/or reporting lines which would include new tax credit programs which are not real estate based. Attachment A summarizes both the original LIHTC investment AVR reporting lines and the proposed AVR reporting lines for tax credit investments for your reference. (see Note 1)

The Working Group appreciates your time and consideration of this referral. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Dave Fleming, Maggie Chang, Kazeem Okosun

**Note 1:** Attachment A summarizes proposed changes to AVR reporting lines. Note that P/C and Health RBC formulas do not use AVR reporting lines. Yet, the proposed reporting lines for Schedule BA (Ref #2024-11BWG) use the same structure as proposed AVR reporting lines. For brevity, the proposed changes to Schedule BA are omitted herein.

**AVR reporting lines under SSAP No. 93—Low-Income Housing Tax Credit Property Investments**

Line Number	NAIC Designation	Description	1	2	3	4	Basic Contribution		Reserve Objective		Maximum Reserve	
			Book/ Adjusted Carrying Value	Reclassify Related Party Encumbrances	Add Third Party Encumbrances	Balance for AVR Reserve Calculations (Cols. 1+2+3)	5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
		LOW INCOME HOUSING TAX CREDIT INVESTMENTS										
75		Guaranteed Federal Low-Income Housing Tax Credit .....					0.0003		0.0006		0.0010	
76		Non-guaranteed Federal Low-Income Housing Tax Credit.....					0.0063		0.0120		0.0190	
77		Guaranteed State Low Income Housing Tax Credit .....					0.0003		0.0006		0.0010	
78		Non-guaranteed State Low Income Housing Tax Credit.....					0.0063		0.0120		0.0190	
79		All Other Low-Income Housing Tax Credit.....					0.0273		0.0600		0.0975	
80		Total LIHTC (Sum of Lines 75 through 79)					XXX		XXX		XXX	

**Proposed AVR reporting lines under SSAP No. 93R— Investments in Tax Credit Structures**

Line Number	NAIC Designation	Description	1	2	3	4	5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
		INVESTMENTS IN TAX CREDIT STRUCTURES										
76		Yield Guaranteed State Tax Credit Investments .....					0.0003		0.0006		0.0010	
75		Qualifying Federal Tax Credit Investments .....					0.0063		0.0120		0.0190	
77		Qualifying State Tax Credit Investments.....					0.0063		0.0120		0.0190	
78		Other Tax Credit Investments.....					0.0273		0.0600		0.0975	
79		Total Tax Credit Investments (Sum of Lines 75 through 78)					XXX		XXX		XXX	

**MEMORANDUM**

**TO:** Carrie Mears, Chair Representative, Valuation of Securities (E) Task Force  
Tom Botsko, Chair Representative, Capital Adequacy (E) Task Force

**FROM:** Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group  
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

**DATE:** August 28, 2023

**RE:** SAPWG Schedule BA Proposal for Non-Bond Debt Securities

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The purpose of this referral is to notify the Valuation of Securities (E) Task Force and Capital Adequacy (E) Task Force of the Statutory Accounting Principles (E) Working Group’s (SAPWG) proposal to report debt securities that do not qualify as bonds on Schedule BA. A key component of this notice is to highlight that the proposal uses existing Schedule BA reporting provisions for SVO-Assigned NAIC designations in determining RBC.

As preliminary information, as part of the bond project (Ref #2019-21) the SAPWG has been working on a revised bond definition to determine the structures that qualify for bond reporting, either as an issuer credit obligation on a new Schedule D-1-1 or as an asset-backed security on Schedule D-1-2. The new definition and the resulting statutory accounting guidance in *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities* was adopted during the 2023 NAIC Summer National Meeting with an effective date of January 1, 2025. Revised bond reporting schedules are currently exposed by the Blanks (E) Working Group and those are anticipated to be considered for adoption by the end of the year. Also, during the 2023 Summer National Meeting, the SAPWG exposed accounting and reporting guidance for debt securities that do not qualify as bonds in *SSAP No. 21R—Other Admitted Assets* and received direction to sponsor a blanks proposal to capture these securities in new reporting lines on Schedule BA - Other Long Term Invested Assets.

The key aspect of this referral is to highlight that the blanks proposal for the new reporting lines intends to divide the debt securities that do not qualify as bonds into separate reporting lines based on whether they have NAIC designations assigned by the SVO from those securities with NAIC designations not assigned by the SVO or that do not have designations. The intent of this reporting is to permit debt securities that do not qualify as bonds, for which the SVO has assigned an NAIC designation, to receive the RBC factor that would have been received if the security had been reported on the bond schedule with an equivalent designation. Although the debt security does not qualify for reporting as a bond due to structure, if the SVO has assessed credit quality with the issuance of an NAIC designation, then the proposed reporting allows for a fixed income RBC factor.

