NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 4/24/25

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Thursday, May 1, 2025
12:30 – 2:00 p.m. ET / 11:30 a.m. – 1:00 p.m. CT / 10:30 a.m. – 12:00 p.m. MT / 9:30 – 11:00 a.m. PT

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Ben Slutsker, Vice Chair	Minnesota	Michael Muldoon	Nebraska
Sheila Travis	Alabama	Jennifer Li	New Hampshire
Thomas Reedy	California	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	William B. Carmello	New York
Hannah Howard	Florida	Andy Schallhorn	Oklahoma
Matt Cheung	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah

NAIC Support Staff: Kazeem Okosun

AGENDA

1. Consider Adoption of Proposal 2024-21-L MOD Tax Credit Investments —*Philip Barlow (DC)* — Attachment 1

2. Consider Adoption of Proposal 2024-24-L MOD Principle-Based Bond Project —*Philip Barlow (DC)* — Attachment 2

3. Consider Adoption of Proposal 2025-01-L C-2 Mortality Risk —*Philip Barlow (DC)* — Attachment 3

4. Receive Comments and Consider Adoption of Proposal 2025-05-L Asset Concentration L010—*Philip Barlow (DC)* — Attachment 4
    - Referral to the Statutory Accounting Principles (E) Working Group — Attachment 5
    - Statutory Accounting Principles (E) Working Group Response to the Referral — Attachment 6

5. Discuss Comment(s) Received on Proposal 2025-04-L (Other Long-Term Assets) (LR008)—*Philip Barlow (DC)*
    - The American Council of Life Insurers (ACLI) — Attachment 7
    - Modified Proposal 2025-04-L (Other Long-Term Assets) (LR008) — Attachment 8

6. Receive a Referral from the Statutory Accounting Principles (E) Working Group on Risk-Based Capital (RBC) Asset Credit for Modified Coinsurance Reinsurance

Transactions and Consider Exposure of Proposal 2025-10-L (RBC Asset Credit MODCO/FWH)—*Philip Barlow (DC)*

- Statutory Accounting Principles (E) Working Group Referral to the Life Risk-Based Capital (E) Working Group — Attachment 9
- Consider Exposure of Proposal 2025-10-L (RBC Asset Credit MODCO/FWH) — Attachment 10

7. Hear a Presentation from the American Academy of Actuaries (Academy) on C-3 Alignment—*Academy* — Attachment 11

8. Hear a Presentation from the Academy on Covariance—*Academy* — Attachment 12

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

10. Adjournment

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 2/06/25	**FOR NAIC USE ONLY** Agenda Item # 2024-21-L MOD Year 2025
CONTACT PERSON:	**Kazeem Okosun**	**DISPOSITION**
TELEPHONE:	**816-783-8981**	**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
EMAIL ADDRESS:	**kokosun@naic.org**	**EXPOSED:** ☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) **10-23-2024, 02-21-2025** ☐ SUBGROUP (SG)
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**	**REJECTED:** ☐ TF ☐ WG ☐ SG
NAME:	**Philip Barlow, Chair**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
TITLE:	**Associate Commissioner of Insurance**	
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☒ Life and Fraternal RBC Formula
☐ OTHER ______________________________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal is to update the RBC instructions and blanks for the adopted Statutory Accounting Principles (E) Working Group's conceptual changes to SSAP No. 93 –Investments in Tax Credit Structures and SSAP No. 94R – State and Federal Tax Credits resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) and the corresponding changes in annual statement blanks and instructions as per 2024-11BWG MOD adopted by the NAIC Blanks (E) Working Group.

This proposal addresses the structural and instructional changes adopted as per 2024-11BWG and does not address the potential factor change (for both RBC and AVR factors) resulted from the expansion of the scope of accounting guidance in SAPWG Ref # 2022-14 and the expansion of the types of tax credit investments captured in the guidance.

Additional Staff Comments:

This proposal removes or renames the Guaranteed Federal Low-Income Housing Tax Credits, Federal Non-Guaranteed Low Income Housing Tax Credits, State Guaranteed Low-Income Housing Tax Credits, State Non-Guaranteed Low-Income Housing Tax Credits, and All Other Low Income Housing Tax Credits lines (AVR lines 75 through 79) and broadens the scope of remaining tax credit structure lines in AVR in line with SAPWG adoption. These changes will result in corresponding changes in LRBC instructions and/or blanks, namely LR007, LR010, LR030 and LR031.

- 10-23-2024: Proposal was exposed with comments due 01-06-2025 – Comments received from ACLI (KO)
- 02-21-2025: Proposal was modified and re-exposed with comments due 03-23-2025 - No comment letter received (KO)

** **This section must be completed on all forms.** **Revised 2-2023**

REAL ESTATE
LR007

Basis of Factors

The base factor for equity real estate of 11% was developed by adding a margin for conservatism to the results of an analysis of real estate performance over the period of 1978 – 2020. The analysis was conducted by a group of life insurance company real estate investment professionals coordinated by the ACLI. The data used was a national database of real property owned by investment fiduciaries and supplemented by data on real estate backing mortgage securities. The analysis is documented in a report to the NAIC dated March 29, 2021. In addition to modifying the factor for company owned and investment real estate, this updated factor will also be used for real estate acquired in satisfaction of debt (Foreclosed real estate). Foreclosed real estate is recognized in the statutory statements as having acquisition cost equal to market value at time of foreclosure. For assets with the characteristics of real held estate (partnership or other structure) reported on Schedule BA, a higher factor of 13% is used to account for the lower transparency involved with these structures. Schedule BA real estate was originally given a higher factor under a presumption that it was more highly levered. Analysis has shown these assets to have experience very similar to directly held and will therefore use a modestly higher factor.

While the experience analysis was done based on analysis of fair value impacts, Real Estate is reported at depreciated cost in the Statutory statements. The difference in values impacts the risk to statutory surplus. Therefore, an adjustment is made to the factor based on the difference between fair value and statutory carrying value on a property-by-property basis. The adjustment is defined as

Adj Factor = *RE Factor*(1 – [factor] * (MV-BVg)/BVg)}*

factor is 0 This zero factor for the fair value adjustment is **effective beginning yearend** 2021 RBC filings.

The resulting adjusted RBC factor is subject to a minimum of zero. In the RBC calculation, see Figure 7, fair value is taken from Schedule A Column 10 plus encumbrances, or from Schedule BA column 11 plus encumbrances, respectively, while BVg is the net Book Adjusted Carrying Value plus the encumbrance.

Encumbrances have been included in the real estate base since the value of the property is held net of the encumbrance, but the entire value is subject to loss. Encumbrances receive the base real estate factor of 11%, reduced by the average factor for commercial mortgages of 1.75% pre-tax In the past this was computed as a base factor applied to the net real estate value plus a separate factor applied to the amount of the encumbrance. Beginning in 2021, the equivalent result will be obtained by applying a base factor to the gross statutory value of the property, and a credit provided for the amount of the encumbrance.

The final RBC amount is subject to a minimum of the Baa bond factor 1.30% applied to the BACV, and a maximum of 45% of the BACV.

Specific Instructions for Application of the Formula

Column (1)
Calculations are done on an individual property or joint venture basis in the worksheets and then the summary amounts are entered in this column for each class of real estate investment. Refer to the real estate calculation worksheet (Figure 7) for how the individual property or joint venture calculations are completed.

Line (1) should equal Page 2, Column 3, Line 4.1.
Line (2) should equal Page 2, inside amount, Line 4.1.

Line (4) should equal AVR Equity Component Column 1 Line 20.
Line (5) should equal AVR Equity Component Column 3 Line 20.
Line (7) should equal AVR Equity Component Column 1 Line 19.
Line (8) should equal AVR Equity Component Column 3 Line 19.
Line (14) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (15) should equal Schedule BA, Part 1, Column 12, Line 2199999 plus Line 2299999, in part.
Line (17) should equal AVR Equity Component Column 1 Line 75.
Line (18) should equal AVR Equity Component Column 1 Line 76.
Line (19) should equal AVR Equity Component Column 1 Line 77.
Line (20) should equal AVR Equity Component Column 1 Line 78.
Line (21) should equal AVR Equity Component Column 1 Line 79.

~~Low-income housing tax credit investments~~All i~~I~~nvestments in tax credit structures within the scope of SSAP No. 93 – Investments in Tax Credit Structures are to be reported in Column (1)~~—~~ ~~*Low-Income Housing Tax Credit Property Investments*.~~.

Column (2)
The average factor column is calculated as Column (3) divided by Column (1).

Column (3)
Summary amounts are entered for Column (3) based on calculations done on an individual property or joint venture basis. Refer to Column (8) of the real estate calculation worksheet (Figure 7).

Line (17)
Yield Guaranteed State Tax Credit ~~federal low-income housing tax credit (LIHTC)~~ I~~i~~nvestments are to be included in Line (17). There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.

Line (18)
Qualifying Federal Tax Credit Investments are to be included in Line (18). Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.
~~Non-guaranteed federal LIHTC investments with the following risk mitigation factors are to be included in Line (18):~~

~~a) A level of leverage below 50~~ percent~~. For a LIHTC Fund, the level of leverage is measured at the fund level.~~
~~b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.~~

Line (19)
~~State LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments~~Qualifying State Tax Credit Investments are to be included in Line (19)~~.~~ Refer to the Annual Statement Schedule BA Instructions for risk mitigating factors these investments must possess in order to be qualified for this classification.

Line (20)
~~State LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments~~Other Tax Credit Investments are to be included in line (20). Any tax credit investment which cannot be reported as either yield guaranteed State Tax Credit ~~or~~Investments or qualifying Federal or State Tax Credit Investments are included here.

Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~Line (21)~~
~~State and federal LIHTCTotal Tax Credit investments that do not meet the requirements ofsum of lines (17) through (20) would be reported on Line (21).~~

Details Eliminated to Conserve

REAL ESTATE

		Annual Statement Source	(1) Book / Adjusted Carrying Value		(2) Average Factor		(3) RBC Requirement
	Real Estate						
(1)	Company Occupied Real Estate	AVR Equity Component Column 1 Line 18					
(2)	Company Occupied Encumbrances	AVR Equity Component Column 3 Line 18					
(3)	Total Company Occupied Real Estate	Line (1) + (2)		X	†	=	
(4)	Foreclosed Real Estate	AVR Equity Component Column 1 Line 20					
(5)	Foreclosed Encumbrances	AVR Equity Component Column 3 Line 20					
(6)	Total Foreclosed Real Estate	Line (4) + (5)		X	†	=	
(7)	Investment Real Estate	AVR Equity Component Column 1 Line 19					
(8)	Investment Encumbrances	AVR Equity Component Column 3 Line 19					
(9)	Total Investment Real Estate	Line (7) + (8)		X	†	=	
(10)	Total Real Estate (pre-MODCO/Funds Withheld)	Lines (3) + (6) + (9)					
(11)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(12)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(13)	Total Real Estate (including MODCO/Funds Withheld)	Lines (10) - (11) + (12)					
	Schedule BA Real Estate						
(14)	Schedule BA Real Estate	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part					
(15)	Schedule BA Real Estate Encumbrances	Schedule BA Part 1 Column 12 Line 2199999 + Line 2299999, in part					
(16)	Total Schedule BA Real Estate Excluding ~~Low~~ '~~Income Housing~~ Tax Credits **Investments** Included Below	Line (14) + (15)		X	†	=	
(17)	**Yield Guaranteed State Tax Credit Investments** ~~Federal Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 75		X	0.0014	=	
(18)	**Qualifying Federal Tax Credit Investments** ~~Federal Non-Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 76		X	0.0260	=	
(19)	**Qualifying State Tax CreditInvestments** ~~State Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 77		X	**0.0260** ~~0.0014~~	=	
(20)	**Other Tax Credit Investments** ~~State Non-Guaranteed Low Income Housing Tax Credits~~	AVR Equity Component Column 1 Line 78		X	**0.1500** ~~0.0260~~	=	
(21)	**Total Tax Credit Investments** ~~All Other Low Income Housing Tax Credits~~	**Lines (17) + (18) + (19) + (20)** ~~AVR Equity Component Column 1 Line 79~~		~~X~~	~~0.1500~~	~~=~~	
(22)	Total Schedule BA Real Estate (pre-MODCO/Funds Withheld)	Lines (16) + ~~(17) + (18) + (19) + (20) +~~ (21)					
(23)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(24)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(25)	Total Schedule BA Real Estate (including MODCO/Funds Withheld)	Lines (22) - (23) + (24)					

† Column (2) is calculated as Column (3) divided by Column (1).

‡ The RBC requirement is calculated for each individual property and then summarized on this page. Refer to the worksheet included in the Real Estate portion of the instructions.

Details Eliminated to Conserve Space

Company Name | Confidential when Completed | NAIC Company Code

ASSET CONCENTRATION FACTOR

Details Eliminated to Conserve Space

	(1) Asset Type	(2) Book / Adjusted Carrying Value		(3) Factor		(4) Additional RBC	(5) Adjustment/ Subsidiary RBC	(6) RBC Requirement
(31)	Farm Mortgages - 90 Days Overdue							
(32)	Farm Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(33)	Residential Mortgages - 90 Days Overdue							
(34)	Residential Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(35)	Commercial Mortgages - 90 Days Overdue							
(36)	Commercial Mortgages - 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(37)	Farm Mortgages in Foreclosure							
(38)	Farm Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(39)	Residential Mortgages in Foreclosure							
(40)	Residential Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(41)	Commercial Mortgages in Foreclosure							
(42)	Commercial Mortgages in Foreclosure - Cumulative Writedowns		X	‡	=			
(43)	Unaffiliated Mortgages with Covenants		X	‡	=			
(44)	Unaffiliated Mortgages - Defeased with Government Securities		X	0.0090	=			
(45)	Unaffiliated Mortgages - Primarily Senior		X	0.0175	=			
(46)	Unaffiliated Mortgages - All Other		X	0.0300	=			
(47)	Affiliated Mortgages - Category CM2		X	0.0175	=			
(48)	Affiliated Mortgages - Category CM3		X	0.0300	=			
(49)	Affiliated Mortgages - Category CM4		X	0.0500	=			
(50)	Affiliated Mortgages - Category CM5		X	0.0750	=			
(51)	Schedule BA Mortgages 90 Days Overdue							
(52)	Schedule BA Mortgages 90 Days Overdue - Cumulative Writedowns		X	‡	=			
(53)	Schedule BA Mortgages in Process of Foreclosure							
(54)	Schedule BA Mortgages Foreclosed - Cumulative Writedowns		X	‡	=			
(55)	**Yield Guaranteed State Tax Credit Investments** ~~**Federal Guaranteed Low Income Housing Tax Credits**~~		X	0.0014	=			
(56)	**Qualifying Federal Tax Credit Investments** ~~**Federal Non-Guaranteed Low Income Housing Tax Credits**~~		X	0.0260	=			
(57)	**Qualifying State Tax CreditInvestments** ~~**State Guaranteed Low Income Housing Tax Credits**~~		X	**0.0260** ~~**0.0014**~~	=			
(58)	**Other Tax Credit Investments** ~~**State Non-Guaranteed Low Income Housing Tax Credits**~~		X	**0.1500** ~~**0.0260**~~	=			
~~**(59)**~~	~~**All Other Low Income Housing Tax Credits**~~		~~**X**~~	~~**0.1500**~~	=			
(59) ~~**(60)**~~	NAIC 02 Working Capital Finance Notes		X	0.0163	=			
(60) ~~**(61)**~~	Other Schedule BA Assets		X	0.1500	=			
(61) ~~**(62)**~~	Total of Issuer = Sum of Lines (1) through **(60)** ~~**(61)**~~							

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calculated as the sum of issuers 1-10 by asset type.

Details Eliminated to Conserve Space

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Details Eliminated to Conserve Space

(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=		
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=		
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	=		†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=		
	Separate Accounts							
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=		
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=		
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=		
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	=		†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=		
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=		
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=		
	Real Estate							
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=		
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=		
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=		
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	=		†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	=		
	Schedule BA							
(058)	Sch BA Real Estate Excluding ~~Low Income Housing~~ Tax Credits **Investments**	LR007 Real Estate Column (3) Line (16)		X	0.2100	=		
(059)	~~Guaranteed Low Income Housing Tax Credits Investments~~ **Yield Guaranteed State Tax Credit Investments**	LR007 Real Estate Column (3) Line (17) ~~+ Line (19)~~		X	0.0000	=		
(060)	~~Non-Guaranteed and All Other Low Income Housing Tax Credits Investments~~ **Qualifying and Other Tax Credit Investments**	LR007 Real Estate Column (3) Line (18) **+ Line (19)** + Line (20) ~~+ Line (21)~~		X	0.0000	=		
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	=		†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=		

† Denotes lines that are deducted from the total rather than added.

Details Eliminated to Conserve Space

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

Details Eliminated to Conserve Space

		Source	(1) RBC Requirement
(32)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(37)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line **(61)** ~~**(62)**~~ Grand Total Page	
(39)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(41)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(42)	Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)	
(43)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)	
(44)	Net (C-1o) - Post-Tax	Line (42) - Line (43)	
	<u>Insurance Risk (C-2)</u>		
(45)	Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)	
(46)	Group and Credit Life Insurance and FEGI/SGLI	LR025 Life Insurance Column (2) Line (12)	
(46b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(47)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(48)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(49)	Total (C-2) - Pre-Tax	L(47) + L(48) + Greatest of [Guardrail Factor * (L(45)+L(46)), Guardrail Factor * L(46b), Square Root of [(L(45) + L(46))2 + L(46b)2 + 2 * (Correlation Factor) * (L(45) + L(46)) * L(46b)]]	
(50)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(51)	Net (C-2) - Post-Tax	Line (49) - Line (50)	
	<u>Interest Rate Risk (C-3a)</u>		
(52)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(53)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(54)	Net (C-3a) - Post-Tax	Line (52) - Line (53)	
	<u>Health Credit Risk (C-3b)</u>		
(55)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(56)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(57)	Net (C-3b) - Post-Tax	Line (55) - Line (56)	

Details Eliminated to Conserve Space

Capital Adequacy (E) Task Force

RBC Proposal Form

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☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 10/7/2024	**FOR NAIC USE ONLY**
CONTACT PERSON: **Maggie Chang**	Agenda Item # 2024-24-L MOD Year 2025
TELEPHONE: **816-783-8976**	**DISPOSITION**
EMAIL ADDRESS: **mchang@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
ON BEHALF OF: **Life Risk-Based Capital (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) **10-23-2024, 02-21-2025** ☐ SUBGROUP (SG)
NAME: **Philip Barlow, Chair**	**REJECTED:** ☐ TF ☐ WG ☐ SG
TITLE: **Associate Commissioner of Insurance**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
AFFILIATION: **District of Columbia**	
ADDRESS: **1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

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☐ OTHER ______

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal incorporates changes adopted by the NAIC Blanks (E) Working Group, namely #2023-06BWG MOD, #2023-07BWG MOD, and #2023-12BWG MOD. These changes are resulted from adoption of principle-based bond definition by Statutory Accounting Principles (E) Working Group.

In addition, certain editorial changes are proposed herein to provide clarifying edits to Life and Fraternal RBC instructions and/or Blanks. These clarifying edits are not necessarily related to the principle-based bond definition project. **All changes are proposed for 2025 RBC filings**.

Additional Staff Comments:

Rationale for the key proposed clarifying edits are as follows:

LR002 – With effect from 2005 RBC filing, Cash Equivalent Bonds are subtracted from LR012 Miscellaneous Asset page and are instructed to be reported on LR002. Proposed clarifying edits in Annual Statement Source column are deemed necessary as the current AVR references do not contemplate Cash Equivalent Bonds. Additionally, The proposed presentation aligns with RBC treatment of Cash Equivalent Bonds in Health and P/C formulas.

LR012 – Line (2.2) “Less Cash Equivalent Bonds Already Included with Page LR002 Bonds” no longer requires sourcing data “in part” as Schedule E Part 2 has dedicated line for Cash Equivalent Bonds, which are all supposed to have NAIC Designation Categories and are aggregated by NAIC Designation Categories in footnote to Schedule E, Part 2. Refer to Annual Statement instructions for details.

LR047 & LR048 – Diversity in practice was observed as to how filers interpret the instruction: *The “total” should equal the total amount of the Reduction/ Increase of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.* As such, clarifying edits are proposed to give explicit instructions.

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Item #	Commenter	Comments	NAIC’s response
1	ACLI	*LR008 (Other Long-Term Assets) blanks:* The surplus notes and capital notes lines reference Schedule BA, should they be referencing the newly adopted lines in the AVR now?	The newly adopted lines in AVR for capital and surplus notes are added to LR008 page, Line (53.1)
2	ACLI	*LR008 (Other Long-Term Assets) instruction:* Line (49.2) – Is the first sentence still needed now that we are speaking about 2025 RBC filing? Should this just state "Include AVR Equity component, Column 1, Line 93 within line (49.2)?	Agreed. Deleted Line (49.2) instruction altogether as it is a pull from line (49.1).
3	ACLI	*LR009 (Schedule BA Mortgages) instruction:* *Basis of factors – the spacing in subsections 1 and 4 should be corrected.*	Agreed. Formatting corrected.
4	ACLI	*LR009 (Schedule BA Mortgages) blanks and/or instructions:* Changes to scheduled LR009 were introduced in the 2024 RBC instructions to include an explicit line and charge for Schedule BA Mortgages in good standing for “(2) Affiliated Mortgages – Residential – All Other” with a charge of 0.0068 to align with charges on residential mortgage loans held directly. However, a similar line was not added for Unaffiliated Residential Mortgages in Good Standing. This leads to Unaffiliated Residential Mortgages in good standing getting included in either "Unaffiliated Mortgages - Primarily Senior" which has a charge of 0.0175 or “(6) Unaffiliated Mortgages – All Other” which has a charge of 0.0300. Should an additional line be added for “Unaffiliated Mortgages – Residential – All Other” with a proposed charge of 0.0068?	The current structure incorporated ACLI comment letter dated 2/26/2024. RBC is driven by AVR presentation. There is not a designated line for “Sch. BA - <u>Unaffiliated</u> Residential Mortgages in Good Standing.” in AVR Equity Component Table. NAIC staff plan to capture this topic in a dedicated RBC proposal for Working Group discussion in the future.
5	ACLI	*LR009 (Schedule BA Mortgages) blanks:* ACLI would also recommend addressing the fact that BA Farm Loans 90 days overdue and in foreclosures are not mapped into LR009 from the AVR page. This can be seen as there are missing AVR lines (#46 and #51) on the LR009 source column.	Agreed. Added to the modified proposal. This conforms with adopted Proposal 2023-07-L.
6	ACLI	*LR010 (Asset Concentration Factor) instruction:*	Comments taken, see edits proposed to LR010 instruction.

