

# Capital Adequacy (E) Task Force

## RBC Proposal Form

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input type="checkbox"/> Health RBC (E) Working Group      | <input checked="" type="checkbox"/> Life RBC (E) Working Group              |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup                        | <input type="checkbox"/> P/C RBC (E) Working Group         | <input type="checkbox"/> Longevity Risk (A/E) Subgroup                      |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>1/26/2023</u></p> <p><b>CONTACT PERSON:</b> <u>Dave Fleming</u></p> <p><b>TELEPHONE:</b> <u>816-783-8121</u></p> <p><b>EMAIL ADDRESS:</b> <u>dfleming@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Life Risk-Based Capital (E) Working Group</u></p> <p><b>NAME:</b> <u>Philip Barlow, Chair</u></p> <p><b>TITLE:</b> <u>Associate Commissioner of Insurance</u></p> <p><b>AFFILIATION:</b> <u>District of Columbia</u></p> <p><b>ADDRESS:</b> <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <hr/> <p>Agenda Item # <u>2023-05-L</u> Year <u>2023</u></p> <hr/> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></p> <p><input checked="" type="checkbox"/> TASK FORCE (TF) <u>4-28-23</u></p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>EXPOSED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks       | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions      |
| <input type="checkbox"/> Health RBC Formula      | <input type="checkbox"/> Property/Casualty RBC Formula      | <input type="checkbox"/> Life and Fraternal RBC Formula           |
| <input type="checkbox"/> OTHER _____             |   |   |

### DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The dual presentation of the life risk-based capital trend test was adopted as an interim approach while member jurisdictions transitioned to the higher 300% threshold. That transition is now complete, so the dual presentation is no longer needed.

### Additional Staff Comments:

4-28-23 TF adopted

**RISK-BASED CAPITAL LEVEL OF ACTION**  
**(Including Tax Sensitivity Test)**

	<u>Source</u>	<u>(1)</u> <u>RBC Amount</u>
(1) Total Adjusted Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 30	LR033 Calculation of Total Adjusted Capital Column (2) Line (12)	
<u>Trigger Points for Level of Regulatory Action:</u>		
(2) Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(3) Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(4) Authorized Control Level Risk-Based Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 31	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(5) Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(6) Level of Action†:		
(7) Authorized Control Level RBC Ratio	Line (1) / Line (4)	0.000%
<u>Tax Sensitivity Test</u>		
(8) Tax Sensitivity Test: Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Column (2) Line (17)	
(9) Tax Sensitivity Test: Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(10) Tax Sensitivity Test: Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(11) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(12) Tax Sensitivity Test: Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(13) Tax Sensitivity Test: Level of Action:		
† If Total Adjusted Capital Line (1) exceeds Company Action Level Risk-Based Capital Line (2), None will be indicated (unless the Trend Test triggers Company Action Level). Otherwise, the appropriate level of action will be indicated.		
	<b>If the trend test is applicable for the company, the level that the trend test applies to for the state of domicile as reported on LR035 Trend Test Line (18) is indicated as being:</b>	
(0000001)	<b>If 3.0 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:</b>	
(0000002)	<b>If 2.5 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:</b>	

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

**TREND TEST**

	Source	(1) <u>3.0 Amount</u>	(2) <u>3.0 Result</u>	(3) <u>2.5 Amount</u>	(4) <u>2.5 Result</u>
<u>Criteria for Applying Trend Test</u>					
(1)	Authorized Control Level Risk-Based Capital	LR031 Calculation of Authorized Control Level Risk-Based Capital Column (1) Line (73)			
(2)	Trend Test Safe Harbor	<del>Column (1)=3.0 x Line (1), Column (3)=2.5 x Line (1)</del>			
(3)	Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Line (12)			
<u>Trend Test Data</u>					
(4)	First Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 2 Line 30			
(5)	First Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 2 Line 31			
(6)	Third Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 4 Line 30			
(7)	Third Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 4 Line 31			
<u>Trend Test Calculation (only if applicable)†</u>					
(8)	Current Year Margin	Line (3) - Line (1)			
(9)	First Prior Year Margin	Line (4) - Line (5)			
(10)	Third Prior Year Margin	Line (6) - Line (7)			
(11)	Decrease in Margin from First Prior Year	Line (9) - Line (8) (use zero if negative)			
(12)	Decrease in Margin from Third Prior Year	Line (10) - Line (8) (use zero if negative)			
(13)	Average decrease in Last Three Years	1/3 of Line (12)			
(14)	Marginal Difference	Greater of Line (11) and Line (13)			
(15)	Total Adjusted Capital Less Margin Difference	Line (3) - Line (14)			
(16)	Level of Risk-Based Capital‡	1.9 x Line (1)			
(17)	<del>Negative Trend?‡</del>				
(18)	<del>For companies where one of the above trend tests applies, does the state of domicile require action at 2.5 or 3.0 times Authorized Control Level RBC?</del>	Select "2.5", "3.0" or "N/A"			

† The Trend Test applies only if Total Adjusted Capital Line (3) is less than the Trend Test Safe Harbor Line (2) and the LR034 Risk-Based Capital Level of Action Line (6) is "None".

‡ If Line (15) is less than Line (16), the company triggers regulatory attention at the Company Action Level based on the trend test. ~~The NAIC is in the process of changing the upper level where the trend test can be triggered from 2.5 times the Authorized Control Level RBC to 3.0 times the Authorized Control Level RBC. Until all states have transitioned to the 3.0 standard, there may be differences between states as to whether columns (1) and (2) or columns (3) and (4) of the LR035 Trend Test page apply to a particular company, so information is provided to alert users to potential alternative trend test results during the transition period.~~

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