To illustrate an example where a debt security may not meet the bond definition but may warrant a fixed income RBC factor, one of the key principles is that, for debt securities that rely on underlying collateral for repayment,



underlying collateral must produce meaningful cash flows to service the debt to qualify as a bond. If the debt security relies on the underlying collateral retaining its **value** to repay the debt (e.g. through sale of collateral or refinancing), then it does not qualify to be reported as a bond. For example, a debt security could be secured by non-cashflow-producing real estate at a 50% loan-to-value. While it would not qualify to be reported as a bond, its characteristics are consistent with that of a mortgage loan, and may warrant a fixed income RBC charge.

This proposal does not intend to hinder the Capital Adequacy (E) Task Force’s ability to assess these debt securities and determine the appropriate RBC factor, it simply intends to allow an avenue for certain assets to receive a fixed income factor until the Capital Adequacy (E) Task Force decides if a separate project is needed to review and assess RBC factors for these debt securities. As noted, it is only proposed to be provided for the securities that have an SVO-assigned designation, which is consistent with other Schedule BA lines for which designations influence RBC. Note also that prior to the effective date of the bond definition, these securities are reported as bonds on Schedule D and receive bond RBC factors based on NAIC designation (whether from a credit rating provider for filing exempt securities, or an SVO assigned designation). After adoption, non-qualifying debt securities with NAIC designations that are not assigned by the SVO or that do not have designations are proposed to receive the RBC factor for “other” Schedule BA assets. This is also consistent with the Schedule BA lines that have these separate reporting determinants. Since only reporting entities that file using the life blank can receive RBC reductions for reporting SVO-assigned NAIC designations on Schedule BA, this provision is intended to only apply to those entities until / unless the Capital Adequacy (E) Task Force, and related RBC Working Groups, incorporate changes to provide those capabilities to non-life entities.

The intent of this referral is to inform the Task Forces of the current reporting proposal and request the Valuation of Securities (E) Task Force to assess whether additional guidance is needed within the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* to permit or govern the assignment of SVO-Assigned NAIC Designations for debt securities that do not qualify as bonds.

The following illustrates the proposed Schedule BA reporting lines for these debt securities. A blanks proposal will be developed and exposed by the Blanks (E) Working Group to incorporate these revisions, as well as changes to the AVR with instructions that specifies the mapping from Schedule BA to the AVR for life RBC purposes.

#### Debt Securities That Do Not Qualify as Bonds

##### Debt Securities That Do Not Reflect a Creditor Relationship in Substance

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

##### Debt Securities That Lack Substantive Credit Enhancement

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

Debt Securities That Do Not Qualify as Bonds Solely to a Lack Of Meaningful Cash Flows

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated

Affiliated

The Working Group appreciates your time and looks forward to your response. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Charles Therriault, Marc Pearlman, Eva Yeung, Dave Fleming, Crystal Brown, Maggie Chang

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg\\_Statutory\\_Referrals/2023/SAPWG to VOSTF & CAPTF - Schedule BA.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat%20Acctg_Statutory_Referrals/2023/SAPWG%20to%20VOSTF%20&%20CAPTF%20-%20Schedule%20BA.docx)

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

**CAPITAL ADEQUACY (E) TASK FORCE  
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2024**

2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
<b>Ongoing Items – Life RBC</b>							
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	<u>2023-2024</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	<u>2023-2024</u> or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the updated longevity factors and consider expanding the scope to include all payout annuities.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L4	Life RBC WG	1	<u>2023-2024</u> or later	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		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
<b>Carryover Items Currently being Addressed – Life RBC</b>							
L5	Life RBC WG	1	<u>2023-2024</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		
L6	Life RBC WG	1	<u>2023-2024</u> or later	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	<u>2023 or later</u>	<del>Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps.</del>			
<b><u>New Items – Life RBC</u></b>							
<u>L7</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>In light of SAPWG INT to permit admittance of negative IMR, SAPWG requested CADTF to consider:</u> <u>1. The elimination of any admitted net negative IMR from Total Adjusted Capital (TAC).</u> <u>2. Sensitivity testing with and without negative IMR.</u>	<u>CATF</u>		
<u>L8</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>Consider SAPWG Schedule BA Proposal for Non-Bond Debt Securities</u>	<u>CATF</u>		
<u>L9</u>	<u>Life RBC WG</u>	<u>1</u>	<u>2024 or later</u>	<u>Consider SAPWG Referral for Investments in Tax Credit Structures</u>	<u>SAPWG</u>		
<u>L10</u>	<u>Life RBC WB</u>	<u>1</u>	<u>2024 or later</u>	<u>Consider possible structural changes to account for reporting changes for collateral loans addressed through instructional changes for 2024 with the adoption of proposal 2024-15-L</u>			