		Specific instructions for application of the formula – does "short-term investments" need to include cash equivalents now that they are part of LR002?	
7	ACLI	*LR047 - Reinsurance Ceded – All Other Assets C-0, C-10 and C-1cs LR047 (ModCo or Funds Withheld Reinsurance Agreements) instruction:* Column 4 – LR002 Column (2) Line (19) should not be included as LR002 Bonds have their own page only for bonds (LR045) which is shown above with the same reference.	Agreed, corrected.
8	ACLI	*LR048- Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs LR048 (ModCo or Funds Withheld Reinsurance Agreements):* Column 4 – LR002 Column (2) Line (20) should not be included as LR002 Bonds have their own page only for bonds (LR046) which is shown above with the same reference.	Agreed, corrected.
9	ACLI	*LR002 (Short Term and Cash Equivalent Bonds) blanks:* Line 22 – Now that cash equivalents are to be added here, could there be a need to add a reference for the inclusion of cash equivalents (line 0299999) on this line too? Currently the line only includes LT Bonds and ST Bonds but not Cash Equivalents.	Agreed. Cash Equivalent reference added to LR002 Line (22).
10	ACLI	*LR017 blanks:* Off to the side of the Derivative Instruments lines, there is a block of text in the margins that should be removed.	Agreed, text removed.
11	Pacific Life	*LR009 (Schedule BA Mortgages) Instructions and Blanks*	Comments that are not addressed within this modified proposal will be addressed in a dedicated RBC proposal for Working Group discussion in the future. See # 4 above.
12	ACLI	Asset Concentration Factor LR010 for non-bond debt securities reported on Schedule BA.	Refer to Proposal 2025-05-L

MKC 2/14/2025 – This modified proposal incorporated changes in response to interested parties' comments as detailed above. Given certain investment-related agendas at Statutory Accounting Principles (E) Working Group and Proposal #2024-19BWG have not been fully adopted at NAIC Blanks (E) Working Group at the time of this draft, **proposed edits are subject to changes based on corresponding adoption(s)/action(s) at SAPWG and Blanks WG.** Proposed edits that are new in this modified proposal are highlighted in YELLOW.

- 10-23-2024: Proposal was exposed with comments due 01-06-2025 – Comments received from ACLI (KO)
- 02-21-2025: Proposal was modified and re-exposed with comments due 03-23-2025 – No comment letter received (KO)
- 05-1-2025: Proposal was modified to incorporate changes resulted from deferral of Blank proposal 2024-19BWG to 2026. Changes highlighted in Green (KO)

**** This section must be completed on all forms.** **Revised 2-2023**

Detail Eliminated to Conserve Space

BONDS
LR002

Basis of Factors

The bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a “roll of the dice”) where the default probability varies by designation category and that year’s economic environment. When a default takes place, the actual loss considers the expected principal loss by category, the time until the sale actually occurs and the assumed tax consequences.

Actual surplus needs are reduced by incorporating anticipated annual contributions to the asset valuation reserve (AVR) as offsetting cash flow. Required surplus for a given trial is calculated as the amount of initial surplus funds needed so that the accumulation with interest of this initial amount and subsequent cash flows will not become negative at any point throughout the modeling period. The factors chosen for the proposed formula produce a level of surplus at least as much as needed in 92% of the trials by category and a 96% level for the entire bond portfolio.

The factor for NAIC 6 bonds recognizes that the book/adjusted carrying value of these bonds reflects a loss of value upon default by being marked to market.

Specific Instructions for Application of the Formula

Lines (1) through (7)
The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For long-term bonds, these classifications are found on Lines 1 through 7 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (8)
The total should equal long-term bonds and other fixed-income instruments reported on Page 2, Column 3, Line 1 plus Schedule DL Part 1, Column 6, Line **2009999999** ~~**2509999999**~~ of the annual statement.

Lines (9) through (15)
The book/adjusted carrying value of all bonds and related fixed-income investments should be reported in Column (1). The bonds are split into seven different risk classifications. For short-term bonds, these classifications are found on Lines 18 through 24 of the Asset Valuation Reserve Default Component, Page 30 of the annual statement.

Line (16)
The total should equal short-term bonds reported on Schedule DA, Part 1, **Column 6** Line **0509999999** ~~**2509999999**~~ plus Schedule DL Part 1, Column 6, Line 9509999999 plus **Schedule E, Part 2, Column 7, Line 0509999999** ~~**LR012 Miscellaneous Assets Column (1) Line (2.2)**~~.

Line (22)
Class 1 bonds (highest quality) issued by a U.S. government agency that are not backed by the full faith and credit of the U.S. government should be reported on this line. The loan-backed securities of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) would be examples of the securities reported on this line. Line (22) should not be larger than the sum of Lines (2) and (10). Exempt obligations should not be included on this line.

Line (24)

Bonds should be aggregated by issuer (the first six digits of the CUSIP number can be used). Exempt U.S. government bonds and bonds reported on Line (22) are not counted in determining the size factor. The RBC for those bonds will not be included in the base to which the size factor is applied. If this field is left blank, the maximum size factor adjustment of 2.40 will be used.

Line (25)

The size factor reflects the higher risk of a bond portfolio that contains relatively fewer bonds. The overall factor decreases as the portfolio size increases. ~~Portfolios with more than 1,300 issuers will receive a discount.~~ The size factor is based on the weighted number of issuers. (The calculation shown below will not appear on the RBC filing software but will be calculated automatically.)

Line (25)	Source	(a) Number of Issuers				(b) Weighted Issuers
First 50	Company Records		X	2.40	=	
Next 50	Company Records		X	1.53	=	
Next 100	Company Records		X	0.85	=	
Next 300	Company Records		X	0.85	=	
Over 500	Company Records		X	0.82	=	
Total Number of Issuers from Line (23)						
Total Weighted Issuers						
Size Factor = Total Weighted Issuers Divided by Total Number of Issuers						

Detail Eliminated to Conserve Space

UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

Basis of Factors

Unaffiliated Preferred Stock

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds.

Unaffiliated Common Stock

~~**Non-government money market mutual funds are more like cash than common stock; therefore, it is appropriate to use the same factor as for cash**~~. Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

Specific Instructions for Application of the Formula

Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16. Column (2) should equal Schedule D Summary by Country, Column 1, Line **22** ~~**18**~~ less Asset Valuation Reserve Default Component, Column 1, Line 16.

Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in ~~**the book/adjusted carrying value of Schedule D Summary by Country, Line 25, Column 1 (**~~Line (11) of this page~~**)**~~.

Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

Line (17)
Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line **29** ~~**25**~~ less Schedule D Summary by Country, Column 1, Line **28** ~~**24**~~ less line (13).

Lines (19) and (20)
To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.

Detail Eliminated to Conserve Space

OTHER LONG-TERM ASSETS

LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (49.1)
Schedule BA affiliated common stock – all others should be included in C-1cs. Specifically this means that all subs with an affiliate code **9** ~~**13**~~ in the current life-based framework and "holding company in excess of indirect subsidiaries" or subsidiaries with affiliate code **3** ~~**7**~~ are to be included in C-1cs.

~~Line (49.2)~~
~~New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).~~

Line (50)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)
Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (21) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

SCHEDULE BA MORTGAGES

LR009

Basis of Factors

For Affiliated Mortgages**,** Line ~~1299999 and~~ 2499999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet (Figure 10).

For Unaffiliated Mortgages, Line ~~1199999 and~~ 2399999, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line **(3)** ~~**(2)**~~ for mortgages with covenants that are in compliance.
2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009, line (4).
3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009, line (5).
4) All other investments in this category will be assigned CM3 and transferred to LR009, line (6). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

Specific Instructions for Application of the Formula

Column (1)

Except for Line (1), **(2), (13)** ~~**(12)**~~**, and (17)** ~~**(16)**~~**,** calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (21) should equal Schedule BA Part 1, Column 12, Lines ~~**1199999, 1299999,**~~ 2399999 and 2499999, and collateral loans backed by mortgages, as reported in Notes to Financials 5S, **Column 1**, line 7**a and 7b.**

Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

Column (4)

No longer used. Place "XXX" in any blanks for this column.

Column (5)

For Line (1), the pre-tax factor is 0.0014.
For Line (2), the pre-tax factor is 0.0068.
For Line (3), the average factor column is calculated as Column (6) divided by Column (3).
For Line (4), the pre-tax factor is 0.0090.
For Line (5), the pre-tax factor is 0.0175.

For Line (6), the pre-tax factor is 0.0300.
For Line (7), the pre-tax factor is 0.0090.
For Line (8), the pre-tax factor is 0.0175.
For Line (9), the pre-tax factor is 0.0300.
For Line (10), the pre-tax factor is 0.0500.
For Line (11), the pre-tax factor is 0.0750.
For Line (13), the pre-tax factor is 0.0027.
For Lines (14) through (15), the pre-tax factor is 0.1100.
For Line (17), the pre-tax factor is 0.0054.
For Lines (18) through (19), the pre-tax factor is 0.1300.

Column (6)
For Lines (1) **and (2),** (4) through (11), (13) through (15) and (17) through (19), the RBC subtotal in Column (3) is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Line (3), **summary amounts are entered for** Column (6) based on calculations done on an individual mortgage basis as determined in the company developed worksheet Figure (10).

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheet (Figure10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure and in an unaffiliated structure where there are covenants. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are **included in Line (1), (13), or (17) as appropriate ~~classified as Category CM1~~**. The following factors are used for each category of mortgages:

	Schedule BA Mortgage Factors	
LR009 Line Number		Factor
(4)	Unaffiliated – defeased with government securities	0.0090
(5)	Unaffiliated investments comprised primarily of Senior Debt	0.0175
(6)	Unaffiliated – all other unaffiliated mortgages	0.0300
(7)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM1	0.0090
(8)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM2	0.0175
(9)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM3	0.0300
(10)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM4	0.0500
(11)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM5	0.0750
(13)	90 Days Past Due - Insured or Guaranteed	0.0027
(14)	90 Days Past Due (CM6) - Unaffiliated with Covenants	0.1100
(15)	90 Days Past Due (CM6) – Affiliated	0.1100

(17)	In Process of Foreclosure - Insured or Guaranteed	0.0054
(18)	In Process of Foreclosure (CM7) - Unaffiliated with Covenants	0.1300
(19)	In Process of Foreclosure (CM7) – Affiliated	0.1300

Detail Eliminated to Conserve Space

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v. 5.1~~ (www.crefc.org/irp). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2nd prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Detail Eliminated to Conserve Space

ASSET CONCENTRATION FACTOR

LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, ~~and~~ cash ~~**and**~~ **certain cash equivalents and** short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA partnerships should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. The RBC filing software automatically allows for an overall 45% RBC cap.

Detail Eliminated to Conserve Space

COMMON STOCK CONCENTRATION FACTOR

LR011

Basis of Factors

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, investment companies (mutual funds) and common trust funds, that are diversified with the meaning of the Investment Company Act, and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code **3** ~~7~~ on **LR044** ~~LR042~~ (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code **9** ~~13~~ (other subsidiaries), the total stock investment including both preferred and common stock should be used.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

MISCELLANEOUS ASSETS
LR012

Basis of Factors

Lines (1) through (3.3)
The pre-tax factor for cash is 0.39%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.39% pre-tax factor, equivalent to a NAIC 1 bond, reflects the short-term nature of this risk.

With effect from 2005, Line (2.2) was added to LR012 Miscellaneous Assets to subtract cash equivalents bonds from cash equivalents. This change was made due to a change in the Annual Statement instructions indicating that cash equivalent bonds should be included as bonds in Schedule D, Part 1A.

~~**The short-term investments to be included here are those not reflected elsewhere in the formula. Commercial paper, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest-only and principal-only certificates (IOs and POs), and equipment trust certificates should be included in appropriate bond classifications (NAIC 1 through NAIC 6) on LR002 Bonds and should be excluded from short-term investments.**~~
Line (3.1) should include all short-term investments reported on Schedule DA as permitted under *SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Line (3.2) should reflect issuer credit obligations pursuant to *SSAP No. 26—Bonds* that qualify as short-term investments under *SSAP No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Bonds reported as asset-backed securities are not permitted to be reported as short-term investments and shall not be captured in line (3.1) or (3.2). The 0.39% pre-tax factor is equal to the factor for cash.

Lines (4) through (7)
Premium notes~~**, receivables for securities**~~ and write-ins for invested assets are generally a small proportion of total portfolio value. A pre-tax factor of 6.8% is consistent with other risk-based capital formulas studied by the working group. The total amount of derivatives cash collateral receivable (pledged to counterparty and/or central clearinghouse) included in Line (6.1) (from **Page 2**, Line 11~~, page 2~~) should be included on Line (6.2) resulting in Line (6.3) including no derivative collateral receivable amounts. Pledged collateral is reported in LR017, Off-Balance Sheet and Other Items.

Receivables for securities are subject to factors periodically updated by the NAIC, based on a weighted average calculation of bonds, common and preferred stock receivables.

Lines (8) through (16)

The collateral from Schedule DB Part D Section 1 Column 4 Line 0999999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.39%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line (9) will be assessed RBC based on their characteristics as an asset elsewhere in the RBC instructions.

Derivative instrument book/adjusted carrying value exposure net of collateral held on the balance sheet from Schedule DB Part D Section 1 Column **8** ~~7~~ Line 0999999**999**, for each NAIC designation, is subject to the bond RBC factor for that category to reflect the amount held on the balance sheet exposed to loss upon default of the Over the Counter (OTC-bilateral) counterparty, central clearinghouse or exchange. **Starting** ~~**For**~~ 2015, derivative balances subject to central clearing are to be included in Line (10) regardless of the category they are included in for the AVR. Acceptable collateral is subject to an RBC charge at the same level as NAIC 1 Bonds. ~~**The collateral from Schedule DB Part D Section 1 Column 4 Line 0999999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet and will be subject to an RBC charge of 0.4%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line 9 will be assessed RBC based on their**~~

~~characteristics as an asset elsewhere in the RBC instructions.~~ "Acceptable collateral" means cash, cash equivalents, securities issued or guaranteed by the United States or Canadian governments or their government-sponsored enterprises, publicly traded obligations designated 1 by the NAIC, government money market mutual funds, and such other items as may be defined as acceptable collateral in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

Detail Eliminated to Conserve Space

OFF-BALANCE SHEET AND OTHER ITEMS

LR017

Line (2)

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 25.05 and included in Line (2).

Lines (3) through (14)

Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (12.1) and (13) include assets pledged as collateral reported in the General Interrogatories Part 1 Line **26.30** ~~25.30~~ and **26.31** ~~25.31~~ other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Line (12.2), include all collateral pledged, both cash and securities, to derivative counterparties and/or central clearinghouses for initial margin and variation margin. In addition, include securities collateral pledged as initial margin for futures. Line (12.2) should agree to Schedule DB Part D Section 2 Column 7, Line 0199999**999**. Line (12.3) should equal Line (12.1) minus Line (12.2). For Line (13) column 2 include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Line (13) column 2 also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets. For Line (13) column (4), the Factor will be manually input. In most instances, the Factor will be based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with funding agreement activities exceed 5% of total net admitted assets. If the higher factor is applicable, the Factor for column 4 is calculated as a blended factor prorated such that collateral in column 3 supporting FHLB funding agreement liabilities in excess of the limit is subject to the factor for an NAIC 2 corporate bond (Line 14 Column 4). All other collateral in column 3 is subject to the factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB.

Lines (16) through (23)

The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part D, Section 1, Column **13** ~~12~~, Lines 0199999**999** through 0899999**999**. Off-balance sheet exposure is reported for aggregate exchange traded derivatives, OTC – bilateral derivatives aggregated by counterparty brought into each individual NAIC designation 1-6, and aggregated centrally cleared derivatives. **Starting** ~~For~~ 2015, derivative balances subject to central clearing are to be included in Line (16) regardless of the category they are included in for Schedule DB, Part D, Section 1.

Detail Eliminated to Conserve Space

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

LR031

Basis of Factors

The purpose of the formula is to estimate the risk-based capital levels required to manage losses that can be caused by a series of catastrophic financial events. However, it is remote that all such losses will occur simultaneously. The covariance adjustment states that the combined effect of the C–1o, C-1cs, C–2 and C–3 and a portion of the C-4 risks are not equal to their sum but are equal to the square root calculation described below. It is statistically assumed that the C–1o risk and a portion of the C–3 risk are correlated, while the C-1cs risk, the C–2 risk, the balance of the C-3 risk and a portion of the C-4 risk are independent of both. The split of the C-3 and C-4 risks allows for general consistency with the health RBC formula. This assumption provides a reasonable approximation of the capital requirements needed at any particular level of losses.

The covariance formula is applied on Line (69) on LR031 before adding operational risk and Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII:

RBC after Covariance Before Operational Risk = C0 + C4a + Square Root of $[(C1o + C3a)^2 + (C\text{-}1cs + C\text{-}3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$

Operational Risk:

Operational risk is defined as the risk of financial loss resulting from operational events, such as the inadequacy or failure of internal systems, personnel, procedures or controls, as well as external events. Operational risk includes legal risk but excludes reputational risk and risk arising from strategic decisions. Operational risk has been identified as a risk that should be explicitly addressed in the RBC formulas. The Operational Risk charge is intended to account for operational risks that are not already reflected in existing risk categories.

A Gross Operational Risk charge will be reported on Line **(70)** ~~68~~ using a percentage of RBC or "add-on" approach that will apply a risk factor of 3.00% to the amount reported in Line (69) – Total RBC after Covariance Before Operational Risk reported on page LR031. The result will represent an initial value of operational risk. Because the current C-4a risk charge is assumed to include some operational risk, a company's C-4a – Post Tax reported on Line (65) is offset against operational risk. A further reduction to the operational risk charge equal to the sum of the C-4a offset amounts reported by direct life RBC filing insurance subsidiaries (Page LR031, Lines (65 + 71)), adjusted for the percentage of ownership in the direct life insurance subsidiary, will be reported on Page LR031 in Line (71).

Detail Eliminated to Conserve Space

CALCULATION OF TOTAL ADJUSTED CAPITAL

(Including Total Adjusted Capital Tax Sensitivity Test)

LR033

The following instructions for the Calculation of Total Adjusted Capital will remain effective independent of the status of the sunset provision, Section 8, of AG 48 in a particular state or jurisdiction. This instruction will be considered for change once the amendment referenced in AG 48, Section 8, regarding credit for reinsurance, is adopted by the NAIC.

Basis of Factors

In determining the C–1 risk factors, availability of the AVR and voluntary investment reserves to absorb specific losses was not assumed. Therefore, the AVR is counted as capital for the purposes of the formula although it represents a liability and is not usable against general contingencies. The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. Voluntary investment reserves were eliminated from Total Adjusted Capital for the 1997 risk-based capital formula.

The annual statement provision for future dividends can provide a general cushion against potentially adverse future experience. As a reflection of this possible cushion, 50% of the annual statement dividend liability is included. However, when a block is reinsured, such credit to Total Adjusted Capital will not be allowed to either company unless the company has total control over the dividend decision and the full benefit of a change in the dividend scale flows to the company. A factor of 25% of the dividend liability is used in sensitivity testing.

Subsidiary amounts other than the carrying value of Alien Insurance Subsidiaries – Other, are included as appropriate recognizing that this surplus is included within the surplus of the parent. The carrying value of Alien Insurance Subsidiaries – Other should be excluded from the surplus of the parent for purposes of computing Total Adjusted Capital. Property and casualty subsidiaries should subtract all non-tabular discounts from surplus to arrive at the adjusted surplus figure. This adjustment to surplus was phased in over a five-year period by subtracting 20% of the non-tabular discount the first year and an additional 20% each year thereafter. Beginning with the 1998 risk-based capital formula, the adjustment to surplus is 100%. The same adjustment is made to the surplus of a life company having ownership of a property and casualty subsidiary.

The laws of certain states allow insurers to issue a form of capital instrument called a “capital note.” A credit is allowed to Total Adjusted Capital for a capital note that satisfies all of the following conditions:

1. In a liquidation, the capital note ranks with surplus notes and is subordinate to the claims of policyholders, claimants and general creditors.
2. The form and content of the capital note was approved by the commissioner of the insurer’s state of domicile.
3. At the time of issuance of the capital note, the aggregate principal amount did not exceed 25% of the Total Adjusted Capital (including the aggregate principal amount of outstanding capital and surplus notes) as of the end of the immediately preceding calendar year less the aggregate principal amount of outstanding capital and surplus notes.
4. The term of the capital note is not less than five years.
5. At the time of issuance of the capital note:
   a) The total principal amount of capital notes maturing in any one year did not exceed 5% of Total Adjusted Capital (measured at the time of issuance); and
   b) The total principal amount of capital notes maturing in any three-year period did not exceed 12% of Total Adjusted Capital (measured at the time of issuance).
6. Payment of interest, dividend or principal of the capital note is deferred if it would have caused:
   a) The insurer’s Total Adjusted Capital to drop below its Company Action Level Risk-Based Capital; or
   b) The insurer’s Total Adjusted Capital to drop below 125% of its Company Action Level Risk-Based Capital, and there is a negative trend on the Trend Test.

   However, upon request by the insurer, the commissioner of the insurer’s state of domicile may approve such payment if, in the commissioner’s judgment, the financial condition of the insurer warrants it.
7. The commissioner of the insurer’s state of domicile may halt all payments on the capital note if the insurer’s Total Adjusted Capital drops below three times

the principal amount of the capital and surplus notes the insurer has outstanding.

8. The capital note is treated as a liability in the computation of statutory surplus.
9. The insurer issuing the capital note is obligated to supply to the commissioner of the insurer's state of domicile an informational filing in a manner approved by the commissioner at the same time the insurer files its annual statement, and at such other times as the commissioner determines necessary. The filing shall include and be based on the following guidelines:
   a) The filing shall display the financial results of the criteria used to determine whether payments on the insurer's capital notes need be approved by the commissioner or may be halted by the commissioner. Further, it shall specifically identify those results that either necessitate commissioner approval of the payment or give the commissioner the option to halt payment.
   b) The insurer shall notify the Commissioner for informational purposes of each forthcoming payment under a capital note not less than ten business days prior to the date of payment, nor more than 30 business days prior to the date of payment.
   c) Whenever an insurer declares its intention to exercise the option to call or redeem a capital note prior to the scheduled maturity, the Commissioner shall be notified within five business days following the declaration, and not less than 10 business days prior to the declared redemption date. The 10-day period should be measured from the date of the commissioner's receipt of the notice.

The credit for a capital note is reduced as the note approaches maturity (as calculated on LR032 Capital Notes before Limitation). The aggregate credit for capital notes is limited so that the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-third of Total Adjusted Capital.

Total Adjusted Capital is to be reduced by the amount of all XXX/AXXX reinsurance RBC shortfalls.

Specific Instructions for Application of the Formula

Lines **11.1** ~~10.1~~-**11.4** ~~10.4~~**, 14** ~~13~~**, 15** ~~14~~ **and 19** ~~18~~ are not applicable to Fraternal Benefit Societies.

