

Draft date: 11/15/23

*2023 Fall National Meeting
Orlando, Florida*

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Saturday, December 2, 2023

9:00 – 10:00 a.m.

Hilton Orlando Bonnet Creek—Floridian Ballroom G-I—Level 1

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 Oct. 4 and Summer National Meeting Minutes
— <i>Philip Barlow (DC)</i> | Attachment A
Attachment B |
| 2. Discuss Repurchase Agreements— <i>Philip Barlow (DC)</i> | Attachment C |
| 3. Discuss C-2 Mortality Risk— <i>Philip Barlow (DC)</i> | Attachment D |
| 4. Discuss its Working Agenda and 2024 Priorities— <i>Philip Barlow (DC)</i> | Attachment E |
| 5. Discuss Any Other Matters Brought Before the Working Group
— <i>Philip Barlow (DC)</i> | |
| 6. Adjournment | |

Draft: 11/13/23

Life Risk-Based Capital (E) Working Group
Virtual Meeting
October 4, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Oct. 4, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy (CA); Manny Hildago (CT); Carrie Mears (IA); Vincent Tsang (IL); Fred Andersen and Ben Slutsker (MN); Michael Muldoon (NE); Jennifer Lee (NH); Seong-min Eom (NJ); Micheal Cebula (NY); Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Discussed C-2 Mortality Risk

Dave Fleming (NAIC) said the note to the financial statement that was part of the proposal to provide an annual statement source for the information included in the life risk-based capital mortality calculation was ultimately deferred for yearend 2023 due to concerns raised by interested parties with respect to audit implications and possible redundancy. He said an alternative presentation as a general interrogatory has been proposed for yearend 2024.

Chris Trost (American Academy of Actuaries—Academy), chair of the Academy’s C2 Mortality Risk Work Group, said the Academy is not concerned with moving the information from a note to an interrogatory. However, he noted that there could be some suggested modification to the proposed interrogatory and the Academy would be willing to assist with any needed changes. Tip Tipton (Thrivent) said the interested parties that put together the proposed interrogatory would be happy to work with Trost on suggested changes so they can be included in what will be exposed as part of the Nov. 7 Blanks (E) Working Group meeting with the further opportunity to comment on it and the expectation of adoption at the 2024 Spring National Meeting.

Barlow asked if the Working Group needed to take any action on this. Fleming said no action was needed but that it was for discussion only and, while the deferred note is the basis of any guidance from the Working Group, to ask for the Academy’s input on that. Brian Bayerle (American Council of Life Insurers—ACLI) expressed support for this approach but asked if the process would be for it to come back to the Working Group after the Blanks (E) Working Group exposure to work on instructions to align with the interrogatory. Fleming said he believes this could be done concurrently.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-3-Fall/LRBCWG/Life RBC 10-4-23 Minutes

Draft: 8/23/23

Life Risk-Based Capital (E) Working Group
Seattle, Washington
August 13, 2023

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task met Aug. 13, 2023. The following Working Group members participated: Philip Barlow, Chair (DC); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Qing He (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung (MO); Michael Muldoon and Margaret Garrison (NE); Jennifer Li (NH); Seong-min Eom (NJ); Michael Cebula (NY); Andrew Schallhorn (OK); Iris Huang (TX); and Tomasz Serbinowski (UT).

1. Adopted its June 22, April 14, and Spring National Meeting Minutes

Yanacheak made a motion, seconded by Leung, to adopt the Working Group's June 22 (Attachment Four-A), April 14 (Attachment Four-B), and March 22 (*see NAIC Proceedings – Spring 2023, Capital Adequacy (E) Task Force, Attachment Three*) minutes. The motion passed unanimously.

2. Adopted the 2023 RBC Newsletter

Yanacheak made a motion, seconded by Muldoon, to adopt the 2023 Life Risk-Based Capital (RBC) Newsletter (Attachment Four-C). The motion passed unanimously.

3. Adopted the 2022 Life RBC Statistics

Muldoon made a motion, seconded by Reedy, to adopt the 2022 Life RBC Statistics (Attachment Four-D). The motion passed unanimously.

4. Adopted its Working Agenda

Andersen made a motion, seconded by Yanacheak, to adopt the Working Group's working agenda. The motion passed unanimously.

5. Discussed Repurchase Agreements

Brian Bayerle (American Council of Life Insurers—ACLI) and Martin Mair (ACLI) presented a proposal on the repurchase agreement charge. Mair walked through the proposal and talked through some of the enhancements and additional changes necessary. Barlow asked whether it is possible that repos presumably open the possibility of 364 days of nonconforming repos and one day of conforming repos at the end of the year since they are a series of short-term transactions. He asked whether it is a program or a series of unrelated transactions. Mair said it is a program that must be set up with appropriate financial disclosures ahead of time. He said a transaction cannot be rolled over from a nonconforming program to a conforming program. Muldoon asked whether the risk would be the same for state-sponsored funds, asset managers, and money market funds. He also asked about the asset manager risk. Mair said all of them would typically be very highly rated. He said asset managers have extra cash, which is a good, collateralized way for them to lend out their cash in a low-risk way. The Working Group agreed to expose the ACLI's proposal for a 45-day public comment period.