Detail Eliminated to Conserve Space

AFFILIATED/SUBSIDIARY STOCKS

LR**0**42, LR043 and LR044

Basis of Factors

There are ten categories of affiliated/subsidiary investments that are subject to Risk-Based Capital requirements for common stock and preferred stock holdings. Those ten categories are:

1. Directly Owned U.S. Insurance Affiliates/Subsidiaries Subject to a Risk-Based Capital (RBC)-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries Subject to RBC-Look-Through Calculation
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
3. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates/Subsidiaries
4. Investment Subsidiaries
5. Directly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
6. Indirectly Owned Alien Insurance Affiliates/Subsidiaries
    a. Health Insurance Company or Health Entity
    b. Property and Casualty Insurance Company
    c. Life Insurance Company
7. Investments in Upstream Affiliate (Parent)
8. Directly Owned U.S. Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Health Insurance Companies and Health Entities Not Subject to RBC
    b. Property and Casualty Insurance Companies Not Subject to RBC
    c. Life Insurance Companies Not Subject to RBC
9. Non-Insurance Affiliates/Subsidiaries Not Subject to RBC
    a. Entities with a capital requirement imposed by a regulatory body
    b. Other Financial Entities without regulatory capital requirements
    c. Non-financial entities
10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

Enter applicable items for each affiliate/subsidiary in the Details for Affiliated/Subsidiary Stocks worksheet. The program will automatically calculate the risk-based capital charge for each affiliate/subsidiary. When the data is uploaded to the NAIC database, it will be cross-checked and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The RBC report will display the number of affiliates/subsidiaries. These numbers should be reviewed to ensure that all affiliates/subsidiaries are appropriately reported.

The total of all reported affiliate/subsidiary stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 4409999999 plus Schedule D, Part 2, Section 2, Line 5979999999 and should also equal Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999.

Affiliated/Subsidiary investments fall into two broad categories: (A) Insurance Affiliates/Subsidiaries that are Subject to risk-based capital; and (B) Affiliates/Subsidiaries that are Not Subject to risk-based capital. The risk-based capital for these two broad groups differs. Investment subsidiaries are a subset of category A in that they are subject to a risk-based capital charge that includes the life RBC risk factors applied only to the investments held by the investment subsidiary for its parent insurer. Publicly traded insurance affiliates/subsidiaries held at market value have characteristics of both broader categories. As a result, there is a two-part RBC calculation. The general treatment for each is explained below.

Directly owned insurance and health entity affiliates/subsidiaries are affiliates/subsidiaries in which the reporting company owns the stock of the affiliate/subsidiary. Indirectly owned insurance affiliates/subsidiaries and health entities are those where the reporting company owns stock in a holding company, which in turn owns the stock of the insurance affiliate/subsidiary or health entity. Note that there could be multiple holding companies that control the downstream insurance company.

Enter the book/adjusted carrying value of: the common stock in Column (5), the preferred stock in Column (7), the total outstanding common stock in Column (6) and the total outstanding preferred stock of that affiliate/subsidiary in Column (8) of the appropriate worksheet. The percentage of ownership is calculated by summing the book/adjusted carrying values of the owned preferred stock and common stock and dividing that amount by the sum of all outstanding preferred and common stock.

Insurance Affiliate/Subsidiaries that are Subject to RBC

1. Directly Owned U.S. Affiliates/Subsidiaries:

The risk-based capital requirement for the reporting company for those insurance affiliates/subsidiaries that are subject to a risk-based capital requirement is based on the Total Risk-Based Capital After Covariance of the affiliate/subsidiary, prorated for the percent of ownership of that affiliate/subsidiary.
For purposes of Subsidiary Risk all references to Total Risk-Based Capital After Covariance of the affiliate/subsidiary means:

a. For a Health affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (XR024, Line (41));
b. For a P/C affiliate/subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (60)); and
c. For a Life affiliate/subsidiary RBC filing, the sum of
   (a) Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (69); and
   (b) Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) multiplied by two (LR031, Line (73)).

For RBC purposes, the reporting insurer must determine the carrying value and the RBC requirement of directly owned RBC filing affiliate/subsidiary company, even if the RBC filing affiliate/subsidiary is non-admitted. The value reported in annual statement Schedule D, Part 6, Section 1 should be used for RBC purposes. In addition to RBC, the carrying value of the RBC filer must be reported in total adjusted carrying value for RBC purposes, in order to appropriately balance the numerator with the addition of the denominator value. Enter the carrying value of the insurer as an additional amount in line **(8)** ~~**(6)**~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

Equity method Insurance Affiliates/Subsidiaries: Equity method is defined in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 8.b. as the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*. For those insurance Affiliates/Subsidiaries of the reporting company that are reported under the equity method, the C_0 charge of the ownership of the common and preferred stock in these Affiliates/Subsidiaries is limited to the lesser of:

- (a) the Total RBC After Covariance of the affiliate/subsidiary times the percentage of ownership, which is the total of common stock and preferred stock; or
- (b) the common and preferred stock book/adjusted carrying value at which the affiliate/subsidiary is carried.

Market Value (including discounted market value) Insurance Affiliates/Subsidiaries (See SSAP No. 97, paragraph 8.a.): See 10 below.

2. Indirectly Owned U.S. Insurance Affiliates/Subsidiaries

For Indirectly Owned U.S. Insurance Affiliates/Subsidiaries, the carrying value and RBC is calculated in the same manner as for directly owned U.S. Insurance Affiliates/Subsidiaries. The RBC for the indirect affiliates/subsidiaries must be calculated prior to completing this RBC report.

SSAP No. 97 provides guidance for the reporting and admittance requirements of SCAs. Accordingly, there may be cases where an indirectly owned RBC filer may not be separately reported in the statutory financial statements (e.g., they are captured within the carrying value of an intermediate holding company). The SSAP No. 97 guidance permits reporting SCAs at the directly owned holding company level or via look-through to the downstream entity (including where the downstream entity is an RBC filer), but an audit of the entity is required for admittance (i.e. if reporting is at the directly owned holding company level, the holding company must be audited, if the reporting is on a look-through basis then the downstream entity must be audited). Regardless of whether there is a look-through applied pursuant to Statutory Accounting Principles (SAP) for annual financial statement reporting, for RBC purposes the reporting insurer must "look-through" all intermediate holding and subsidiary companies to determine the carrying value and the RBC requirement of indirectly owned RBC filing affiliate/subsidiary company. This involves drilling down to the first RBC filing insurance affiliate/subsidiary and adjusting for percentage ownership of the intermediate entity directly owning the RBC filing affiliate/subsidiary. Both RBC and carrying value of the RBC filer must be reported for RBC purposes, in order to appropriately balance the numerator with the addition to the denominator value. Enter the carrying value of the insurer on Line **(8)** ~~**XXX**~~ of the Calculation of Total Adjusted Capital page to satisfy these instructions.

The carrying value for each indirect insurance affiliate/subsidiary is established based on company records using the statutory value of the insurer as reported in the NAIC annual financial statement blank submitted by the affiliate/subsidiary or market value when applicable, and the RBC requirement as determined in its RBC Report adjusted for the ownership percentages (both the percentage of the indirectly owned RBC filing affiliate/subsidiary that is owned by the directly held downstream holding company and the reporting insurer's ownership percentage in that downstream entity). The value reported by the downstream holding company for the U.S. RBC filing insurer is the same as the statutory value established for the insurer on a look-through basis.

Detail Eliminated to Conserve Space

10. Publicly Traded Insurance Affiliates/Subsidiaries Held at Market Value

The risk-based capital for a publicly traded insurance affiliate/subsidiary held at market value after any "discount," is calculated in two parts. First, calculate and report the risk-based capital of the affiliate/subsidiary according to the relevant instructions above for Insurance Affiliates/Subsidiaries that are Subject to a RBC-look-through Calculation. Second, calculate the additional risk-based capital charge as 34.6% pre-tax of any excess of the market (statement) value over the book value of the affiliate/subsidiary. The result of the second calculation will be added to the C-1o component.

Report information regarding any publicly traded insurance affiliate/subsidiary held at market value. The reported market value of common stock should be the same as shown Schedule D, Part 2, Section 2, Column **7** ~~**8**~~, Line 5919999999 plus Line 5929999999. The market value of preferred stock should be the same as shown in Schedule D, Part 2, Section 1, Column **8** ~~**10**~~, line 4319999999 plus 4329999999. The reported book value of common stock should be the same as shown in Schedule D, Part 2, Section 2, Column **5** ~~**6**~~, Line 5919999999 plus Line 5929999999. The reported book value of preferred stock should be the same as Schedule D, Part 2, Section 1, Column **6** ~~**8**~~, Line 4319999999 plus 4329999999.

APPENDIX A ~~3~~– EXAMPLE USED FOR AFFILIATED/SUBSIDIARY STOCKS

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column **6** ~~9~~) by the percentage of ownership (found in Schedule D – Part 6 –Section 1, Column **10** ~~12~~). For example:

Subsidiary Insurance Company	Owner's Book / Adjusted Carrying Value	Percentage Ownership	Total Stock Outstanding
Subsidiary #1	$1,000,000	100%	$1,000,000
Subsidiary #2	$1,000,000	75%	$1,333,333
Subsidiary #3	$1,000,000	50%	$2,000,000
Subsidiary #4	$1,000,000	25%	$4,000,000
Subsidiary #5	$1,000,000	10%	$10,000,000

Detail Eliminated to Conserve Space

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

LR045, LR046, LR047 and LR048

Detail Eliminated to Conserve Space

Specific Instructions for Application of the Formula

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded - Bonds C-1o
LR045

Column 4
Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The "total" should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed - Bonds C-1o
LR046

Column 4
Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The "total" should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs
LR047

Column 4
Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The "total" should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR047 Column (4), Line (9999999) should equal the sum of ~~LR002 Column (2) Line (19),~~ LR004 Column (6) Line (29), LR005 Column (5) Line (8) and (19), LR006 Column (3) Line (5), LR007 Column (3) Line (11) and (23), LR008 Column (5) Line (9), Line (19), Line (29), Line (39), Line (45) and Line (55), LR009 Column (6) Line (22), LR012 Column (2) Line (19) and LR017 Column (5) Line (28).**

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs
LR048

Column 4
Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The "total" should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements. **Specifically, LR048 Column (4), Line (9999999) should equal the sum of ~~LR002 Column (2) Line (20),~~ LR004 Column (6) Line (30), LR005 Column (5) Line (9) and (20), LR006 Column (3) Line (6), LR007 Column (3) Line (12) and (24), LR008 Column (5) Line (10), Line (20), Line (30), Line (40), Line (46) and Line (56), LR009 Column (6) Line (23), LR012 Column (2) Line (20) and LR017 Column (5) Line (29).**

Detail Eliminated to Conserve Space

Company Name | Confidential when Completed | NAIC Company Code

BONDS

	SVO Bond Designation Category	Annual Statement Source	(1) Book / Adjusted Carrying Value		Factor		(2) RBC Requirement
	Long Term Bonds						
(1)	Exempt Obligations	AVR Default Component Column 1 Line 1		X	0.0000	=	
(2.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 2.1		X	0.00158	=	
(2.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 2.2		X	0.00271	=	
(2.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 2.3		X	0.00419	=	
(2.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 2.4		X	0.00523	=	
(2.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 2.5		X	0.00657	=	
(2.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 2.6		X	0.00816	=	
(2.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 2.7		X	0.01016	=	
(2.8)	Subtotal NAIC 1	Sum of Lines (2.1) through (2.7)					
(3.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 3.1		X	0.01261	=	
(3.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 3.2		X	0.01523	=	
(3.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 3.3		X	0.02168	=	
(3.4)	Subtotal NAIC 2	Sum of Lines (3.1) through (3.3)					
(4.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 4.1		X	0.03151	=	
(4.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 4.2		X	0.04537	=	
(4.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 4.3		X	0.06017	=	
(4.4)	Subtotal NAIC 3	Sum of Lines (4.1) through (4.3)					
(5.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 5.1		X	0.07386	=	
(5.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 5.2		X	0.09535	=	
(5.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 5.3		X	0.12428	=	
(5.4)	Subtotal NAIC 4	Sum of Lines (5.1) through (5.3)					
(6.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 6.1		X	0.16942	=	
(6.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 6.2		X	0.23798	=	
(6.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 6.3		X	0.30000	=	
(6.4)	Subtotal NAIC 5	Sum of Lines (6.1) through (6.3)					
(7)	NAIC 6	AVR Default Component Column 1 Line 7		X	0.30000	=	
(8)	Total Long-Term Bonds	Sum of Lines (1) + (2.8) + (3.4) + (4.4) + (5.4) + (6.4) + (7)					

(Column (1) should equal Page 2 Column 3 Line 1 + Schedule DL Part 1 Column 6 Line **2009999999** ~~2509999999~~)

Short Term and Cash Equivalent Bonds

(9)	Exempt Obligations	AVR Default Component Column 1 Line 18 + **Schedule E, Part 2, Column 7, Line 0019999999**		X	0.00000	=
(10.1)	NAIC Designation Category 1.A	AVR Default Component Column 1 Line 19.1 + **Schedule E, Part 2, Footnote L000001A, Amount 1 - Schedule E, Part 2, Column 7, Line 0019999999**		X	0.00158	=
(10.2)	NAIC Designation Category 1.B	AVR Default Component Column 1 Line 19.2 + **Schedule E, Part 2, Footnote L000001A, Amount 2**		X	0.00271	=
(10.3)	NAIC Designation Category 1.C	AVR Default Component Column 1 Line 19.3 + **Schedule E, Part 2, Footnote L000001A, Amount 3**		X	0.00419	=
(10.4)	NAIC Designation Category 1.D	AVR Default Component Column 1 Line 19.4 + **Schedule E, Part 2, Footnote L000001A, Amount 4**		X	0.00523	=
(10.5)	NAIC Designation Category 1.E	AVR Default Component Column 1 Line 19.5 + **Schedule E, Part 2, Footnote L000001A, Amount 5**		X	0.00657	=
(10.6)	NAIC Designation Category 1.F	AVR Default Component Column 1 Line 19.6 + **Schedule E, Part 2, Footnote L000001A, Amount 6**		X	0.00816	=
(10.7)	NAIC Designation Category 1.G	AVR Default Component Column 1 Line 19.7 + **Schedule E, Part 2, Footnote L000001A, Amount 7**		X	0.01016	=
(10.8)	Subtotal NAIC 1	Sum of Lines (10.1) through (10.7)				
(11.1)	NAIC Designation Category 2.A	AVR Default Component Column 1 Line 20.1 + **Schedule E, Part 2, Footnote L000001B, Amount 1**		X	0.01261	=
(11.2)	NAIC Designation Category 2.B	AVR Default Component Column 1 Line 20.2 + **Schedule E, Part 2, Footnote L000001B, Amount 2**		X	0.01523	=
(11.3)	NAIC Designation Category 2.C	AVR Default Component Column 1 Line 20.3 + **Schedule E, Part 2, Footnote L000001B, Amount 3**		X	0.02168	=
(11.4)	Subtotal NAIC 2	Sum of Lines (11.1) through (11.3)				
(12.1)	NAIC Designation Category 3.A	AVR Default Component Column 1 Line 21.1 + **Schedule E, Part 2, Footnote L000001C, Amount 1**		X	0.03151	=
(12.2)	NAIC Designation Category 3.B	AVR Default Component Column 1 Line 21.2 + **Schedule E, Part 2, Footnote L000001C, Amount 2**		X	0.04537	=
(12.3)	NAIC Designation Category 3.C	AVR Default Component Column 1 Line 21.3 + **Schedule E, Part 2, Footnote L000001C, Amount 3**		X	0.06017	=
(12.4)	Subtotal NAIC 3	Sum of Lines (12.1) through (12.3)				
(13.1)	NAIC Designation Category 4.A	AVR Default Component Column 1 Line 22.1 + **Schedule E, Part 2, Footnote L000001D, Amount 1**		X	0.07386	=
(13.2)	NAIC Designation Category 4.B	AVR Default Component Column 1 Line 22.2 + **Schedule E, Part 2, Footnote L000001D, Amount 2**		X	0.09535	=
(13.3)	NAIC Designation Category 4.C	AVR Default Component Column 1 Line 22.3 + **Schedule E, Part 2, Footnote L000001D, Amount 3**		X	0.12428	=
(13.4)	Subtotal NAIC 4	Sum of Lines (13.1) through (13.3)				
(14.1)	NAIC Designation Category 5.A	AVR Default Component Column 1 Line 23.1 + **Schedule E, Part 2, Footnote L000001E, Amount 1**		X	0.16942	=
(14.2)	NAIC Designation Category 5.B	AVR Default Component Column 1 Line 23.2 + **Schedule E, Part 2, Footnote L000001E, Amount 2**		X	0.23798	=
(14.3)	NAIC Designation Category 5.C	AVR Default Component Column 1 Line 23.3 + **Schedule E, Part 2, Footnote L000001E, Amount 3**		X	0.30000	=
(14.4)	Subtotal NAIC 5	Sum of Lines (14.1) through (14.3)				
(15)	NAIC 6	AVR Default Component Column 1 Line 24 + **Schedule E, Part 2, Footnote L000001F, Amount 1**		X	0.30000	=
(16)	Total Short-Term **and Cash Equivalent** Bonds	Sum of Lines (9) + (10.8) + (11.4) + (12.4) + (13.4) + (14.4) + (15)				

(Column (1) should equal Schedule DA Part 1 Column **6** ~~7~~ Line **0509999999** ~~2509999999~~ +
Schedule DL Part 1 Column 6 Line 9509999999 + **Schedule E Part 2 Column 7 Line 0509999999** ~~LR012 Miscellaneous Assets Column (1) Line (2.2)~~)

(17)	Total Long-Term and Short-Term Bonds (pre-MODCO/Funds Withheld)	Line (8) + (16)				
(18)	Credit for Hedging	LR014 Hedged Asset Bond Schedule Column 13 Line (0399999)				
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	LR045 Modco or Funds Withheld Reinsurance Ceded - Bonds C-1o Column (4) Line (9999999)				
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	LR046 Modco or Funds Withheld Reinsurance Assumed - Bonds C-1o Column (4) Line (9999999)				
(21)	Total Long-Term and Short-Term Bonds (including MODCO/FundsWithheld and Credit for Hedging adjustments.)	Lines (17) - (18) - (19) + (20)				
(22)	Non-exempt U.S. Government Agency Bonds	Schedule D Part 1 **Section 1 and Section 2** ,~~and~~ Schedule DA Part 1 **and Schedule E Part 2**, in part†		X	0.00158	=
(23)	Bonds Subject to Size Factor	Line (21) - Line (1) - Line (9) - Line (22)				
(24)	Number of Issuers	Company Records				
(25)	Size Factor for Bonds					
(26)	Bonds Subject to Size Factor after the Size Factor is Applied	Line (23) x Line (25)				
(27)	Total Bonds	Line (22) + Line (26)				

† Only investments in U.S. Government agency bonds previously reported in Lines (2.8) and (10.8), net of those included on Line (19), plus the portion of Line (20) attributable to ceding companies' Lines (2.8) and (10.8) should be included on Line (22). No other bonds should be included on this line. Exempt U.S. Government bonds shown on Lines (1) and (9) should not be included on Line (22). Refer to the bond section of the risk-based capital instructions for more clarification.

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

UNAFFILIATED PREFERRED AND COMMON STOCK

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Less Affiliated Preferred Stock Without AVR	(3) RBC Subtotal	(4) Factor	(5) RBC Requirement
	Unaffiliated Preferred Stock						
(1)	Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10				X 0.0039 =	
(2)	Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11				X 0.0126 =	
(3)	Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12				X 0.0446 =	
(4)	Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13				X 0.0970 =	
(5)	Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14				X 0.2231 =	
(6)	Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15				X 0.300 =	
(7)	Total Unaffiliated Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (6)					

(Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16.)
(Column (2) should equal Schedule D Summary **by Country** Column 1 Line **22** ~~**18**~~ less Asset Valuation Reserve Default Component Column 1 Line 16.)

(8)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(9)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(10)	Total Unaffiliated Preferred Stock (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					
	Unaffiliated Common Stock						
(11)	Total Common Stock	Schedule D Summary Column 1 Line **29** ~~**25**~~					
(12)	Less Affiliated Common Stock	Schedule D Summary Column 1 Line **28** ~~**24**~~					
(13)	Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records					
(14)	Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3				X 0.011 =	
(15)	Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2				X 0.300 =	
(16)	Net Other Unaffiliated Public Common Stock	Lines (11) - (12) - (13) - (14) - (15)				X † =	
(17)	Total Admitted Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Lines (14) + (15) + (16)					

(Column 1 should equal Schedule D Summary by Country Column 1 Line **29** ~~**25**~~ less Line **28** ~~**24**~~ less Line (13))

(18)	Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line **(**0299999**)**					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Admitted Unaffiliated Common Stock (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

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

OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Fixed Income - Bonds						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000 =	
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039 =	
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126 =	
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446 =	
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970 =	
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231 =	
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000 =	
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
	Schedule BA - Fixed Income - Preferred Stock						
~~(12.1)~~	~~Asset NAIC 1~~	~~AVR Equity Component Column 1 Line 30~~					
~~(12.2)~~	~~Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes~~	~~Column (1) Line (22) + Column (1) Line (32)~~					
(12) ~~(12.3)~~	~~Net~~ Asset NAIC 1	AVR Equity Component Column 1 Line 30 ~~Line (12.1) - (12.2)~~				X 0.0039 =	
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126 =	
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446 =	
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970 =	
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231 =	
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000 =	
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †		(4) Factor		(5) RBC Requirement
	Rated Surplus Notes Classified by Designation Equivalent								
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0039	=	
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0126	=	
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0446	=	
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0970	=	
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.2231	=	
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.3000	=	
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)							
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)							
	Rated Capital Notes Classified by Designation Equivalent								
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0039	=	
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0126	=	
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0446	=	
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0970	=	
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.2231	=	
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.3000	=	
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)							
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)							

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

OTHER LONG-TERM ASSETS (CONTINUED)

Line	Description	Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)				X 0.3000 =	
(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 3199999 + Line 3299999, in part**				X 0.0680 =	
(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line **92**				X 0.4500 =	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line **100** ~~**113**~~				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line **101** ~~**114**~~				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1)	Other Schedule BA Assets, **including Surplus Notes and Capital Notes**	AVR Equity Component Column 1 Line **99 + 102** ~~**115**~~					
(53.2)	Less NAIC 1 ~~2~~ thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (22) ~~(23)~~ through (27) + Column (1) Lines (32) ~~(33)~~ through (37)					
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Company Name | Confidential when Completed | NAIC Company Code

SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡		(5) Average Factor		(6) RBC Requirement
	In Good Standing									
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X	0.0014	=	
(2)	Affiliated Mortgages - Residential - All Other	AVR Equity Component Column 1 Line 44				XXX	X	0.0068	=	
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X	*	=	
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X	0.0090	=	
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X	0.0175	=	
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X	0.0300	=	
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X	0.0090	=	
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X	0.0175	=	
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X	0.0300	=	
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X	0.0500	=	
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X	0.0750	=	
(12)	Total In Good Standing	Sum of Lines (1) through (11)								
	90 Days Overdue, Not in Process of Foreclosure									
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				**XXX**	X	0.0027	=	
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				**XXX**	X	0.1100	=	
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 **Line 46 +** Line 48 + Line 50				**XXX**	X	0.1100	=	
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)								
	In Process of Foreclosure									
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				**XXX**	X	0.0054	=	
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				**XXX**	X	0.1300	=	
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 **Line 51 +** Line 53 + Line 55				**XXX**	X	0.1300	=	
(20)	Total In Process of Foreclosure	Lines (17) + (18) + (19)								
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)								
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)								
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)								
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)								

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

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

MISCELLANEOUS ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	Factor	(2) RBC Requirement
	Miscellaneous				
(1)	Cash	Page 2 Line 5, inside amount 1		X 0.0039 =	
(2.1)	Cash Equivalents	Page 2 Line 5, inside amount 2			
(2.2)	Less Cash Equivalent Bonds Already Included with Page LR002 Bonds	Schedule E Part 2 Column 7 Line **0509999999**~~**, in part**~~			
(2.3)	Less Exempt Money Market **Mutual** Funds	Sch E, Part 2, C**olumn** 7, L8209999999			
(2.4)	Net Cash Equivalents	Line (2.1) - Line (2.2) - Line (2.3)		X 0.0039 =	
(3.1)	Short-Term Investments	Page 2 Line 5, inside amount 3			
(3.2)	Less Short-Term Bonds	Schedule DA Part 1 Column **6** ~~**7**~~ Line **0509999999** ~~**2509999999**~~			
(3.3)	Net Short-Term Investments	Lines (3.1) - (3.2)		X 0.0039 =	
(4)	Premium Notes	Page 2 Line 6 first inside amount		X 0.068 =	
(5)	Receivable for Securities	Page 2 Column 3 Line 9		X 0.016 =	
(6.1)	Aggregate Write-ins for Invested Assets	Page 2 Column 3 Line 11			
(6.2)	Less Derivative Collateral Receivable	Page 2 Column 3 Line 11, Derivatives Collateral Receivable reported as part of total			
(6.3)	Net Write-ins for Invested Assets	Line (6.1) - Line (6.2)		X 0.068 =	
(7)	Total Miscellaneous Excluding Derivative Instruments	Lines (1) + (2.4) + (3.3) + (4) + (5) + (6.3)			
	Derivative Instruments				
(8)	Collateral – Off Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part		X 0.0039 =	
(9)	Collateral – On Balance Sheet	Schedule DB Part D Section 1 Column 4 Line 0999999999, in part		X 0.000 =	
(10)	Exchange Traded and Centrally Cleared	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.0039 =	
(11)	Over the Counter NAIC 1	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.0039 =	
(12)	Over the Counter NAIC 2	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.0126 =	
(13)	Over the Counter NAIC 3	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.0446 =	
(14)	Over the Counter NAIC 4	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.0970 =	
(15)	Over the Counter NAIC 5	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.2231 =	
(16)	Over the Counter NAIC 6	Asset Valuation Reserve Default Component Column 1 Line 33, in part		X 0.3000 =	
(17)	Total Derivative Instruments	Sum of Lines (8) through (16)			
(18)	Total Miscellaneous Assets (pre-MODCO/Funds Withheld)	Lines (7) + (17)			
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(21)	Total Miscellaneous Assets (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)			

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

OFF-BALANCE SHEET AND OTHER ITEMS

		Annual Statement Source	(1) Statement Value	(2) Less Noncontrolled Assets Funding Guaranteed Separate Accounts, Synthetic GIC's and Certain FHLB Liabilities	(3) Subtotal	(4) Factor	(5) RBC Requirement	(6) Yes/No Response
	Noncontrolled Assets							
(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04				X 0.0020 =		
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05				X 0.0126 =		
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21				X 0.0126 =		
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22				X 0.0126 =		
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23				X 0.0126 =		
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24				X 0.0126 =		
(7)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25				X 0.0126 =		
(8)	Letter Stock or Other Securities Restricted as to sale - excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26				X 0.0126 =		
(9)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27				X 0.0126 =		
(10)	On Deposit with States	General Interrogatories Part 1 Line 26.28				X 0.0126 =		
(11)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29				X 0.0126 =		
(12.1)	Pledged as Collateral - excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30						
(12.2)	Less Derivative Collateral Pledged	Schedule DB Part D Section 2 Column 7, Line 0199999999				X 0.0039 =		
(12.3)	Pledged as Collateral - excluding Collateral Pledged to an FHLB Less Derivatives Collateral Pledged	Line (12.1) - (12.2)				X 0.0126 =		
(13)	Pledged as Collateral to FHLB - including Assets Backing Funding Agreements	General Interrogatories Part 1 Line 26.31		†		X # =		
(14)	Other	General Interrogatories Part 1 Line 26.32				X 0.0126 =		
(15)	Total Noncontrolled Assets	Sum of Lines (1) through (11) Plus Lines (12.2) through (14)						
	Derivative Instruments							
(16)	Exchange Traded and Centrally Cleared	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.0039 =		
(17)	Off-Balance Sheet Exposure NAIC 1	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.0039 =		
(18)	Off-Balance Sheet Exposure NAIC 2	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.0126 =		
(19)	Off-Balance Sheet Exposure NAIC 3	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.0446 =		
(20)	Off-Balance Sheet Exposure NAIC 4	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.0970 =		
(21)	Off-Balance Sheet Exposure NAIC 5	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.2231 =		
(22)	Off-Balance Sheet Exposure NAIC 6	Schedule DB Part D Section 1 Column 13 ~~12~~, Line 0999999999, in part				X 0.3000 =		
(23)	Total Derivative Instruments Off-Balance Sheet Exposure	Sum of Lines (16) through (22)						
(24)	Guarantees for Affiliates	Notes to Financial Statements Number 14A3c1				X 0.0126 =		
(25)	Contingent Liabilities	Notes to Financial Statements Number 14A1				X 0.0126 =		
(26)	Long Term Leases	Notes to Financial Statements Number 15A2a1				X 0.0000 =		
(27)	Total Off-Balance Sheet Items (pre-MODCO/Funds Withheld)	Lines (15) + (23) + (24) + (25) + (26)						
(28)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(29)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(30)	Total Off-Balance Sheet Items (including MODCO/Funds Withheld.)	Lines (27) - (28) + (29)						
	Other Items							
(31)	Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer a regulated insurance company?	"Yes", "No" or "N/A" in Column (6)						
(32)	SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements Item 9A2(a)				X ‡ =		
(33)	SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements Item 9A2(b)				X 0.0100 =		
(34)	Total Off-Balance Sheet and Other Items	Line (30) + Line (32) + Line (33)						

† For Column (2) Line (13), include assets pledged as collateral other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Column (2) include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Column (2) also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets.

‡ If Line (31) Column (6) is "Yes", then the factor is 0.005. If Line (31) Column (6) is "No", then the factor is 0.010. If Line (31) Column (6) is "N/A", then the factor is 0.000.

In most instances, apply a factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with spread-lending activities exceed 5% of total net admitted assets. This higher factor shall equal the factor for a Baa corporate bond asset factor (Line 14 Column 4). If the higher factor is applicable, the blended factor for column 4 shall be prorated based on the collateral in column 3 subject to the typical factor (i.e. liquidity and spread-lending below the limit) and the higher factor (only spread-lending above the limit).

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

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BUSINESS RISK

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Life Insurance Premiums				
(1)	Total Life Premiums	Schedule T Column 2 Line 59			
(2)	Less American Samoa Life Premiums	Schedule T Column 2 Line 52			
(3)	Less Guam Life Premiums	Schedule T Column 2 Line 53			
(4)	Less Puerto Rico Life Premiums	Schedule T Column 2 Line 54			
(5)	Less U.S. Virgin Islands Life Premiums	Schedule T Column 2 Line 55			
(6)	Less Northern Mariana Islands Life Premiums	Schedule T Column 2 Line 56			
(7)	Less Canada Life Premiums	Schedule T Column 2 Line 57			
(8)	Less Other Alien Life Premiums	Schedule T Column 2 Line 58			
(9)	Subtotal Net Life Premiums	Line (1) less the Sum of Lines (2) through (8)			
(10)	Plus Foreign Variable and Other Life Premiums	See Instructions†			
(11)	Less Total Variable and Other Life Premiums	See Instructions†			
(12)	Net Life Premiums	Line (9) plus Line (10) less Line (11)		X 0.0253 =	
	Annuity Considerations				
(13)	Total Annuity Considerations	Schedule T Column 3 Line 59			
(14)	Less American Samoa Annuity Considerations	Schedule T Column 3 Line 52			
(15)	Less Guam Annuity Considerations	Schedule T Column 3 Line 53			
(16)	Less Puerto Rico Annuity Considerations	Schedule T Column 3 Line 54			
(17)	Less U.S. Virgin Islands Annuity Considerations	Schedule T Column 3 Line 55			
(18)	Less Northern Mariana Islands Annuity Considerations	Schedule T Column 3 Line 56			
(19)	Less Canada Annuity Considerations	Schedule T Column 3 Line 57			
(20)	Less Other Alien Annuity Considerations	Schedule T Column 3 Line 58			
(21)	Subtotal Net Annuity Considerations	Line (13) less the Sum of Lines (14) through (20)			
(22)	Plus Foreign Variable and Other Annuity Considerations	See Instructions†			
(23)	Less Total Variable and Other Annuity Considerations	See Instructions†			
(24)	Net Annuity Considerations	Line (21) plus Line (22) less Line (23)		X 0.0253 =	
	Accident and Health Premiums				
(25)	Total Accident and Health Premiums	Schedule T Column 4 Line 59			
(26)	Less American Samoa Accident and Health Premiums	Schedule T Column 4 Line 52			
(27)	Less Guam Accident and Health Premiums	Schedule T Column 4 Line 53			
(28)	Less Puerto Rico Accident and Health Premiums	Schedule T Column 4 Line 54			
(29)	Less U.S. Virgin Islands Accident and Health Premiums	Schedule T Column 4 Line 55			
(30)	Less Northern Mariana Islands Accident and Health Premiums	Schedule T Column 4 Line 56			
(31)	Less Canada Accident and Health Premiums	Schedule T Column 4 Line 57			
(32)	Less Other Alien Accident and Health Premiums	Schedule T Column 4 Line 58			
(33)	Subtotal Net Accident and Health Premiums	Line (25) less the Sum of Lines (26) through (32)			
(34)	Plus Foreign Variable and Other A&H Premiums	See Instructions†			
(35)	Less Total Variable and Other A&H Premiums	See Instructions†			
(36)	Net Accident and Health Premiums	Line (33) plus Line (34) less Line (35)		X 0.0063 =	

† Enter amounts only if included in Schedule T Column 2 (life), Column 3 (annuity) or Column 4 (accident and health).

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

BUSINESS RISK (CONTINUED)

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Separate Account Liabilities				
(37)	Total Liabilities from Separate Accounts Statement	Page 3 Column 1 Line 27			
(38)	Transfers to Separate Accounts Due or Accrued	Page 3 Column 1 Line 13			
(39)	Total Separate Account Liabilities	Line (37) plus Line (38)		X 0.0006 =	
(40)	Business Risk (C-4a)	Lines (12) + (24) + (36) + (39)			
	Administrative Expenses for Certain A&H Coverages				
(41)	Total Accident and Health Premiums	LR019 Health Premiums Column (1) Line (33)			
(42)	Accident and Health Premiums from Underwriting Risk	LR020 Underwriting Risk Column (5) Line (1.3)			
(43)	Accident and Health Premiums Factor	Line (42) / Line (41)			
(44)	Exhibit 2 Administrative Expenses for Health Insurance	Exhibit 2 Column 2 + Column 3 Line 10			
(45)	Exhibit 3 Administrative Expenses for Health Insurance	Exhibit 3 Column 2 Line 7			
(46)	Less Administrative Expenses for Administrative Service Contracts (ASC)	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2			
(47)	Less Administrative Expenses for Administrative Services Only (ASO) Business	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2			
(48)	Less Administrative Expenses for Commissions and Premium Taxes	Included in Exhibit 2 Col. 2 + Col. 3 and Exhibit 3 Col. 2			
(49)	Net Administrative Expenses	Lines (44) + (45) - (46) - (47) - (48)			
(50)	Composite Health Administrative Expense Risk Factor	**(**7% of Line (42) up to $25 million + 4% of **any in** excess **of $25 million)**/Line (42)			
(51)	Administrative Expense Component for Health	Line (49) x factor Line (43) x factor Line (50)			
	Health ASO/ASC				
(52)	Administrative Expenses for ASC Business	Company Records§		X 0.0200 =	
(53)	Administrative Expenses for ASO Business	Company Records§		X 0.0200 =	
(54)	ASC Claims Reported as Incurred Claims	Company Records		X 0.0100 =	
(55)	Other Medical Costs Paid through ASC Arrangements	Company Records		X 0.0100 =	
(56)	Fee-for-Service Received from Health Entities	Company Records		X 0.0100 =	
(57)	Business Risk (C-4b)	Column (2) Lines (51) + (52) + (53) + (54) + (55) + (56)			

§ Line (52) should be greater than or equal to Line (46). Line (53) should be greater than or equal to Line (47).

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

Attachment 2

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TOTAL ADJUSTED CAPITAL
(Including Total Adjusted Capital Tax Sensitivity Test)

		Annual Statement Source	(1) Statement Value		Factor		(2) Adjusted Capital
	Company Amounts						
(1)	Capital and Surplus	Page 3 Column 1 Line 38		X	1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §		X	1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part		X	0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part		X	0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records		X	-1.000	=	
	Life Subsidiary Company Amounts†						
(6)	Asset Valuation Reserve	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ §		X	1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡		X	0.500	=	
(8)	Carrying Value of Non-Admitted Insurance Affiliates	Included in LR044 Columns (5) and (7)		**X**	**1.000**	**=**	
	Property and Casualty and Other Non-U.S. Affiliated Amounts						
(9)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 6 ~~7 8~~ Line 0599999 and Line 1499999, in part		X	1.000	=	
(10)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (8) less Line (9)					
	Credit for Capital Notes						
(11.1)	Surplus Notes	Page 3 Column 1 Line 32					
(11.2)	Limitation on Capital Notes	0.5 x [Line (10) - Line (11.1)] - Line (11.1), but not less than 0					
(11.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)					
(11.4)	Credit for Capital Notes	Lesser of Column (1) Line (11.2) or Line (11.3)					
(12)	XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)					
(13)	Total Adjusted Capital	Line (10) + Line (11.4) - Line (12)					
	Tax Sensitivity Test						
	Company Amounts						
(14)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2		X	-1.000	=	
(15)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2		X	1.000	=	
	Subsidiary Amounts						
(16)	Deferred Tax Asset (DTA) Value	Company Records		X	-1.000	=	
(17)	Deferred Tax Liability (DTL) Value	Company Records		X	1.000	=	
(18)	Tax Sensitivity Test: Total Adjusted Capital	Line (13)+(14)+(15)+(16)+(17)					
	Ex DTA ACL RBC Ratio Sensitivity Test						
(19)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2		X	1.000	=	
(20)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (13) less Line (19)					
(21)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)		X	1.000	=	
(22)	Ex DTA ACL RBC Ratio	Line (20) / Line (21)					0.000%

† Including subsidiaries owned by holding companies.
‡ Multiply statement value by percent of ownership.
§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

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

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ADDITIONAL INFORMATION REQUIRED

		Source	(1) Statement Value
(1.2)	Other Affiliates: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (8) and Line (17)	
(2.2)	Noncontrolled Assets: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15)	
(3.2)	Guarantees for Affiliates: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1	
(4.2)	Contingent Liabilities: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1	
(5.2)	Long Term Leases: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1	
(7.11)	Total Affiliated Investments: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 50	
(7.12)	Less Affiliated Common Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 46	
(7.13)	Less Affiliated Preferred Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 45	
(7.14)	Net Affiliated Investments: Company	Lines (7.11) - (7.12) - (7.13)	
(7.2)	Affiliated Investments: Subsidiaries	Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 50 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 48 Less Lines 43 and 44	
(9.1)	Surplus Notes: Company	Company's Annual Statement Page 3 Column 1 Line 32	
(9.2)	Surplus Notes: Subsidiaries	Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33	
(10.11)	Capital Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 50.1	
(10.12)	Surplus Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 51.1	
(10.13)	Total Current Year's Capital Contributions: Company	Line (10.11) + Line (10.12)	
(10.2)	Current Year's Capital Contributions: Subsidiaries	Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1	
(11.1)	Total Residual Tranches or Interests	Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line **92** ~~**93**~~	

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

CROSSCHECKING FOR AFFILIATED/SUBSIDIARY STOCKS

Affiliated Preferred Stock

	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock†	(2) Total from Life and Fraternal Risk-Based Capital Report‡	(3) Difference
(1)	Parent	0199999			
(2)	U.S. Property and Casualty Insurer	0299999			
(3)	U.S. Life Insurer	0399999			
(4)	U.S. Health Entity	0499999			
(5)	Alien Insurer	0599999			
(6)	Non-Insurer Which Controls Insurer	0699999			
(7)	Investment Subsidiary	0799999			
(8)	Other Affiliates	0899999			
(9)	Total (Sum of Lines (1) through (8))				

Affiliated Common Stock

	Schedule D Part 6 Section 1 Type	Annual Statement Line Number	(1) Annual Statement Total Common Stock†	(2) Total from Life and Fraternal Risk-Based Capital Report§	(3) Difference
(10)	Parent	1099999			
(11)	U.S. Property and Casualty Insurer	1199999			
(12)	U.S. Life Insurer	1299999			
(13)	U.S. Health Entity	1399999			
(14)	Alien Insurer	1499999			
(15)	Non-Insurer Which Controls Insurer	1599999			
(16)	Investment Subsidiary	1699999			
(17)	Other Affiliates	1799999			
(18)	Total (Sum of Lines (10) through (17))				

† Column (1) Lines (1) through (8) and (10) through (17) come from Schedule D Part 6 Section 1 Column **6** ~~7~~ of the annual statement.
‡ Column (2) Lines (1) through (8) come from LR044 Details for Affiliated Investments Column (7).
§ Column (2) Lines (10) through (17) come from LR044 Details for Affiliated Investments Column (5).

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

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force	☐ Health RBC (E) Working Group	☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup	☐ P/C RBC (E) Working Group	☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup	☐ Economic Scenarios (E/A) Subgroup	☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 02/21/2025	**FOR NAIC USE ONLY**
		Agenda Item # 2025-01-L Year 2025
CONTACT PERSON:	**Paul Navratil**	**DISPOSITION**
TELEPHONE:		**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
EMAIL ADDRESS:	**PNavratil64@massmutual.com**	**EXPOSED:** ☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) **02-21-2025** ☐ SUBGROUP (SG)
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**	**REJECTED:** ☐ TF ☐ WG ☐ SG
NAME:	**Philip Barlow, Chair**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
TITLE:	**Associate Commissioner of Insurance**	
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks	☐ Property/Casualty RBC Blanks	☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions	☐ Property/Casualty RBC Instructions	☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula	☐ Property/Casualty RBC Formula	☐ Life and Fraternal RBC Formula

☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Proposal 2023-15BWG MOD was adopted by the NAIC Blanks (E) Working Group in 2024. It added a new general interrogatory to provide needed information for completing LR025 (Life Insurance page).

This proposal is to update the RBC instructions and blanks to allow for direct pulls of information between the annual statement including the newly adopted general interrogatory as per 2023-15BWG MOD and the RBC Blank.

Additional Staff Comments:

- 02-21-2025: Proposal was exposed with comments due 03-23-2025 – No comment letter received (KO)

** **This section must be completed on all forms.** **Revised 2-2023**

LIFE INSURANCE
LR025

Basis of Factors

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95^{th} percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released in excess of the mortality cost expected under the moderately adverse scenario. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95^{th} percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines 6-11 are not applicable to Fraternal Benefit Societies.

The NAR in total and for each of the factor categories **is derived using annual statement sources including appropriate General Interrogatories starting yearend 2025** and are net of reinsurance throughout.

The NAR size bands apply to the total amounts for individual & industrial life and group & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance and Group & Credit Life Permanent Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization of ceded amounts for direct insurers should be based on the

Detail Eliminated to Conserve Space

Company Name | Confidential when Completed | NAIC Company Code

LIFE INSURANCE

		Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
	Individual & Industrial Life Net Amount at Risk				
(1)	Total Individual & Industrial Life Net Amount at Risk	~~Company Records~~ **(Exhibit of Life Insurance Sum of Columns 2 and 4, Line 23 x 1000) - [(Exhibit 5 Sum of Columns 3 and 4, Line 0199999) +(Separate Accounts Exhibit 3 Column 3 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.01) - (General Interrogatories Part 2, Column 1, Line 10.02)]**			
(2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	~~Company Records~~ **General Interrogatories Part 2, Column 1, Line 10.08**		X †	=
(3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	~~Company Records~~ **General Interrogatories Part 2, Column 1, Line 10.14**		X †	=
(4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)		X †	=
(5)	Total Individual & Industrial Life	Lines (2) + (3) + (4)			
	Group & Credit Life				
(6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	~~Company Records~~ **(Exhibit of Life Insurance Sum of Columns 6 and 9, Line 23 x 1000) - (Exhibit of Life Insurance Sum of Columns 2 and 4, Line 43 and 44 x 1000) - [(Exhibit 5 Sum of Columns 5 and 6, Line 0199999) + Separate Accounts Exhibit 3 Column 4 Line 0199999) + (General Interrogatories Part 2, Column 1, Line 10.15) - (General Interrogatories Part 2, Column 1, Line 10.16)]**			
(7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	~~Company Records~~ **General Interrogatories Part 2, Column 1, Line 10.22**		X †	=
(8)	Group & Credit Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	~~Company Records~~ **General Interrogatories Part 2, Column 1, Line 10.28**		X †	=
(9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	~~Company Records~~ **General Interrogatories Part 2, Column 1, Line 10.34**		X †	=
(10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)		X †	=
(11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4, Line 43 and 44 x 1000		X 0.0004	=
(12)	Total Group & Credit Life	Lines (7) + (8) + (9) + (10) + (11)			
(13)	Total Life	Lines (5) + (12)			

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

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

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair, Statutory Accounting Principles (E) Working Group

FROM: Philip Barlow, Chair, Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice Chair, Life Risk-Based Capital (E) Working Group

DATE: February 21, 2025

RE: Proposal 2025-05-L—Asset Concentration L010 Referral

On Feb. 21, 2025, the Life Risk-Based Capital (E) Working Group received, discussed, and exposed for public comment a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain "SVO-designated non-bond debt securities" (as defined below) can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

Background

With effect from 2025 statutory filings, the following Schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to asset valuation reserve (AVR) equity lines 22 through 28, thereby being afforded a base charge of C-1 bond factors (NAIC 1-6) on Life Risk-Based Capital (RBC) LR008. However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

Schedule BA	Description
Line 0199999	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
Line 0299999	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) - Affiliated

Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
Line 0999999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

Note that similar investments that are NOT designated by the SVO are afforded a 30% base charge and treated as "Other Schedule BA Assets" (15%) for asset concentration factor purposes and, thus, is outside of the scope of this proposal.