6. Discussed C-2 Mortality Risk

Barlow said the C-2 mortality risk will be discussed on a call in September to provide clarity on the proposal for year-end 2023.

Tip Tipton (Thrivent), said interested parties are proposing some modifications to the annual statement blanks for 2024, which would subsequently feed the RBC formula and they are working with Dave Fleming (NAIC) and NAIC support staff for the Blanks (E) Working Group on this. Fleming said the Statutory Accounting Principles (E) Working Group received comments, and there have been some decisions on possible changes to the placement of the data in the annual statement. He said what will be in place for 2023 is not contingent upon the note.

7. Discussed Other Matters

Barlow said one of the items that the Life Risk-Based Capital (E) Working Group plans to look at is the covariance. He said the American Academy of Actuaries (Academy) is working on something related to the covariance that it will present to the Working Group when it is ready.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2023-2-Summer/Life RBC 08-13-23 Minutes.docx



Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

September 21, 2023

Philip Barlow, Chair
NAIC Life RBC (E) Working Group

Re: Repurchase Agreement RBC Proposal

Dear Chair Barlow:

On behalf of our members, the American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the exposure to establish criteria for conforming repurchase agreement (Repo) programs for life insurers and to align RBC factors for conforming Repo programs with RBC factors for conforming securities lending programs.

The additional disclosures in the proposal will reduce the inherent operational/liquidity risks in Repo and justify a lower RBC charge for conforming Repo programs. The proposal also responds to NAIC's objective to validate insurer attestations for conforming programs directly through financial statement disclosures.

We believe that adoption of this proposal will provide significant benefits including:

- 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; and
- Capital-aligned access to alternative funding options improves insurers' ability to sustain funding through stressed market environments, reducing the risk of asset fire sales

ACLI appreciates the opportunity to comment on this proposal and would be happy to answer any questions you may have.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 95 percent of industry assets in the United States.

Sincerely,

A handwritten signature in cursive script, appearing to read "B. Banerjee". The signature is written in a dark ink and is positioned below the word "Sincerely,".

CC: Dave Fleming, NAIC

MEMORANDUM

TO: Insurance Companies Completing the Life Risk-Based Capital Report

FROM: Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group

DATE: Dec. 2, 2023

RE: Implementation of 2023 Mortality Risk Changes

This document addresses implementation of changes for yearend 2023 to the life risk-based capital (RBC) C-2 mortality calculation as part of adopted proposal 2023-06-L. Included in the American Academy of Actuaries' (Academy) updates for 2023 was a new note to the financial statement which was proposed to provide an annual statement source for amounts used in the life RBC calculation. The proposed note was deferred for yearend 2023 due to concerns raised with respect to audit implications of including the data in the notes. An alternative for yearend 2024 has been proposed which uses a new general interrogatory as the source. This alternative was exposed for public comment by the Blanks (E) Working Group during its Nov. 7 meeting.

The proposed note specifically referenced the RBC instructions, and its primary purpose was to be used as the source for the RBC inputs. The RBC references to the note have been changed to "Company Records" for the 2023 RBC line descriptions and instructions but the proposed note is included here for reference and can be used in addition to the adopted 2023 instructions along with previously adopted C-2 Mortality Risk Guidance included on the Working Group's website.

Proposed 2023 Update 2

NOTE 37 Life Insurance Net Amount at Risk by Product Characteristics

Refer to LR025 of the RBC instructions for category definitions

A. INDIVIDUAL & INDUSTRIAL LIFE

Line Definitions

(1)	Life In Force	Exhibit of Life Insurance Amount of Insurance for Industrial and Ordinary Life, Lines 21 and 22
(2)	Exhibit 5 Life Reserves	Exhibit 5 for Industrial and Ordinary Life, Lines 0199997 and 0199998
(3)	Separate Account Life Reserves	Separate Accounts, Exhibit 3, Column 3 Line 0199999
(4)	Modified Coinsurance Life Reserves	Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Table A1

		Total Individual & Industrial Life			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A2

		Individual & Industrial Life Policies with Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A3

		Individual & Industrial Term Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A4

		Individual & Industrial Permanent Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

B. GROUP & CREDIT LIFE EXCLUDING FEGLI/SGLI

Line Definitions

(1) Life In Force	Exhibit of Life Insurance Amount of Insurance for Group and Credit Life, Lines 21 and 22; exclude amounts for FEGLI and SGLI reported on lines 43 and 44
(2) Exhibit 5 Life Reserves	Exhibit 5 for Group and Credit Life, Lines 0199997 and 0199998
(3) Separate Account Life Reserves	Separate Accounts, Exhibit 3, Column 4 Line 0199999
(4) Modified Coinsurance Life Reserves	Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Table B1

Total Group & Credit Life Excluding FEGLI/SGLI				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B2

Group & Credit Term Life with Remaining Rate Terms 36 Months and Under				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B3

Group & Credit Term Life with Remaining Rate Terms Over 36 Months				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B4

Group & Credit Permanent Life Policies with Pricing Flexibility				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B5

Group & Credit Permanent Life Policies without Pricing Flexibility				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

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
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	2023 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	2023 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	2023 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	
Carryover Items Currently being Addressed – Life RBC							
L4	Life RBC WG	1	2023 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	2023 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.			
L6	Life RBC WG	1	2023 or later	Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps.			