As seen in the proposal (Attachment A), ACLI's Proposal 2025-05-L seeks to clarify LR010 instruction such that "SVO-designated non-bond debt securities" obtain asset concentration factor treatment akin to bonds in LR002 (**Option 1**). This option will put these investments' concentration RBC treatment the same pre- and post-principle-based bond definition adoption. (Note that the base C-1 charge treatment is slightly different after the adoption of the principle-based bond definition, moving from a 20 designation-category framework to NAIC 1-6 bond charges. Yet, this change is neither contended nor the subject of Proposal 2025-05-L.)

Alternatively, these investments can be assessed an asset concentration factor of 15% for "Other Schedule BA Assets." (**Option 2**) This option represents a hybrid approach where the base factors are NAIC-designation-driven, and asset concentration factor is flat at 15%.

Since the impetus of Proposal 2025-05-L is the adoption of the principle-based bond definition by the Statutory Accounting Principles (E) Working Group (SAPWG), the Working Group would appreciate consideration by SAPWG for possible comments to ensure accurate determination among Option 1, Option 2, or any other options.

If you have any questions, please contact NAIC staff support Maggie Chang at mchang@naic.org.

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

Attachment A: Proposal 2025-05-L

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: **2/13/2025**

CONTACT PERSON: **Colin Masterson**
TELEPHONE: **202-624-2463**
EMAIL ADDRESS: **ColinMasterson@acli.com**
ON BEHALF OF: **American Council of Life Insurers**
NAME: **Colin Masterson**
TITLE: **SR. Policy Analyst**
AFFILIATION: **American Council of Life Insurers**
ADDRESS:

FOR NAIC USE ONLY

Agenda Item # 2025-05-L
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) ______
☐ WORKING GROUP (WG) ______
☐ SUBGROUP (SG) ______
EXPOSED:
☐ TASK FORCE (TF) ______
☐ WORKING GROUP (WG) ______
☐ SUBGROUP (SG) ______
REJECTED:
☐ TF ☐ WG ☐ SG ______
OTHER:
☐ DEFERRED TO ______
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) ______

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ______

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.
However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments' RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
Line 0199999	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
Line 0299999	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) - Affiliated
Line 0599999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement-NAIC Designation Assigned by the Securities Valuation Office (SVO) - Unaffiliated
Line 0699999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Lack Substantive Credit Enhancement - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated
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Line 1099999	Debt Securities That Do Not Qualify as Bonds - Debt Securities That Do Not Qualify as Bonds Solely Due to a Lack of Meaningful Cash Flows - NAIC Designation Assigned by the Securities Valuation Office (SVO) - Affiliated

Note that similar investments that are NOT designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus is outside of the scope of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

**** This section must be completed on all forms.** **Revised 2-2023**

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 bonds, NAIC 1 unaffiliated preferred stock, ~~**NAIC 1 Hybrids,**~~ CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.8% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash and short-term investments).

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table,** and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds~~,~~ **or** NAIC 1 unaffiliated preferred stock, ~~**or NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the '*Other Invested Assets with Underlying Characteristics of Bonds*' AVR category, use the NAIC Designation and NAIC Designation Modifier from the '*NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol*' column as reported on Schedule BA – Part 1.** The RBC filing software automatically allows for an overall 45% RBC cap.

Detail Eliminated to Conserve Space

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To:	Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group Ben Slutsker, Vice Chair of the Life of the Risk-Based Capital (E) Working Group
From:	Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Re:	Response to Proposal 2025-05-L – Asset Concentration L010 Referral
Date:	April 14, 2025

This referral response intends to communicate the Statutory Accounting Principles (E) Working Group support for the ACLI proposal seeking to clarify the LR010 instruction that "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).

Although debt securities that do not qualify under the principles-based bond definition are not considered bonds under statutory accounting, life reporting entities can file these securities with the SVO to obtain an SVO-assigned designation that assesses the risk of these investments for RBC purposes. After reviewing the purpose of the asset concentration factor, its limited applicability based on the extent of holdings from a single issuer, and recognizing that the asset concentration factor doubles the originally-determined RBC factor to reflect an additional RBC capital requirement, the Statutory Accounting Principles (E) Working Group supports option 1 (ACLI proposal) in clarifying the asset concentration factor for non-bond debt securities.

Use of the original RBC factor, determined from the SVO-assigned designation, as the base factor that would be doubled in the event the debt security was captured in the asset-concentration component is more appropriate in reflecting the investment risk, then use of the standard "Other Schedule BA Asset" flat charge of 15%. Presumably, if the standard Schedule BA factor was used for these debt securities, the additional asset concentration charge would be greater than the original RBC factor based on the actual assessed risk for certain NAIC designation categories.

The Statutory Accounting Principles (E) Working Group appreciates being consulted on this dynamic. Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

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

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**2/13/2025**
CONTACT PERSON:	**Colin Masterson**
TELEPHONE:	**202-624-2463**
EMAIL ADDRESS:	**ColinMasterson@acli.com**
ON BEHALF OF:	**American Council of Life Insurers**
NAME:	**Colin Masterson**
TITLE:	**SR. Policy Analyst**
AFFILIATION:	**American Council of Life Insurers**
ADDRESS:	

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Agenda Item # 2025-05-L
Year 2025

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)
EXPOSED:
☐ TASK FORCE (TF)
☒ WORKING GROUP (WG) **02-21-2025**
☐ SUBGROUP (SG)
REJECTED:
☐ TF ☐ WG ☐ SG
OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a result of the NAIC Principles-Based Bond Project, some assets are moving from Schedule D to Schedule BA. Though there are other implications, ACLI members have identified what seems to be an ambiguous Schedule BA fixed income asset concentration charge. Asset concentration (LR010) generally intends to double the risk-based capital pretax factor of the ten largest asset exposures, excluding lower risk categories. There is a maximum overall (basic formula plus asset concentration) pretax factor of 45%.

An Overview of RBC treatment of fixed income assets can be found below:

RBC Treatment of Fixed Income Assets		
Annual Statement	Schedule D	Schedule BA
C-1 RBC Section	LR002	LR008
C-1 Structure	20-classes	6-classes
C-1 Reflects Bond Size Factor Adjustment	Yes	No
Asset Concentration Structure	20-classes	Ambiguous

However, we have noticed that LR010 excludes specific blanks for Schedule BA fixed income assets. Under current instructions, potential options for Schedule BA fixed income assets on LR010 include a 20-class Bond Section or Other Schedule BA Assets.

For example, please find below an illustration of a rated 2.A fixed-income asset moving from Schedule D to Schedule BA:

Asset Concentration Treatment	(a) Basic Formula Sch. BA (6-class)	(b) Asset Concentration LR010	(c = a + b) Overall C-1	(c / a) Overall C-1 / Basic Formula
20-class Bond Section	1.26%	1.261%	2.521%	200%
Other Schedule BA Assets	1.26%	15%	16.26%	1290%

As potential remediations to address these ambiguities, ACLI is proposing changes to LR010 instructions as illustrated.

Additional Staff Comments:

Staff Note: With effect from 2025 Annual Statement filings, the following schedule BA investments (collectively "SVO-designated non-bond debt securities") are added to AVR Equity line 22 through 28, thereby being afforded a base charge of C-1 **Bond factors** (NAIC 1-6) on RBC LR008, which is ultimately categorized as **C-1o** risk component.
However, the current LR010 asset concentration instruction does not provide explicit guidance for these investments.

ACLI proposal seeks to clarify LR010 instruction such that these "SVO-designated non-bond debt securities" can obtain asset concentration factor treatment akin to bonds in LR002, i.e., **C-1o** risk component (Option 1). Option 1 will put the investments' RBC treatment almost the same pre and post – Principle-Based Bond Definition adoption.

Alternatively, these investments will be assessed an asset concentration factor of 15% for Other Schedule BA Assets, which will ultimately be categorized as **C-1o** risk component as well. (Option 2). Option 2 will be a hybrid approach wherein the base factor are NAIC-designation-driven whereas asset concentration factor is flat at 15%.

Schedule BA	Description
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Note that similar investments that are <u>NOT</u> designated by the SVO are afforded 30% base charge and treated as Other schedule BA Assets (15%) for asset concentration factor purposes and thus <u>is outside of the scope</u> of this proposal.

NAIC Staff look to the Working Group to determine how to clarify the LR010 Asset Concentration Factor instruction and/or blanks to capture these specific asset types. To ensure accurate determination among Option 1, Option 2 or any other options, NAIC staff recommend that the LRBCWG refer the proposal to SAPWG for review with a request for comments.

- 02-21-2025: Proposal was exposed with comments due 03-23-2025 – Comment letter received from SAPWG (KO)

**** This section must be completed on all forms.** **Revised 2-2023**

ASSET CONCENTRATION FACTOR
LR010

Basis of Factors

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

Specific Instructions for Application of the Formula

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

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In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such asset. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds, **including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table,** and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Securities held within Schedule BA **joint ventures**, partnerships, **limited liability and other fund structures** should be aggregated by issuer as if the securities are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 bonds~~,~~ **or** NAIC 1 unaffiliated preferred stock, ~~**or NAIC 1 Hybrids**~~, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. **Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the '*Other Invested Assets with Underlying Characteristics of Bonds*' AVR category, use the NAIC Designation and NAIC Designation Modifier from the '*NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol*' column as reported on Schedule BA – Part 1.** The RBC filing software automatically allows for an overall 45% RBC cap.

Detail Eliminated to Conserve Space

ACLI
Financial Security for Life

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April 23, 2025

Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Proposal 2025-04-L (LR008 Other Long-Term Assets)

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on RBC Proposal Form 2025-04-L which seeks to reorganize the LR008 - Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/Funds Withheld Reinsurance Agreement adjustments within that section.

ACLI is generally supportive of this Proposal, but we do have one editorial comment and a few more broad considerations that we would wish to see discussed prior to adoption.

For consistency, we suggest that the term "equity interests" be capitalized like the remaining terms in the header and subtotal/total lines throughout the document. ACLI also recommends that the line references shaded in gray be updated since the Blanks (E) Working Group adopted 2023-12 effective 1/1/25 and as such, those references, especially for Surplus/Capital notes, have a different line number than "99" as illustrated in the proposal.

More conceptually, the exposure states that "affiliated non-insurance stock" should be included in C1-cs and Schedule BA Affiliated Common Stock – All Other has been moved into the non-insurance stock section. This only leaves Life with AVR in C1-o section but this category would not apply to foreign insurance affiliated companies, as foreign insurance companies do not have an AVR (something that would also be true if there was a foreign affiliated P&C or health insurance company, based on our current understanding). Therefore, we would propose that foreign affiliated insurance company stock should be treated similarly to Life with AVR and included in C1-o, which would require a new line added to the blanks.

Additionally, if the BA-Affiliated Certain Other category, per the AVR instructions, is intended to capture "where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned, and these assets should be valued according to the Purposes and Procedures Manual of the NAIC Investment Analysis Office" and non-insurance entities are included in C1-cs in the RBC proposal, the AVR Instructions should clarify that only non-insurance entities are reported in BA Affiliated Common Stock – All Other in the AVR. Clarification should be made as to where a reporting entity would classify investments in insurance companies that do not hold AVR (i.e., foreign, health, P&C) so that it would feed from the AVR into the RBC Blanks correctly.

Thank you very much for your consideration of our comments, and we look forward to further discussion at a future LRBC Working Group Meeting.

Sincerely,

Shannon Jones

Colin Masterson

cc: Kazeem Okosun, NAIC; Maggie Chang, NAIC

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ Investment RBC (E) Working Group
☐ P/C RBC (E) Working Group
☒ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 03-10-2025	**FOR NAIC USE ONLY**
CONTACT PERSON: **Kazeem Okosun**	Agenda Item # 2025-04-L MOD Year 2025
TELEPHONE: **816-783-8981**	**DISPOSITION**
EMAIL ADDRESS: **kokosun@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
ON BEHALF OF: **Life Risk-Based Capital (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ☒ WORKING GROUP (WG) **3/24/2025** ☐ SUBGROUP (SG)
NAME: **Philip Barlow, Chair**	**REJECTED:** ☐ TF ☐ WG ☐ SG
TITLE: **Associate Commissioner of Insurance**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
AFFILIATION: **District of Columbia**	
ADDRESS: **1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☐ OTHER ____
☐ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☒ Life and Fraternal RBC Blanks
☒ Life and Fraternal RBC Instructions
☒ Life and Fraternal RBC Formula

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal supersedes deferred Proposal 2024-07-L. This proposal seeks to reorganize LR008 – Other Long-Term Assets page to ensure BA assets of the same risk components (C-1o vs. C1-cs) are grouped, so as to facilitate proper MODCO/ Funds Withheld Reinsurance Agreement adjustments within LR008.

Should changes proposed for LR008 be adopted, there would be corresponding changes to LR030 and LR031 instructions and/or blanks. Such changes are also incorporated into this proposal.

Additional Staff Comments:

Staff Note: The areas highlighted in gray within the Blank pages are subject to the adoption of Proposals 2024-21-L MOD and 2024-24-L MOD.

The areas highlighted in yellow within the Blank pages in the modified proposal incorporated changes in response to interested parties' comments

- 03-24-2025: Proposal was exposed with comments due 04-23-2025 – Comments received from ACLI (KO)

** This section must be completed on all forms. Revised 2 2023

OTHER LONG-TERM ASSETS
LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30% pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30% pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (**44** ~~49.1~~)
Schedule BA affiliated common stock – all others should ~~**be**~~ include~~**d in C-1cs. Specifically this means that**~~ all subs with an affiliate code 9 ~~13~~ in the current life-based framework and "holding company in excess of indirect subsidiaries" or subsidiaries with affiliate code **3** ~~7~~. ~~**are to be included in C-1cs**~~**.**

~~**Line (49.2)**~~
~~**New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2).**~~

Line (**51** ~~50~~)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Line (58)
Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (58) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (**20** ~~21~~) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Fixed Income - Bonds						
(1)	Exempt Obligations	AVR Equity Component Column 1 Line 22				X 0.0000 =	
(2)	Asset NAIC 1	AVR Equity Component Column 1 Line 23				X 0.0039 =	
(3)	Asset NAIC 2	AVR Equity Component Column 1 Line 24				X 0.0126 =	
(4)	Asset NAIC 3	AVR Equity Component Column 1 Line 25				X 0.0446 =	
(5)	Asset NAIC 4	AVR Equity Component Column 1 Line 26				X 0.0970 =	
(6)	Asset NAIC 5	AVR Equity Component Column 1 Line 27				X 0.2231 =	
(7)	Asset NAIC 6	AVR Equity Component Column 1 Line 28				X 0.3000 =	
(8)	Total Schedule BA Bonds (pre-MODCO/Funds Withheld)	Sum of Lines (1) through (7)					
(9)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(10)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(11)	Total Schedule BA Bonds (including MODCO/Funds Withheld.)	Lines (8) - (9) + (10)					
	Schedule BA - Fixed Income - Preferred Stock						
~~(12.1)~~	~~Asset NAIC 1~~	~~AVR Equity Component Column 1 Line 30~~					
~~(12.2)~~	~~Less Rated/Designated NAIC 1 Surplus Notes and Capital Notes~~	~~Column (1) Line (22) + Column (1) Line (32)~~					
(12) ~~(12.3)~~	~~Net~~ Asset NAIC 1	AVR Equity Component Column 1 Line 30 ~~Line (12.1) - (12.2)~~				X 0.0039 =	
(13)	Asset NAIC 2	AVR Equity Component Column 1 Line 31				X 0.0126 =	
(14)	Asset NAIC 3	AVR Equity Component Column 1 Line 32				X 0.0446 =	
(15)	Asset NAIC 4	AVR Equity Component Column 1 Line 33				X 0.0970 =	
(16)	Asset NAIC 5	AVR Equity Component Column 1 Line 34				X 0.2231 =	
(17)	Asset NAIC 6	AVR Equity Component Column 1 Line 35				X 0.3000 =	
(18)	Total Schedule BA Preferred Stock (pre-MODCO/Funds Withheld)	Sum of Lines (12.3) through (17)					
(19)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(20)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(21)	Total Schedule BA Preferred Stock (including MODCO/Funds Withheld.)	Lines (18) - (19) + (20)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

Company Name | Confidential when Completed | NAIC Company Code

OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †		(4) Factor		(5) RBC Requirement
	Rated Surplus Notes Classified by Designation Equivalent								
(22)	Rated NAIC 1 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0039	=	
(23)	Rated NAIC 2 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0126	=	
(24)	Rated NAIC 3 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0446	=	
(25)	Rated NAIC 4 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.0970	=	
(26)	Rated NAIC 5 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.2231	=	
(27)	Rated NAIC 6 Surplus Notes	Schedule BA Part 1 Column 12 Line 2799999+2899999, in part				X	0.3000	=	
(28)	Total Rated Surplus Notes (pre-MODCO/Funds Withheld)	Sum of Lines (22) through (27)							
(29)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(30)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(31)	Total Rated Surplus Notes (including MODCO/Funds Withheld.)	Lines (28) - (29) + (30)							
	Rated Capital Notes Classified by Designation Equivalent								
(32)	Rated NAIC 1 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0039	=	
(33)	Rated NAIC 2 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0126	=	
(34)	Rated NAIC 3 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0446	=	
(35)	Rated NAIC 4 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.0970	=	
(36)	Rated NAIC 5 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.2231	=	
(37)	Rated NAIC 6 Capital Notes	Schedule BA Part 1 Column 12 Line **2999999+3099999**, in part				X	0.3000	=	
(38)	Total Rated Capital Notes (pre-MODCO/Funds Withheld)	Sum of Lines (32) through (37)							
(39)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(40)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(41)	Total Rated Capital Notes (including MODCO/Funds Withheld.)	Lines (38) - (39) + (40)							

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‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

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

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OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †		(4) Factor		(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock/ **Equity Interests and Affiliated Non-Insurance Stock (C1-cs)**								
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X	§	=	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X	0.3000	=	
(44)	**Schedule BA Affiliated Common Stock - All Other**	**AVR Equity Component Column 1 Line 69**				**X**	**0.3000**	**=**	
(45)	**Total Residual Tranches or Interests**	**AVR Equity Component Column 1 Line 92**				**X**	**0.4500**	**=**	
(46) ~~(44)~~	Total Schedule BA Unaffiliated Common Stock/ **Equity Interests and Affiliated Non-Insurance Stock (C1-cs)** (pre-MODCO/Funds Withheld)	Line (42) + (43) + **(44) + (45)**							
(47) ~~(45)~~	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(48) ~~(46)~~	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(49) ~~(47)~~	Total Schedule BA Unaffiliated Common Stock/ **Equity Interests and Affiliated Non-Insurance Stock (C1-cs)** (including MODCO/Funds Withheld.)	**Lines (46) - (47) + (48)** ~~(44) - (45) + (46)~~							
	Schedule BA - All Other **(C-1o)**								
(50.1) ~~(48.1)~~	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67							
(50.2) ~~(48.2)~~	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68							
(50.3) ~~(48.3)~~	Total Schedule BA Affiliated Common Stock - C-1o	Line **(50.1) + (50.2)** ~~(48.1) + (48.2)~~				X	0.3000	=	
~~(49.1)~~	~~BA Affiliated Common Stock - All Other~~	~~AVR Equity Component Column 1 Line 69~~							
~~(49.2)~~	~~Total Sch. BA Affiliated Common Stock - C-1cs~~	~~Line (49.1)~~				~~X~~	~~0.3000~~	~~=~~	
(51) ~~(50)~~	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 3199999 + Line 3299999, in part**				X	0.0680	=	
~~(51)~~	~~Total Residual Tranches or Interests~~	~~AVR Equity Component Column 1 Line 92~~				~~X~~	~~0.4500~~	~~=~~	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line **100** ~~113~~				X	0.0050	=	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line **101** ~~114~~				X	0.0163	=	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)							
(53.1)	Other Schedule BA Assets, **including Surplus Notes and Capital Notes**	AVR Equity Component Column 1 Line **99 + 102** ~~115~~							
(53.2)	Less NAIC **1** ~~2~~ thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines **(22)** ~~(23)~~ through (27) + Column (1) Lines (32) ~~(33)~~ through (37)							
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X	0.3000	=	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + **(50.3)** ~~(48.3)~~ + **(51)** ~~(50)~~ + (52.3) + (53.3)							
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)							
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (49) ~~(47) + (49.2) + (51)~~ + (57)							

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation

Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
	ASSET RISKS							
	Bonds							
(001)	Long-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (2.8) + LR018 Off-Balance Sheet Collateral Column (3) Line (2.8)		X	0.1680	=		
(002)	Long-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (3.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (3.4)		X	0.1680	=		
(003)	Long-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (4.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (4.4)		X	0.1680	=		
(004)	Long-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (5.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (5.4)		X	0.1680	=		
(005)	Long-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (6.4) + LR018 Off-Balance Sheet Collateral Column (3) Line (6.4)		X	0.1680	=		
(006)	Long-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (7) + LR018 Off-Balance Sheet Collateral Column (3) Line (7)		X	0.2100	=		
(007)	Short-term Bonds – NAIC 1	LR002 Bonds Column (2) Line (10.8)		X	0.1680	=		
(008)	Short-term Bonds – NAIC 2	LR002 Bonds Column (2) Line (11.4)		X	0.1680	=		
(009)	Short-term Bonds – NAIC 3	LR002 Bonds Column (2) Line (12.4)		X	0.1680	=		
(010)	Short-term Bonds – NAIC 4	LR002 Bonds Column (2) Line (13.4)		X	0.1680	=		
(011)	Short-term Bonds – NAIC 5	LR002 Bonds Column (2) Line (14.4)		X	0.1680	=		
(012)	Short-term Bonds – NAIC 6	LR002 Bonds Column (2) Line (15)		X	0.2100	=		
(013)	Credit for Hedging - NAIC 1 Through 5 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0199999)		X	0.1680	=		†
(014)	Credit for Hedging - NAIC 6 Bonds	LR014 Hedged Asset Bond Schedule Column (13) Line (0299999)		X	0.2100	=		†
(015)	Bond Reduction - Reinsurance	LR002 Bonds Column (2) Line (19)		X	0.2100	=		†
(016)	Bond Increase - Reinsurance	LR002 Bonds Column (2) Line (20)		X	0.2100	=		
(017)	Non-Exempt NAIC 1 U.S. Government Agency	LR002 Bonds Column (2) Line (22)		X	0.1680	=		
(018)	Bonds Size Factor	LR002 Bonds Column (2) Line (26) - LR002 Bonds Column (2) Line (21)		X	0.1680	=		
	Mortgages							
	In Good Standing							
(019)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (1)		X	0.1575	=		
(020)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (2)		X	0.1575	=		
(021)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (3)		X	0.1575	=		
(022)	Total Commercial Mortgages - All Other	LR004 Mortgages Column (6) Line (9)		X	0.1575	=		
(023)	Total Farm Mortgages	LR004 Mortgages Column (6) Line (15)		X	0.1575	=		
	90 Days Overdue							
(024)	Farm Mortgages	LR004 Mortgages Column (6) Line (16)		X	0.1575	=		
(025)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (17)		X	0.1575	=		
(026)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (18)		X	0.1575	=		
(027)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (19)		X	0.1575	=		
(028)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (20)		X	0.1575	=		
	In Process of Foreclosure							
(029)	Farm Mortgages	LR004 Mortgages Column (6) Line (21)		X	0.1575	=		

† Denotes lines that are deducted from the total rather than added.

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

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(030)	Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=		
(031)	Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=		
(032)	Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=		
(033)	Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=		
(034)	Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=		
(035)	Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=		
(036)	Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	=		†
(037)	Mortgage Increase - Reinsurance	LR004 Mortgages Column (6) Line (30)		X	0.2100	=		
	Preferred Stock							
(038)	Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=		
(039)	Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=		
(040)	Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=		
(041)	Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=		
(042)	Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=		
(043)	Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=		
(044)	Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	=		†
(045)	Preferred Stock Increase-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=		
	Separate Accounts							
(046)	Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=		
(047)	Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=		
(048)	Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=		
(049)	Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	=		†
(050)	Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=		
(051)	Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=		
(052)	Separate Account Surplus	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=		
	Real Estate							
(053)	Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=		
(054)	Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=		
(055)	Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=		
(056)	Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	=		†
(057)	Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (12)		X	0.2100	=		
	Schedule BA							
(058)	Sch BA Real Estate Excluding ~~Low Income Housing~~ Tax Credits Investments	LR007 Real Estate Column (3) Line (16)		X	0.2100	=		
(059)	~~Guaranteed Low Income Housing Tax Credits~~ Yield Guaranteed State Tax Credit Investments	LR007 Real Estate Column (3) Line (17) ~~+ Line (19)~~		X	0.0000	=		
(060)	~~Non-Guaranteed and All Other Low Income Housing Tax Credits~~ Qualifying and Other Tax Credit Investments	LR007 Real Estate Column (3) Line (18) + Line (19) + Line (20) ~~+ Line (21)~~		X	0.0000	=		
(061)	Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	=		†
(062)	Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=		

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Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)		X	0.1575	=		
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)		X	0.1575	=		
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)		X	0.1575	=		
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)		X	0.1575	=		
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)		X	0.1575	=		
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)		X	0.2100	=		
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)		X	0.2100	=		†
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)		X	0.2100	=		
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line **(12)**		X	0.1575	=		
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)		X	0.1575	=		
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)		X	0.1575	=		
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)		X	0.1575	=		
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)		X	0.1575	=		
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)		X	0.2100	=		
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)		X	0.2100	=		†
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)		X	0.2100	=		
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)		X	0.1575	=		
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)		X	0.1575	=		
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (**50.3**) ~~**(48.3)**~~		X	0.2100	=		
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (**51** ~~**50**~~)		X	0.1575	=		
(083)	Other Schedule BA Assets	LR008 Other Long-Term Assets Column (5) Line (53.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)		X	0.2100	=		
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)		X	0.2100	=		†
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (56)		X	0.2100	=		
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (12)		X	0.1575	=		
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (16)		X	0.1575	=		
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (20)		X	0.1575	=		
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)		X	0.2100	=		†
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (23)		X	0.2100	=		
	Miscellaneous							
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page		X	0.1575	=		
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)		X	0.1575	=		
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)		X	0.1575	=		
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)		X	0.1575	=		
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)		X	0.1575	=		
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)		X	0.1575	=		
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)		X	0.1575	=		
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)		X	0.1575	=		
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)		X	0.2100	=		
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)		X	0.2100	=		†
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)		X	0.2100	=		

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Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect	
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=		
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=		
(104)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)		X	0.2100	=		
(105)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)		X	0.2100	=		
(106)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)		X	0.2100	=		
(107)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)		X	0.2100	=		
(108)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)		X	0.2100	=		
(109)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)		X	0.2100	=		
(110)	Subtotal for C-1o Assets	Sum of Lines (001) through (109), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)						
	C-0 Affiliated Common Stock							
(111)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=		
(112)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=		†
(113)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=		
(114)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)		X	0.2100	=		
(115)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)		X	0.2100	=		
(116)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)		X	0.2100	=		
(117)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)		X	0.2100	=		
(118)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)		X	0.2100	=		
(119)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)		X	0.2100	=		
(120)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)		X	0.0000	=		
(121)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)		X	0.0000	=		
(122)	Subtotal for C-0 Affiliated Common Stock	Lines (111)-(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)+(120)+(121)						
	Common Stock							
(123)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=		
(124)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=		†
(125)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=		†
(126)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=		
(127)	**Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests ~~BA Common Stock Unaffiliated~~**	LR008 Other Long-Term Assets Column (5) Line **(49) ~~(47)~~ - Line (45)**		X	0.2100	=		
(128)	**Total Residual Tranches or Interests ~~Schedule BA Common Stock Affiliated - C-1cs~~**	LR008 Other Long-Term Assets Column (5) Line~~s (49.2) + (51)~~ **(45)**		X	0.2100	=		
(129)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=		
(130)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)		X	0.1575	=		
(131)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)		X	0.1575	=		
(132)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)		X	0.2100	=		
(133)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)		X	0.2100	=		
(134)	Total for C-1cs Assets	Lines (123)-(124)-(125)+(126)+(127)+(128)+(129)+(130)+(131)+(132)+(133)						
	Insurance Risk							
(135)	Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)		X	0.2100	=		

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Amount		Tax Factor		(2) RBC Tax Effect
(136)	Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)		X	0.2100	=	
(137)	Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (5)		X	0.2100	=	
(138)	Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (12)		X	0.2100	=	
(138b)	Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)		X	0.2100	=	
(139)	Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)		X	0.2100	=	
(140)	Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)		X	0.0000	=	
(141)	Total C-2 Risk	L(135) + L(136) + L(139) + L(140) + Greatest of [Guardrail Factor * (L(137)+L(138)), Guardrail Factor * L(138b), Square Root of [(L(137) + L(138))2 + L(138b)2 + 2 * (Correlation Factor) * (L(137) + L(138)) * L(138b)]]					
(142)	Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)		X	0.2100	=	
(143)	Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)		X	0.0000	=	
(144)	Market Risk	LR027 Interest Rate Risk Column (3) Line (37)		X	0.2100	=	
(145)	Business Risk	LR029 Business Risk Column (2) Line (40)		X	0.2100	=	
(146)	Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)		X	0.0000	=	
(147)	Total Tax Effect	Lines (110) + (122) + (134) + (141) + (142) + (143) + (144) + (145) + (146)					

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Insurance Affiliates and Misc. Other Amounts (C-0)		
(1)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	
(2)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	
(3)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	
(4)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	
(5)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	
(6)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	
(7)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	
(8)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	
(9)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(10)	Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	
(11)	(C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	
(12)	Net (C-0) - Post-Tax	Line (10) - Line (11)	
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(13)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(14)	**Schedule BA Unaffiliated Common Stock/ Equity Interests and Affiliated Non-Insurance Stock (C1-cs), excluding Residual Tranches or Interests** ~~**Schedule BA Unaffiliated Common Stock**~~	LR008 Other Long-Term Assets Column (5) line **(49)** ~~**(47)**~~ **- (45)**	
(15)	**Total Residual Tranches or Interests** ~~**Schedule BA Affiliated Common Stock - C-1cs**~~	LR008 Other Long-Term Assets Column (5) line~~s (49.2) + (51)~~ **(45)**	
(16)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(17)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	
(18)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	
(19)	Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	
(20)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	
(21)	Net (C-1cs) - Post-Tax	Line (19) - Line (20)	
	Asset Risk - All Other (C-1o)		
(22)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(23)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(24)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(25)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	
(26)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	
(27)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	
(28)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	
(29)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	
(30)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	
(31)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	

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

Attachment 8

Company Name | Confidential when Completed | NAIC Company Code

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
(32)	Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33)	Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34)	Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35)	Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36)	Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(37)	Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38)	Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (61) ~~(62)~~ Grand Total Page	
(39)	Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40)	Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	
(41)	Reinsurance	LR016 Reinsurance Column (4) Line (17)	
(42)	Total (C-1o) - Pre-Tax	Sum of Lines (22) through (41)	
(43)	(C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (110)	
(44)	Net (C-1o) - Post-Tax	Line (42) - Line (43)	
	Insurance Risk (C-2)		
(45)	Individual and Industrial Life Insurance	LR025 Life Insurance Column (2) Line (5)	
(46)	Group and Credit Life Insurance and FEGI/SGLI	LR025 Life Insurance Column (2) Line (12)	
(46b)	Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	
(47)	Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	
(48)	Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	
(49)	Total (C-2) - Pre-Tax	L(47) + L(48) + Greatest of [Guardrail Factor * (L(45)+L(46)), Guardrail Factor * L(46b), Square Root of [(L(45) + L(46))2 + L(46b)2 + 2 * (Correlation Factor) * (L(45) + L(46)) * L(46b)]]	
(50)	(C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	
(51)	Net (C-2) - Post-Tax	Line (49) - Line (50)	
	Interest Rate Risk (C-3a)		
(52)	Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	
(53)	(C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	
(54)	Net (C-3a) - Post-Tax	Line (52) - Line (53)	
	Health Credit Risk (C-3b)		
(55)	Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	
(56)	(C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	
(57)	Net (C-3b) - Post-Tax	Line (55) - Line (56)	
	Market Risk (C-3c)		
(58)	Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	
(59)	(C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	
(60)	Net (C-3c) - Post-Tax	Line (58) - Line (59)	

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

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

		Source	(1) RBC Requirement
	Business Risk (C-4a)		
(61)	Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	
(62)	Liability Component	LR029 Business Risk Column (2) Line (39)	
(63)	Subtotal Business Risk (C-4a) - Pre-Tax	Lines (61) + (62)	
(64)	(C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (145)	
(65)	Net (C-4a) - Post-Tax	Line (63) - Line (64)	
	Business Risk (C-4b)		
(66)	Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	
(67)	(C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (146)	
(68)	Net (C-4b) - Post-Tax	Line (66) - Line (67)	
	Total Risk-Based Capital After Covariance Before Basic Operational Risk		
(69)	C-0 + C-4a + Square Root of [(C-1o + C-3a)² + (C-1cs + C-3c)² + (C-2)² + (C-3b)² + (C-4b)²]	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE L(12)+L(65) + Square Root of [(L(44) + L(54))² + (L(21) + L(60))² + L(51)² + L(57)² + L(68)²]	
(70)	Gross Basic Operational Risk	0.03 x L(69)	
(71)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(72)	Net Basic Operational Risk	Line (70) - (Line (65) + Line (71)) (Not less than zero)	
(73)	Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	
(74)	Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (69) + Line (72) + Line (73)	
	Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)		
(75)	Total Risk-Based Capital After Covariance Times Fifty Percent	Line (74) x 0.50	
	Tax Sensitivity Test		
(76)	Tax Sensitivity Test: Total Risk-Based Capital After Covariance	L(10)+L(63) + Square Root of [(L(42) + L(52))² + (L(19) + L(58))² + L(49)² + L(55)² + L(66)²]	
(77)	Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (76) x 0.50	

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To:	Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group Ben Slutsker, Vice Chair of the Life of the Risk-Based Capital (E) Working Group
From:	Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Re:	RBC Asset Credit for Modified Coinsurance and/or Funds Withheld Reinsurance Transactions
Date:	March 27, 2025

This referral memorandum intends to inform the Life Risk-Based Capital (E) Working Group of adopted statutory accounting revisions for the reporting of modified coinsurance (modco) and fund withheld (FWH) assets as restricted assets, as well as suggest revisions to clarify the instructions for modco/FWH reinsurance agreements in the *Life/Fraternal RBC Forecasting and Instructions*. The adopted revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* (detailed in SAPWG agenda item Ref# 2024-20), specify the reporting of modco/FWH assets as restricted and support new disclosures on whether the modco/FWH assets have been pledged for another purpose specific to the ceding insurance reporting entity. (For example, if the ceding insurance reporting entity has also used those assets as collateral in a securities lending agreement, repo transactions, pledged to the FHLB, etc.) The adopted SSAP revisions are effective December 31, 2025. The corresponding Blanks (E) Working Group proposal (Ref# 2025-06BWG) is currently exposed through April 29, with adoption consideration planned for May 29, 2025, and is also planned for a year-end 2025 effective date.

The development of the Statutory Accounting Principles (E) Working Group agenda item was spurred from inconsistencies in whether cedants/reporting entities were reporting modco/FWH assets as restricted, and if so, inconsistencies in the specific restricted asset category where the modco/FWH asset was being reported. It was also noted that different interpretations were occurring on the current application of the RBC formula instructions that preclude RBC credit for modco/FWH assets when the entire asset credit risk or variability in statement value risk is not transferred to the assuming company for the entire duration of the reinsurance treaty. It was noted that companies may be pledging modco/FWH assets for other purposes specific to their operations while still taking asset credit for the modco/FWH asset in the RBC formula.

With the adoption of the statutory accounting revisions, the Statutory Accounting Principles (E) Working Group directed this referral to suggest clarifications to the *Life/Fraternal RBC Forecasting and Instructions* so that it is clear that if any portion of a modco/FWH assets has been concurrently used as a pledged asset for a purpose specific to the ceding insurance reporting entity at any time of the year, the RBC for the ceding company shall not be reduced. The SAPWG received comments on the proposed revisions from interested parties during an exposure period, and those comments have been reflected in the following suggested proposed clarification. Whether there is action to include clarifying language, including if different language or guidance should be considered, would be a decision of the Life RBC (E) Working Group.

Proposed revisions shown with tracked changes to the 2024 *RBC Forecasting and Instructions:*

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming

company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

Please contact NAIC staff Julie Gann (jgann@naic.org) if you have any questions.

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

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Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Restricted Asset Disclosure Clarification

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been prepared to clarify how assets held under modified coinsurance (Modco) or funds withheld (FWH) agreements shall be reflected within the restricted asset disclosure in paragraph 23 of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* and in the corresponding disclosures in Note 5L of the statutory financial statements. It also proposes enhanced disclosures to fully identify the extent of restricted assets reported on balance sheet within a single disclosure as well as identify differences between the "restricted asset" annual statement disclosure and the amount reported in the general interrogatories, which is pulled directly into the RBC formulas. Lastly, this agenda item suggests a referral to propose revisions to the life RBC instructions to clarify that if the reporting entity uses any assets held under a modco or FWH agreement as collateral or as a pledged asset for a purpose unrelated to the reinsurance agreement (securing an exposure that has not been ceded to the reinsurer), then the reporting entity should not take any Modco/FWH reduction in RBC charges (credit) for those assets in the life RBC formula. This clarification is consistent with the existing life RBC instruction that does not permit RBC credit when the asset risk has not been transferred to the assuming entity for the entire duration of the reinsurance treaty. This referral to life RBC intends to make it clear that if the insurance entity has utilized Modco/FWH assets as collateral or as a pledged item for their own repurchase agreements, securities lending transactions, FHLB agreements/borrowings, or any other purpose specific to the ceding insurer's use, then the asset risk/benefit has not been sufficiently transferred to the assuming entity warranting RBC credit for those assets.

As a key item to note, this agenda item does not propose to capture modco/FWH assets in the restricted asset reporting that flows through to the general interrogatories (GI) that results with an additional "noncontrolled" asset RBC charge. As the RBC formula allows credit for modco/FWH assets held, if these were included in the "noncontrolled asset" category, more complexity and adjustments to the RBC formula would be required to also provide credit against the additional noncontrolled asset charge. Instead, as detailed within, this agenda item proposes modifications to capture modco/FWH assets in the existing restricted asset disclosure (SSAP No. 1, paragraph 23c) that currently focuses on collateral received reported on balance sheet for when there is an corresponding liability reported. By including at this location and expanding disclosures to provide a complete view of restricted assets in comparison to total assets and total admitted assets, there is no additional RBC impact and regulators have a better picture of the assets that are restricted as pledged, not under the exclusive control of the reporting entity or that are earmarked (such as modco/FWH) for a specific purpose.

NAIC staff is aware that some companies report modco/FWH assets held in the existing restricted asset disclosure as "pledged collateral not captured in other categories" or as "other restricted assets," but not all companies report these assets as restricted. (In the RBC formulas, there are adjustments for these assets that are reported that incur additional "noncontrolled" asset RBC.) This agenda item specifies the disclosure location and category to promote consistency and comparability across insurers in the reporting of these assets. NAIC staff supports the inclusion of these assets in the restricted asset disclosure (even when an offsetting liability is reported), as it allows for a full comparison of such assets to total assets. NAIC staff believes the total restricted assets may be considered by financial statement users when assessing available assets, and this disclosure could impact the extent to which borrowing is permitted. If Modco/FWH assets are not captured, it may present a picture of available assets that is not accurate.

As noted in the introduction, this agenda item also proposes additional disclosures to identify differences between what is captured as restricted in SSAP No. 1, paragraph 23b, in Note 5L(1), and what is captured in the general interrogatories. Although the categories are identical, NAIC staff is aware that amounts are reported differently between the two locations. NAIC staff believes this is due to the amounts that are reported in the GI are pulled for the additional noncontrolled asset RBC charge. Over time NAIC staff has received information that these discrepancies may be directed by the domiciliary state regulator for situations that have been identified not to warrant the additional "restricted asset" / "noncontrolled asset" RBC charge. Since the amount is pulled directly from the GI to the RBC formula it is not considered a permitted practice in RBC, however, it results in a mismatch between the note disclosure and the GI although the categories are identical. (NAIC staff has not identified any permitted practices for the differences between the Note and GI reporting. Regulator comments are requested on whether the two reporting locations are interpreted to have different parameters as the language appears identical in both locations.) At this time, this proposal is strictly a disclosure element to make it easy to identify variations and the explanation between the Note and GI reporting so that future assessments can occur. If certain restricted assets are supported for general exclusion from the GI reporting (and the RBC factor), then those situations should be considered by the Working Group so that all insurers are following the same provisions.

The following paragraphs detail how the existing disclosure in SSAP No. 1, paragraph 23b (reported in Note 5L(1)) compares to the information reported in the GI:

- As detailed in SSAP No. 1, paragraph 23b and in Note 5L(1), admitted and nonadmitted assets that are pledged or otherwise restricted in the general account and separate account are to be disclosed along with a comparison of the total restricted assets to total assets and total admitted assets. With specific categories for certain uses, the note also includes broad categories for "pledged as collateral not captured in other categories" and "other restricted assets" to capture items not covered within the specific lines. Note 5L(2) and 5L(3) captures information on these generic categories, and includes examples of reinsurance and derivatives contracts on what should be captured. This disclosure instruction indicates that contracts that share similar characteristics (such as reinsurance and derivatives) are to be reported in the aggregate.

- The restricted asset categories in Note 5L(1) are duplicated in the annual statement general interrogatories (GI), and the amounts reported in the GI are pulled directly into the RBC formula and incur an additional "noncontrolled asset" RBC charge. NAIC staff is aware that there are discrepancies between the amounts of restricted assets reported in Note 5L(1) and what is captured in the same categories within the GI. (These are lines 25.04, 25.05 and 26.21-26.32 in the GI.)

The following details how these items are pulled into RBC from the general interrogatories:

- In the life formula, the restricted assets captured in the GI are pulled directly from the GI to LR017. The standard "noncontrolled asset" charge on that page is 0.0126, except for conforming security lending programs which receive a charge of 0.0020. (Assets pledged as collateral to the FHLB are adjusted in the formula based on various factors.)

- In the P/C and health RBC formula, the restricted assets captured in the GI are pulled directly to PR014 and XR005 respectively, with a 0.010 charge except for conforming security lending programs which receive a 0.002 charge.

The specific excerpts from SSAP No. 1, Note 5L, the applicable GIs and RBC formulas have been captured in the authoritative language section. The categories are also listed in the table below. The terminology at each location is also included below to show the intended consistency in classifications.

<u>Assets identified as "Not Controlled" or "Restricted Assets":</u>

- <u>SSAP No. 1: Restricted Assets / Not Under Exclusive Control</u>: Defined in paragraph 23b as "not under the exclusive control, subject to a put option contract, etc." Footnote 3 of SSAP No. 1 includes the following: The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments **<u>that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments</u>**.

- <u>Note 5L</u>: Matches terminology and language as SSAP No. 1.

- <u>General Interrogatories: Exclusive Control</u>: GI 25 asks if the company has "exclusive control" over all securities, other than securities lending detailed in 25.03. The instructions define this guidance as "exclusive control means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution therefore." GI 26 that captures the statement value of investments that are not under the exclusive control of the reporting entity. **<u>These categories mirror what is captured in SSAP No. 1 and Note 5L.</u>**

- <u>RBC: Noncontrolled Assets</u>: The RBC instructions have separate lines to capture collateral from conforming and non-conforming securities lending programs and "noncontrolled assets." **<u>The instructions indicate "noncontrolled assets are any assets reported on the balance sheet that are not under the exclusively under the control of the company, or assets that have been sold or transferred subject to put option contract currently in force."</u>** *(Although not detailed in this agenda item, the RBC instructions include specific guidance on what to include (or exclude). Examples include assets related to the Federal Reserve's Asset Loan Facility (TALF) and for restricted assets in excess of FHLB borrowing.)*

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	SSAP No. 1	***Note 5L***	***GI***	***Life RBC[2]***
23.a	Amounts not in the financial statements that represent segregated funds held for others.	None	None	None
23.b.i	Subject to contractual obligation for which liability is not shown	5.L(1)a	None	None
23.b.ii	Collateral Under Security Lending[1]	5.L(1)b	25.0 4 & 25.05	LR017 (1) & LR017 (2)
23.b.iii	Subject to Repurchase Agreements	5.L(1)c	26.21	LR017 (3)
23.b.iv	Subject to Reverse Repurchase Agreements	5.L(1)d	26.22	LR017 (4)
23.b.iv	Subject to Dollar Repurchase	5.L(1)e	26.23	LR017 (5)
23.b.v	Subject to Dollar Reverse Repurchase	5.L(1)f	26.24	LR017 (6)
23.b.vi	Placed Under Option Contracts	5.L(1)g	26.25	LR017 (7)
23.b.vii	Stock or Securities Restricted as to Sale – Excluding FHLB	5.L(1)h	26.26	LR017 (8)
23.b.ix	FHLB Capital Stock	5.L(1)i	26.27	LR017 (9)
23.b.x	On Deposits with States	5.L(1)j	26.28	LR017 (10)
23.b.xi	On Deposit with Regulatory Bodies	5.L(1)k	26.29	LR017 (11)
23.b.xii	Pledged Collateral to FHLB	5.L(1)l	26.31	LR017 (13)
23.b.xiii	Pledged Collateral Not Captured in Other Categories	5.L(1)m	26.30	LR017 (12.1)
	Less Derivative Collateral Pledged[3]			LR017 (12.2)
23.b.xiv	Other Restricted Assets	5.L(1)n	26.32	LR017 (14)
23.c	Assets received as collateral, reflected as assets within the F/S and the recognized liability to return.	5.L(4)		
	1 – In the life blank, this reads "loaned to others," but the RBC instructions indicate "collateral." This agenda item proposes to update this terminology in the life blank for consistency.			
	2 – These items are duplicated in the P/C and Health RBC blank on page PR014 and XR005, except for 3) below.			
	3 – This reduction is in the RBC Life Formula Only. Derivative collateral pledged is subject to a lower RBC charge of .0039 and is captured separately.			

Existing Authoritative Literature:

SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures

Other Disclosures

23. Reporting entities shall disclose[1] the following information in the financial statements:

a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[2] in the general and separate accounts[3] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) This disclosure shall include the following restricted asset categories:

i. Reported assets subject to contractual obligation for which liability is not shown;

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale[4] – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

xii. Pledged as collateral to the FHLB (including assets backing funding agreements);

xiii. Assets pledged as collateral not captured in other categories; and

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[1] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

[2] The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

[3] Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

[4] The nature, description and amount of the restriction are required in the disclosure.

xiv. Other restricted assets.

c. The amount and nature of any assets received as collateral, reflected as assets within the reporting entity's financial statements, and the recognized liability to return these collateral assets, in the general and separate accounts in comparison to total assets and admitted assets.

2024 Annual Statement Instructions – Note 5L: Restricted Assets

L. Restricted Assets

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the gross amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

a. Subject to contractual obligation for which liability is not shown
b. Collateral held under security lending agreements
c. Subject to repurchase agreements
d. Subject to reverse repurchase agreements
e. Subject to dollar repurchase agreements
f. Subject to dollar reverse repurchase agreements
g. Placed under option contracts
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock
i FHLB capital stock
j. On deposit with states
k. On deposit with other regulatory bodies
l. Pledged collateral to FHLB (including assets backing funding agreements)
m. Pledged as collateral not captured in other categories
n. Other restricted assets
o. Total restricted assets

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories

For assets pledged as collateral not captured in other categories reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a narrative summary of each collateral agreement included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as “Pledged as Collateral Not Captured in Other Categories” for 5L(1) above.)

(3) Detail of Other Restricted Assets

For other restricted assets reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity’s total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a description of each of the other restricted assets included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as “Other Restricted Assets” for 5L(1) above.)

(4) Collateral Received and Reflected as Assets Within the Reporting Entity’s Financial Statements

Disclose the following for the general account and separate account:

- Nature of any assets received as collateral reflected as assets within the reporting entity’s financial statements
- Book/adjusted carrying value (BACV) of the collateral
- Fair value of the collateral
- The recognized liability to return these collateral assets
- The percentage the collateral asset BACV amount (gross and admitted) is of the reporting entity’s total assets amount reported on Line 26 of the asset page (gross and admitted, respectively).

NOTE: The information captured within this disclosure is intended to aggregate the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others, and the information reported in the General Interrogatories.

Restricted assets in the separate account are not intended to capture amounts “restricted” only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

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(1) Restricted Assets (Including Pledged)

Restricted Asset Category	Gross (Admitted & Nonadmitted) Restricted						
	Current Year					6	7
	1 Total General Account (G/A)	2 G/A Supporting S/A Activity (a)	3 Total Separate Account (S/A) Restricted Assets	4 S/A Assets Supporting G/A Activity (b)	5 Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)
a. Subject to contractual obligation for which liability is not shown	$	$	$	$	$	$	$
b. Collateral held under security lending agreements	....		....				
c. Subject to repurchase agreements	....		....				
d. Subject to reverse repurchase agreements	....		....				
e. Subject to dollar repurchase agreements	....		....				
f. Subject to dollar reverse repurchase agreements	....		....				
g. Placed under option contracts	....		....				
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock	....		....				
i. FHLB capital stock	....		....				
j. On deposit with states	....		....				
k. On deposit with other regulatory bodies	....		....				
l. Pledged as collateral to FHLB (including assets backing funding agreements)	....		....				
m. Pledged as collateral not captured in other categories	....		....				
n. Other restricted assets	....		....				
o. Total Restricted Assets (Sum of a through n)	$	$	$	$	$	$	$

(a) Subset of Column 1
(b) Subset of Column 3

Restricted Asset Category	Current Year			
	8	9	Percentage	
	Total Nonadmitted Restricted	Total Admitted Restricted (5 minus 8)	10 Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	11 Admitted Restricted to Total Admitted Assets (d)
a. Subject to contractual obligation for which liability is not shown			%	%
b. Collateral held under security lending agreements				
c. Subject to repurchase agreements				
d. Subject to reverse repurchase agreements				
e. Subject to dollar repurchase agreements				
f. Subject to dollar reverse repurchase agreements				
Placed under option contracts				
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock				
i. FHLB capital stock				
j. On deposit with states				
k. On deposit with other regulatory bodies				
l. Pledged as collateral to FHLB (including assets backing funding agreements)				
m. Pledged as collateral not captured in other categories				
n. Other restricted assets				
o. Total Restricted Assets (Sum of a through n)			%	%

(c) Column 5 divided by Asset Page, Column 1, Line 28
(d) Column 9 divided by Asset Page, Column 3, Line 28

Ref #2024-20

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories (Contracts that Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
....	$	$	$	$	$	$	$	$	.... %	...........%
....	....	....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....	....	....
Total (c)	$	$	$	$	$	$	$	$	.... %	...........%

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)m Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)m Columns 9 through 11 respectively

(3) Detail of Other Restricted Assets (Contracts that Share Similar Characteristics, Such as Reinsurance and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
....	$	$	$	$	$	$	$	$	.... %	...........%
....	....	....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....	....	....
Total (c)	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**.......... %**	**...........%**

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)n Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)n Columns 9 through 11 respectively

(4) Collateral Received and Reflected as Assets Within the Reporting Entity's Financial Statements

	1	2	3	4
Collateral Assets	Book/Adjusted Carrying Value (BACV)	Fair Value	% of BACV to Total Assets (Admitted and Nonadmitted *	% of BACV to Total Admitted Assets **
General Account:				
a. Cash, Cash Equivalents and Short-Term Investments	$	$	.... %	.... %
b. Schedule D, Part 1	....	....	.... %	.... %
c. Schedule D, Part 2, Section 1	....	....	.... %	.... %
d. Schedule D, Part 2, Section 2	....	....	.... %	.... %
e. Schedule B	....	....	.... %	.... %
f. Schedule A	....	....	.... %	.... %
g. Schedule BA, Part 1	....	....	.... %	.... %
h. Schedule DL, Part 1	....	....	.... %	.... %
i. Other			%	%
j. Total Collateral Assets (a+b+c+d+e+f+g+h+i)	$	$	%	%
Separate Account:				
k. Cash, Cash Equivalents and Short-Term Investments	$	$	.... %	.... %
l. Schedule D, Part 1	....	....	.... %	.... %
m. Schedule D, Part 2, Section 1	....	....	.... %	.... %
n. Schedule D, Part 2, Section 2	....	....	.... %	.... %
o. Schedule B	....	....	.... %	.... %
p. Schedule A	....	....	.... %	.... %
q. Schedule BA, Part 1	....	....	.... %	.... %

r. Schedule DL, Part 1	....	....	................%	................%
s. Other			%	%
t. Total Collateral Assets (k+l+m+n+o+p+q+r+s)	$	$	%	%

* j = Column 1 divided by Asset Page, Line 26 (Column 1)
t = Column 1 divided by Asset Page, Line 27 (Column 1)

** j = Column 1 divided by Asset Page, Line 26 (Column 3)
t = Column 1 divided by Asset Page, Line 27 (Column 3)

	1 Amount	2 % of Liability to Total Liabilities *
u. Recognized Obligation to Return Collateral Asset (General Account)	$	%
v. Recognized Obligation to Return Collateral Asset (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

ANNUAL STATEMENT GENERAL INTERROGATORIES

Instructions – Part 1 – Common Interrogatories

INVESTMENT

25. For the purposes of this interrogatory, "exclusive control" means that the company has the exclusive right to dispose of the investment at will, without the necessity of making a substitution thereof. For purposes of this interrogatory, securities in transit and awaiting collection, held by a custodian pursuant to a custody arrangement or securities issued subject to a book entry system are considered to be in actual possession of the company.

If bonds, stocks and other securities owned December 31 of the current year, over which the company has exclusive control are: (1) securities purchased for delayed settlement, or (2) loaned to others, the company should respond "NO" to 25.01 and "YES" to 26.1.

25.03 Describe the company's securities lending program, including value for collateral and amount of loaned securities, and whether the collateral is held on- or off-balance sheet. Note 17 of Notes to Financial Statement provides a full description of the program.

25.04 Report amount of collateral for conforming programs as outlined in the Risk-Based Capital Instructions.

25.05 Report amount of collateral for other programs.

25.091 The fair value amount reported should equal the grand total of Schedule DL, Part 1, Column 5 plus Schedule DL, Part 2, Column 5. The fair value amount reported amount should also equal the fair value amount reported in Note 5E(5)a1(m).

25.092 The book adjusted/carrying value amount reported should equal the grand total of Schedule DL, Part 1,
Column 6 plus Schedule DL, Part 2, Column 6.

25.093 The payable for securities lending amount reported should equal current year column for payable for securities lending line on the liability page.

Ref #2024-20

26. Disclose the statement value of investments that are not under the exclusive control of the reporting entity within the categories listed in 26.2.

Excerpt – Annual Statement Blank

25.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 25.03) Yes [ ] No [ ]

25.02 If no, give full and complete information, relating thereto ....

25.03 For securities lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided) ....

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. **$ ________**

25.05 For the reporting entity's securities lending program, report amount of collateral for other programs. $ ________

25.06 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ ] No [ ] N/A [ ]

25.07 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] N/A [ ]

25.08 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ ] No [ ] N/A [ ]

25.09 For the reporting entity's securities lending program, state the amount of the following as of December 31 of the current year:

- 25.091 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $ ________
- 25.092 Total book/adjusted carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $ ________
- 25.093 Total payable for securities lending reported on the liability page $ ________

26.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 25.03). **Yes [ ] No [ ]**

26.2 If yes, state the amount thereof at December 31 of the current year:

- **26.21 Subject to repurchase agreements $ ________**
- **26.22 Subject to reverse repurchase agreements $ ________**
- **26.23 Subject to dollar repurchase agreements $ ________**
- **26.24 Subject to reverse dollar repurchase agreements $ ________**
- **26.25 Placed under option agreements $ ________**
- **26.26 Letter stock or securities restricted as to sale – excluding FHLB Capital Stock $ ________**
- **26.27 FHLB Capital Stock $ ________**
- **26.28 On deposit with states $ ________**
- **26.29 On deposit with other regulatory bodies $ ________**
- **26.30 Pledged as collateral – excluding collateral pledged to an FHLB $ ________**
- **26.31 Pledged as collateral to FHLB – including assets backing funding agreements $ ________**
- **26.32 Other $ ________**

26.3 For category (26.26) provide the following:

1 Nature of Restriction	2 Description	3 Amount

Excerpt from Life RBC Instructions – Bolded for Emphasis

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS

LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced.**

Assets

The total RBC related to assets (i.e., bonds, mortgages, unaffiliated preferred and common stock, separate accounts, real estate and other long-term assets) in MODCO or Funds Withheld reinsurance agreements, should be reduced (increased) by the amounts of RBC ceded (assumed). There is a separate line in each asset section to achieve this reduction (i.e., "Reduction in RBC for MODCO or Funds Withheld reinsurance ceded agreements")**.** The amount ceded is determined using the assets supporting the ceded liabilities as of Dec. 31. (In some instances, there may be assets in a trust that exceed the amount needed to support the liabilities; only the portion of assets used to support the ceded liabilities is used to determine the ceded RBC).

Ref #2024-20

The ceding company will need to supply the assuming company with sufficient information in order for the assuming company to determine the amount of RBC assumed. With the exception of the impact of the size factor, the amount of RBC ceded should be equal to the amount of RBC assumed. Put another way, there should be "mirror imaging" of RBC, except for the impact of the size factor. For MODCO or Funds Withheld reinsurance agreements, there will be no specific, line-by-line inventory of ceded assets and corresponding ceded RBC; however, ceding and assuming companies must keep detailed records and be prepared to produce those records upon request. The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of RBC assumed.

A reinsurer that has not received such information shall calculate MODCO adjustments for reinsurance assumed as follows:

- If the reinsurer has received data for periods prior to the effective date of the RBC filing, a "MODCO liability ratio" will be developed by comparing the MODCO liabilities at the filing date to the MODCO liabilities as of the last date for which data were received. The required capital for MODCO assumed is the required capital as calculated based on these data multiplied by the "MODCO liability ratio."
- • If the reinsurer has never received data from the ceding company, a "MODCO liability ratio" will be developed by comparing the MODCO liabilities at the filing date to the reinsurer's total invested assets (Page 2, Line 12 of the blue blank, or its equivalent). The required capital for MODCO assumed is the reinsurer's required capital as calculated prior to MODCO ceded and assumed adjustments multiplied by the "MODCO liability ratio."

Adjustments for MODCO or Funds Withheld reinsurance agreements should be based on pre-tax factors.

Size Factor
Companies with MODCO or Funds Withheld reinsurance agreements should adjust the company's year-end size factors according to the way the bonds are handled in the treaties. The assuming company includes the bonds that support its share of the liabilities; the ceding company includes the bonds that support its share of the liabilities. No adjustment is made for bonds purchased subsequent to June 30 of the valuation year and that solely support ceded liabilities.

Mortgages
The amount of RBC for mortgages is based upon the ceding company's calculation for the mortgages, or portion of these mortgages, which support the ceded liabilities. Thus, the amount of RBC ceded is equal to the amount of RBC assumed.

Specific Instructions for Application of the Formula

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded - Bonds C-1o
LR045

Column 4: Enter by reinsurer, the amount of C-1o RBC the insurance company has ceded that is attributable to bonds. The "total" should equal the total amount of the reduction in C-1o RBC shown on Line (19) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed - Bonds C-1o
LR046

Column 4: Enter by ceding company, the amount of C-1o RBC the insurance company has assumed that is attributable to bonds. The "total" should equal the total amount of the increase in C-1o RBC shown on Line (20) of page LR002 Bonds.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Ceded – All Other Assets C-0, C-1o And C-1cs
LR047

Column 4: Enter by reinsurer, the amount of C-0, C-1o And C-1cs RBC the company has ceded that is attributable to all assets except bonds. The "total" should equal the total amount of the reduction of C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
Reinsurance Assumed – All Other Assets C-0, C-1o And C-1cs
LR048

Ref #2024-20

Column 4: Enter by ceding company, the amount of C-0, C-1o And C-1cs RBC the insurance company has assumed that is attributable to all assets except bonds. The “total” should equal the total amount of the increase in C-0, C-1o And C-1cs RBC attributable to all assets except bonds for MODCO and funds withheld agreements.

Excerpt from Health RBC (Identical to P/C RBC)

Confidential when Completed

OFF-BALANCE SHEET AND OTHER ITEMS

		Annual Statement Source	(1) Bk/Adj Carrying Value	(2) Factor	(3) RBC Requirement	(4) Yes/No Response
	Noncontrolled Assets					
(1)	Loaned to Others - Conforming Securities Lending Programs	General Interrogatories Part 1 Line 25.04		0.002		
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05		0.010		
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21		0.010		
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22		0.010		
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23		0.010		
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24		0.010		
(7)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25		0.010		
(8)	Letter Stock or Securities Restricted as to Sale - Excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26		0.010		
(9)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27		0.010		
(10)	On Deposit with States	General Interrogatories Part 1 Line 26.28		0.010		
(11)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29		0.010		
(12)	Pledged as Collateral - Excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30		0.010		
(13)	Pledged as Collateral to FHLB (Including Assets Backing Funding Agreements)	General Interrogatories Part 1 Line 26.31		0.010		
(14)	Other	General Interrogatories Part 1 Line 26.32		0.010		
(15)	Total Noncontrolled Assets	Sum of Lines (1) through (14)				
(16)	Guarantees for Affiliates	Notes to Financial Statements 14A(03C1), Column 2		0.010		
(17)	Contingent Liabilities	Notes to Financial Statements 14A(1), Column 2		0.010		
(18)	Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer a regulated insurance company?	"Yes", "No" or "N/A" in Column (4)				
(19)	SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements, Item 9A2(a), Column 3		†		
(20)	SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements, Item 9A2(b), Column 3		0.010		
(21)	Total Miscellaneous Off-Balance Sheet and Other Items	Lines (15) + (16) + (17) + (19) + (20)				

† If Line (18) Column (4) is "Yes", then the factor is 0.005. If Line (18) Column (4) is "No", then the factor is 0.010. If Line (18) Column (4) is "N/A", then the factor is 0.000.

Denotes items that must be manually entered on filing software.

Excerpt from Life RBC

OFF-BALANCE SHEET AND OTHER ITEMS

		Annual Statement Source	(1) Statement Value	(2) Less Noncontrolled Assets Funding Guaranteed Separate Accounts, Synthetic GIC's and Certain FHLB Liabilities		(3) Subtotal		(4) Factor		(5) RBC Requirement
	Noncontrolled Assets									
(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04	$0	$0		$0	X	0.002	=	$0
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05	$0	$0		$0	X	0.0126	=	$0
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 26.21	$0	$0		$0	X	0.0126	=	$0
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22	$0	$0		$0	X	0.0126	=	$0
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23	$0	$0		$0	X	0.0126	=	$0
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24	$0	$0		$0	X	0.0126	=	$0
(7)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25	$0	$0		$0	X	0.0126	=	$0
(8)	Letter Stock or Other Securities Restricted as to sale - excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26	$0	$0		$0	X	0.0126	=	$0
(9)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27	$0	$0		$0	X	0.0126	=	$0
(10)	On Deposit with States	General Interrogatories Part 1 Line 26.28	$0	$0		$0	X	0.0126	=	$0
(11)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29	$0	$0		$0	X	0.0126	=	$0
(12.1)	Pledged as Collateral - excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30	$0	$0		$0				
(12.2)	Less Derivative Collateral Pledged	Schedule DB Part D Section 2 Column 7, Line 0199999999	$0	$0		$0	X	0.0039	=	$0
(12.3)	Pledged as Collateral - excluding Collateral Pledged to an FHLB Less Derivatives Collateral Pledged	Line (12.1) - (12.2)	$0	$0		$0	X	0.0126	=	$0
(13)	Pledged as Collateral to FHLB - including Assets Backing Funding Agreements	General Interrogatories Part 1 Line 26.31	$0	$0	†	$0	X	0.000 #	=	$0
(14)	Other	General Interrogatories Part 1 Line 26.32	$0	$0		$0	X	0.0126	=	$0
(15)	Total Noncontrolled Assets	Sum of Lines (1) through (11) Plus Lines (12.2) through (14)	$0	$0		$0				$0

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing and expose SAP clarification revisions to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement (A/S) instructions/template for the restricted asset disclosure in Note 5L to more clearly identify how Modco and FWH assets reported within a ceding company's financial statements shall be captured.

In addition to the revisions that explicitly address Modco/FWH, the A/S revisions propose a new component to the existing disclosure to identify and explain differences between the note and what is captured in the general interrogatories. Although it was originally anticipated that the note and the GI would agree, NAIC staff is aware that there are often differences and that in some instances domiciliary states have directed specific items to be removed from the GI reporting because of the resulting RBC pull / factor impact. This disclosure will highlight those differences to ensure ease of regulator comparisons as well as allow NAIC staff to assess consistency across companies and enable future discussions. NAIC staff recommends that the SAPWG sponsor a blanks proposal to incorporate the Annual Statement instruction revisions.

Although there is a separate agenda item to identify Modco and FWH assets with more granularity, and to assist with RBC impact, this clarification of the aggregate restricted asset disclosure has been recommended to move forward to ensure the restricted asset disclosure is consistently reported.

Upon adoption of the revisions, this agenda item recommends a referral to the Life RBC (E) Working Group to clarify that Modco assets held by a ceding entity that at any time during the year are pledged or used by the ceding entity for their own purpose, such as being used in assets reported to or as collateral to the FHLB or in a repurchase or securities lending agreement, are not permitted to be reported as an RBC charge reduction from the RBC formula for invested assets. Such uses would reflect circumstances in which the "entire asset credit or variability in statement value risk associated with the assets supporting the business reinsurance was not transferred to the assuming company for the entire duration of the reinsurance treaty." This referral will also identify the direction to capture modco/FWH assets in SSAP No. 1, paragraph 23c, therefore these assets should not be captured in the RBC reporting of "noncontrolled assets," therefore the existing elements in the RBC formula to adjust modco/FWH from the "noncontrolled" reporting lines may no longer be necessary.

Proposed Revisions:

SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

23. Reporting entities shall disclose[5] the following information in the financial statements:

[5] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[6] in the general and separate accounts[7] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

i. Reported assets subject to contractual obligation for which liability is not shown;

ii. Collateral held under security lending agreements;

iii. Assets subject to repurchase agreements;

iv. Assets subject to reverse repurchase agreements;

v. Assets subject to dollar repurchase agreements;

vi. Assets subject to dollar reverse repurchase agreements;

vii. Assets placed under option contracts;

viii. Letter stock or securities restricted as to sale[8] – excluding FHLB stock;

ix. FHLB capital stock;

x. Assets on deposit with states;

xi. Assets on deposit with other regulatory bodies;

xii. Pledged as collateral to the FHLB (including assets backing funding agreements);

xiii. Assets pledged as collateral not captured in other categories[FN1]; and

xiv. Other restricted assets.

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[6] The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

[7] Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

[8] The nature, description and amount of the restriction are required in the disclosure.

New Footnote 1: Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

c. The amount and nature of any assets received as collateral or assets that are held under modified coinsurance or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a ~~and the~~ recognized liability to return these collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets.

Note to the Financial Statements – 5L

(1) Restricted Assets (Including Pledged)

Disclose the total gross (admitted and nonadmitted) amount of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.) by the reporting entity. Provide the gross amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) by the following categories:

a. Subject to contractual obligation for which liability is not shown
b. Collateral held under security lending agreements
c. Subject to repurchase agreements
d. Subject to reverse repurchase agreements
e. Subject to dollar repurchase agreements
f. Subject to dollar reverse repurchase agreements
g. Placed under option contracts
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock
i FHLB capital stock
j. On deposit with states
k. On deposit with other regulatory bodies
l. Pledged collateral to FHLB (including assets backing funding agreements)
m. Pledged as collateral not captured in other categories
n. Other restricted assets
o. Total restricted assets

Note: Items captured "pledged as collateral not captured in other categories" shall include, but not be limited to, assets pledged under derivative arrangements.

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories

For assets pledged as collateral not captured in other categories reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a narrative summary of each collateral agreement included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Pledged as Collateral Not Captured in Other Categories" for 5L(1) above.)

(3) Detail of Other Restricted Assets

For other restricted assets reported in aggregate in Note 5L(1) above, provide the gross (admitted and nonadmitted) amount of restricted assets (total general account, general account assets supporting separate account activity, total separate account, separate account assets supporting general account activity and sum of the general account and the separate account for current year, prior year and the change between years), the total admitted of restricted assets and the percentage the restricted asset amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 28 of the asset page (gross and admitted respectively) with a description of each of the other restricted assets included in the aggregate number in Note 5L(1) above. Contracts that share similar characteristics, such as reinsurance and derivatives, are to be reported in the aggregate. (Note: This would be the detail for what was reported as "Other Restricted Assets" for 5L(1) above.)

(4) Collateral Received and Assets Held under Modco/Funds Withheld Reinsurance Agreements Reflected as Assets Within the Reporting Entity's Financial Statements

Disclose the following for the general account and separate account regarding collateral received and assets held under modco/funds withheld reinsurance agreements under SSAP No. 1, paragraph 23c:

- Nature of ~~any~~ assets ~~received as collateral~~ reflected ~~as assets~~ within the reporting entity's financial statements

- Book/adjusted carrying value (BACV) of the ~~collateral~~assets

- Fair value of the ~~collateral~~assets

- The recognized liability to return ~~these~~ collateral assets or obligation under the Modco/Funds Withheld Reinsurance Agreements

- The percentage the ~~collateral~~ asset BACV amount (gross and admitted) is of the reporting entity's total assets amount reported on Line 26 of the asset page (gross and admitted, respectively).

Illustrations to the Financial Statements – 5L

This illustration includes the presentation of all restricted assets reported on the financial statements for a total comparison to total assets. This includes the items captured in SSAP No. 1, paragraphs 23.b. and 23.c. (Items captured in paragraph 23.c. should have a corresponding liability recognized, therefore there is no capture within the general interrogatories or capture as a noncontrolled asset in the RBC formula.)

	Current Year						
	8	9	Percentage 10	11			
Restricted Asset Category	Total Nonadmitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)	12 Amount Reported in General Interrogatories	13 Difference from Note and GI	14 GI Ref
a. Subject to contractual obligation for which liability is not shown	$	$	.....................%	.... %			
b. Collateral held under security lending agreements	....	....	....	....			25.04+25.05
c. Subject to repurchase agreements	....	....	....	....			26.21
d. Subject to reverse repurchase agreements	....	....	....	....			26.22
e. Subject to dollar repurchase agreements	....	....	....	....			26.23
f. Subject to dollar reverse repurchase agreements	....	....	....	....			26.24
g. Placed under option contracts	....	....	....	....			26.25
h. Letter stock or securities restricted as to sale – excluding FHLB capital stock	....	....	....	....			26.26
i. FHLB capital stock	....	....	....	....			26.27
j. On deposit with states	....	....	....	....			26.28
k. On deposit with other regulatory bodies	....	....	....	....			26.29
l. Pledged as collateral to FHLB (including assets backing funding agreements)	....	....	....	....			26.31
m. Pledged as collateral not captured in other categories	....	....	....	....			26.30
n. Other restricted assets	....	....	....	....			26.32
o. Collateral Assets Received and on Balance Sheet *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
p. Assets held under Modco Reinsurance Agreements *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
q. Assets held under Funds Withheld Reinsurance Agreements *(SSAP 1, Paragraph 23.c)*					XXX	XXX	N/A
~~o~~r. Total Restricted Assets (Sum of a through n)	$	$	.....................%	.... %	XXX	XXX	

(c) Column 5 divided by Asset Page, Column 1, Line 28
(d) Column 9 divided by Asset Page, Column 3, Line 28

Reporting entities shall explain the differences between amounts reported in Note 5L(1) and the general interrogatories. This shall include all instances in which an amount is reported in column 13 above.

GI Reference	Difference between Note and GI (Per Column 12 above)	Explanation
25.04+25.05		
26.21		
26.22		

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26.24		
26.25		
26.26		
26.27		
26.28		
26.29		
26.31		
26.30		
26.32		

(2) Detail of Assets Pledged as Collateral Not Captured in Other Categories (Contracts that Share Similar Characteristics, Such as Reinsurance (excluding modco/FWH) and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
....	$	$	$	$	$	$	$	$	..........%	...........%
....	....	....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....	....	....
Total (c)	$	$	$	$	$	$	$	$	..........%	...........%
Amount of Total pledged under derivative contracts										
Total Excluding Derivative Collateral										

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)m Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)m Columns 9 through 11 respectively

Staff Note – The amount pledged under derivative contracts should agree to Schedule DB and agree to what is subtracted from the life RBC formula.

(3) Detail of Other Restricted Assets (Contracts that Share Similar Characteristics, Such as Reinsurance (exclude modco/FWH) and Derivatives, Are Reported in the Aggregate)

	Gross (Admitted & Nonadmitted) Restricted							8	Percentage	
	Current Year					6	7		9	10
	1	2	3	4	5					
Description of Assets	Total General Account (G/A)	G/A Supporting S/A Activity (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
....	$	$	$	$	$	$	$	$	..........%	...........%
....	....	....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	....	....	....	....
Total (c)	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**$ ....**	**..........%**	**...........%**

(a) Subset of column 1
(b) Subset of column 3
(c) Total Line for Columns 1 through 7 should equal 5L(1)n Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1)n Columns 9 through 11 respectively

Staff Question – Are there other broad categories that should be captured in aggregate subtotals?

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(4) Collateral Received and Assets Held under Modco/Funds Withheld (FWH) Reinsurance Agreements Reflected as Assets Within the Reporting Entity's Financial Statements

~~Collateral~~ Assets	1 Book/Adjusted Carrying Value (BACV)			2 Fair Value			3 % of BACV to Total Assets (Admitted and Nonadmitted *	4 % of BACV to Total Admitted Assets **
	Collateral	Modco	FWH	Collateral	Modco	FWH		
General Account:								
a. Cash, Cash Equivalents and Short-Term Investments	$			$			%	%
b. Schedule D, Part 1				....			%	%
c. Schedule D, Part 2, Section 1				....			%	%
d. Schedule D, Part 2, Section 2				....			%	%
e. Schedule B				....			%	%
f. Schedule A				....			%	%
g. Schedule BA, Part 1				....			%	%
h. Schedule DL, Part 1	....			....			%	%
i. Other							%	%
j. Total ~~Collateral~~ Assets (a+b+c+d+e+f+g+h+i)	Collateral	Modco	FWH	Collateral	Modco	FWH	%	%
Separate Account:								
k. Cash, Cash Equivalents and Short-Term Investments	$			$			%	%
l. Schedule D, Part 1	....			....			%	%
m. Schedule D, Part 2, Section 1	....			....			%	%
n. Schedule D, Part 2, Section 2	....			....			%	%
o. Schedule B	....			....			%	%
p. Schedule A	....			....			%	%
q. Schedule BA, Part 1	....			....			%	%
r. Schedule DL, Part 1	....			....			%	%
s. Other							%	%
t. Total ~~Collateral~~ Assets	Collateral	Modco	FWH	Collateral	Modco	FWH	%	%

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(k+l+m+n+o+p+q+r+s)								

* j = Column 1 divided by Asset Page, Line 26 (Column 1)
t = Column 1 divided by Asset Page, Line 27 (Column 1)

** j = Column 1 divided by Asset Page, Line 26 (Column 3)
t = Column 1 divided by Asset Page, Line 27 (Column 3)

	1 Amount	2 % of Liability to Total Liabilities *
u. Recognized Obligation to Return Collateral Asset (General Account)	$	%
v. Recognized Obligation to Return Collateral Asset (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

u. Recognized Obligation for Modco assets (General Account)	$	%
v. Recognized Obligation for Modco assets (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

u. Recognized Obligation for FWH (excluding Modco) assets (General Account)	$	%
v. Recognized Obligation for FWH (excluding Modco) assets (Separate Account)	$	%

* u = Column 1 divided by Liability Page, Line 26 (Column 1)
v = Column 1 divided by Liability Page, Line 27 (Column 1)

(4) Disclose whether any of the assets held as collateral or under modified coinsurance (Modco) or funds withheld reinsurance (FWH) agreements have been pledged for another purpose specific to the insurance reporting entity. For example, if the insurance reporting entity has used these assets as the collateral in a securities lending agreement, a repo transaction, pledged as collateral to the FHLB, etc. (For Modco/FWH assets, items pledged on behalf of the reinsurer shall not be captured.)

	Collateral Held	Modco	FWH
a. Securities Lending	....		
b. Repo / repurchase Agreements	....		
c. Placed under option contracts	....		
d. On deposit with states	....		
e. On deposit with other regulatory bodies	....		
f. Pledged as collateral to FHLB (including assets backing funding agreements)	....		

g. Pledged as collateral not captured in other categories	....		
Total			

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Proposed Language for a Referral to the Life RBC (E) Working Group:

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. **In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if the Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase or FHLB transaction by the ceding entity at any time over the year, then the reporting entity cannot assert that they have transferred the asset risk or variability and RBC shall not be reduced.**

Staff Review Completed by: Julie Gann, NAIC Staff—October 2024

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing categorized as a SAP clarification and exposed revisions illustrated in the recommendation above to SSAP No. 1 as well as corresponding proposed revisions to the Annual Statement instructions/template for the restricted asset disclosure in Note 5L to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported. The exposed revisions also include a new disclosure to identify whether Modco/FHW assets are pledged by the ceding entity as well as expanded disclosures to detail differences between what is reported in the restricted asset note and what is in the general interrogatories.

On March 24, 2025, Statutory Accounting Principles (E) Working Group adopted, as final, revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, to be effective year-end 2025, to specify how modco/fund withheld assets shall be captured as restricted assets with minor edits to clarify the "amount" reflected is "book/adjusted carrying value" and to incorporate a December 31, 2025 effective date. The action also included noted support for the Blanks (E) Working Group proposal to revise the Annual Statement instructions/template for the restricted asset disclosure to specify how Modco and FWH assets reported within a ceding company's financial statements shall be reported as well as to expand the restricted asset disclosure as recommended within this agenda item and detail differences between what is reported in the restricted asset footnote and what is in the general interrogatories. With adoption, the Working Group also directed a referral to the Life Risk-Based Capital (E) Working Group to clarify the instructions for Modco or Funds Withheld Reinsurance Agreements for LR045, LR046, LR047 and LR048. The Working Group proposed the following language for consideration by the Life RBC (E) Working Group:

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors

When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

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The adopted SSAP No. 1 revisions, with the changes to reference BACV in paragraphs 23b and 23c as well as to incorporate effective date guidance in paragraph 34 are shown as shaded tracked revisions below:

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SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures

24. Reporting entities shall disclose[9] the following information in the financial statements:

a. Amounts not recorded in the financial statements that represent segregated funds held for others, the nature of the assets and the related fiduciary responsibilities associated with such assets. One example of such an item is escrow accounts held by title insurance companies; and

b. The total combined (admitted and nonadmitted) ~~amount~~ book/adjusted carrying value (BACV) of restricted assets by category, with separate identification of the admitted and nonadmitted restricted assets by category, and nature of any assets pledged to others as collateral or otherwise restricted (e.g., not under the exclusive control, assets subject to a put option contract, etc.)[10] in the general and separate accounts[11] by the reporting entity in comparison to total assets and total admitted assets. (Pursuant to SSAP No. 4, paragraph 6, all assets pledged as collateral or otherwise restricted shall be reported in this disclosure regardless if the asset is considered an admitted asset.) Reporting entities shall also disclose differences in the amounts reported in this note versus the amounts reported for the same categories in the general interrogatories. This disclosure shall include the following restricted asset categories:

xv. Reported assets subject to contractual obligation for which liability is not shown;

[9] Disclosure of restricted assets shall be included in the annual financial statements and, pursuant to the Preamble, in the interim financial statements if significant changes have occurred since the annual statement. If significant changes have occurred, the entire disclosure shall be reported in the interim financial statements.

[10] The aggregate information captured within this disclosure is intended to reflect the information reported in the Annual Statement Investment Schedules in accordance with the coding of investments that are not under the exclusive control of the reporting entity, including assets loaned to others and the information reported in the General Interrogatories, as well as information on restricted cash, cash equivalents and short-term investments.

[11] Restricted assets in the separate account are not intended to reflect amounts "restricted" only because they are insulated from the general account or because they are attributed to specific policyholders. Separate account assets shall be captured in this disclosure only if they are restricted outside of these characteristics.

xvi. Collateral held under security lending agreements;

xvii. Assets subject to repurchase agreements;

xviii. Assets subject to reverse repurchase agreements;

xix. Assets subject to dollar repurchase agreements;

xx. Assets subject to dollar reverse repurchase agreements;

xxi. Assets placed under option contracts;

xxii. Letter stock or securities restricted as to sale[12] – excluding FHLB stock;

xxiii. FHLB capital stock;

xxiv. Assets on deposit with states;

xxv. Assets on deposit with other regulatory bodies;

xxvi. Pledged as collateral to the FHLB (including assets backing funding agreements);

xxvii. Assets pledged as collateral not captured in other categories[FN1]; and

xxviii. Other restricted assets.

New Footnote 1: Items captured in this category shall include assets reported within the financial statements that are pledged to a counterparty that have not been captured in other categories or within paragraph 23.c. Items reported should include, but not be limited to, assets pledged under derivative arrangements.

c. The book/adjusted carrying value (BACV) ~~amount~~ and nature of any assets received as collateral or assets that are held under modified coinsurance or funds withheld reinsurance agreements, reflected as assets within the reporting entity's financial statements, for which there is a ~~and the~~ recognized liability to return these collateral assets or for the dedicated use of those assets under the modco/funds withheld agreement, in the general and separate accounts in comparison to total assets and admitted assets.

Effective Date and Transition

34. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.* The guidance in paragraphs 17-22, requiring evaluation and disclosure of substantial doubt about an entity's ability to continue as a going concern is effective December 31, 2016, and is required for interim and annual reporting periods thereafter. Early application is permitted. The update to Section 3, Summary Investment Schedule, of Appendix A-001 is effective January 1, 2019. Revisions to the restricted asset disclosure to include information on assets held under modified coinsurance and funds withheld reinsurance agreements, and to require the restricted asset disclosure in quarterly financial statements are effective December 31, 2025.

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[12] The nature, description and amount of the restriction are required in the disclosure.

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: **04/14/2025**	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Kazeem Okosun**	Agenda Item # 2025-10-L Year 2025
TELEPHONE:	**816-783-8981**	**DISPOSITION**
EMAIL ADDRESS:	**kokosun@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**	**EXPOSED:** ☐ TASK FORCE (TF) ☐ WORKING GROUP (WG) ☐ SUBGROUP (SG)
NAME:	**Philip Barlow, Chair**	**REJECTED:** ☐ TF ☐ WG ☐ SG
TITLE:	**Associate Commissioner of Insurance**	**OTHER:** ☐ DEFERRED TO ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY)
AFFILIATION:	**District of Columbia**	
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**	

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

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ______________________________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The Working Group received a referral from Statutory Accounting Principles (E) Working Group, which informed the Working Group of the adopted statutory accounting revisions for the reporting of modified coinsurance (modco) and fund withheld (FWH) assets as restricted assets, and added new disclosures on whether the modco/FWH assets have been pledged for another purpose specific to the ceding insurance reporting entity. The reporting changes are anticipated to be effective year end 2025, subject to Blanks (E) Working Group activity.

The referral suggested clarifications to the *Life/Fraternal RBC Forecasting and Instructions* so that it is clear that if any portion of a modco/FWH assets has been concurrently used as a pledged asset for a purpose specific to the ceding insurance reporting entity at any time of the year, the RBC for the ceding company shall not be reduced.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

MODCO OR FUNDS WITHHELD REINSURANCE AGREEMENTS
LR045, LR046, LR047 and LR048

References to MODCO and funds withheld reinsurance agreements apply to all treaties in effect.

Basis of Factors
When the default risk in modified coinsurance (MODCO) and other reinsurance transactions with funds withheld is transferred, this transfer should be recognized by reducing the RBC for the ceding company and increasing it for the assuming company. In the event that the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is not transferred to the assuming company for the entire duration of the reinsurance treaty, the RBC for the ceding company should not be reduced. For clarity, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date has been used as a pledged asset concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset for any purpose specific to the ceding insurance reporting entity at any time during the year, the RBC for the ceding company shall not be reduced. For example, if any portion of a Modco/Funds Withheld reinsurance agreement asset held as of the year-end date was the collateral in a securities lending, repurchase, or FHLB transaction executed for the benefit of by the ceding entity at any time over the year concurrently with the pledged asset being included as a Modco/Funds Withheld reinsurance agreement asset, then RBC shall not be reduced. In situations where the economic benefit received from pledging the assets inure to the reinsurer throughout the duration of the reinsurance treaty, the cedant is allowed to reduce its RBC for those assets.

Detail Eliminated to Conserve Space

Attachment 11

C-3 Alignment, Part II

Life Risk-Based Capital (E) Working Group

May 1, 2025

American Academy of Actuaries

About the Academy

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Summary of Key Framework Proposals

- *Adoption Date and Phase-in*: Adopt for year-end 2026, with a three-year phase in period dependent on field testing schedule.
- *Product Scope*: All current products subject to C-3 Phase 1 and C-3 Phase 2 will transition to new methodology for year-end 2026. Fixed Indexed Annuities will be included in the scope of C-3 Phase 1.
- *Scenarios*: Use new Generator of Economic Scenarios.
- *Discounting*: Leverage C-3 Phase 2 discounting, i.e., Net Asset Earned Rate or Direct Iteration.

Summary of Key Framework Proposals

- *Assumptions and Models*: Use PBR models with prudent estimate assumptions where possible. Otherwise, continue to use CFT models with moderately adverse assumptions.
- *Factor-based C-3 Floor*: Factors will be revisited at a future date and will remain unchanged for now.
- *Default Costs*: Explore an optional credit to offset the double counting of default costs between C-1 and C-3.
- *Aggregation between C3P1 and C3P2*: Will be revisited once methodologies are finalized.

Key Focus of Today's Discussion

- Recap of Default Costs
- Stochastic Equity Risk
- Metric, Scalar, Working Reserves, and Time Horizon
- Next Steps

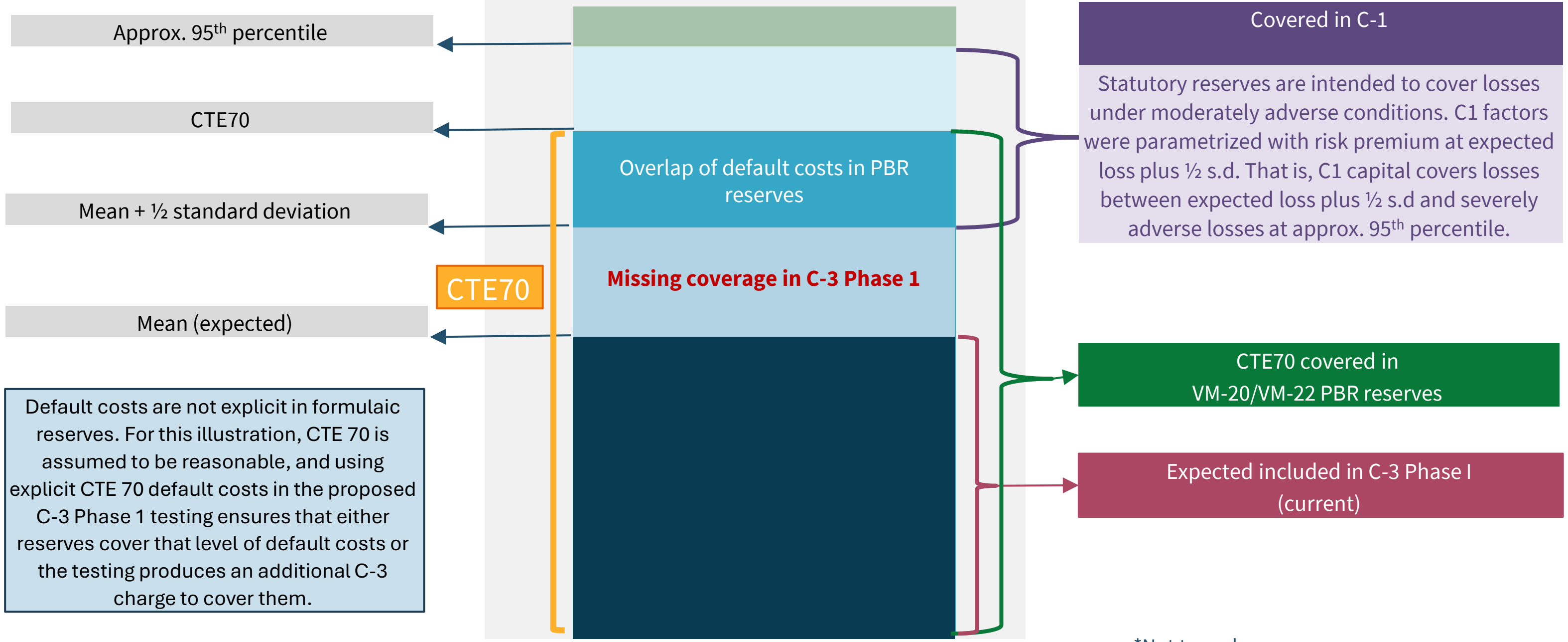
Attachment 11

Recap of Default Costs

C-3 Default Costs

- C-1 RBC for fixed income assets, such as bonds and commercial mortgages, is based on the difference between the value of severely adverse default costs and the value of default costs assumed to be covered in reserves.
- For assets that cover more than the assumed level of defaults, under the relevant reserve or C-3 testing framework, RBC factors double-count the value of the portion of the default costs between the assumed coverage levels in the C-1 models and the actual coverage levels in the reserve or C-3 models.
- Recommend updating default cost assumptions in C-3 Phase 1 to more conservative CTE70 level to allow the same default assumption to be used for reserves and capital.
- CTE70 is a generally accepted standard for prudent estimate default costs and required for PBR and C-3 Phase 2.
- Because of difference with default assumption in C-1 capital, this results in potential additional margin on C-1 risk capital.

Default Costs Illustration*



*Not to scale

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C-1 Risk Capital Credit

- Generally, adjustments are not made in the RBC framework for potential deficiencies or excess in other components.
- If an adjustment is included, a possible recommendation is a factor-based credit applied to the assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit[1]
Bonds – investment grade bonds	20%
Bonds – below investment grade	15%
Commercial mortgages	Double bond credit

- Recommend further study to explore an *optional* credit that would address the double counting.

[1]From the 2021 Moody's Analytics C-1 Bond RBC report

Attachment 11

Stochastic Equity Risk

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Stochastic Equity—Background

- Historically, the intent of the C3P1 is to address asset/liability mismatch (ALM) risk due to interest rate risk for annuities and single premium life.
  - Disintermediation risk when selling assets at the depressed value to support policyholders' obligations, or
  - Reinvestment risk that investment returns will decline to the point that they are unable to service on-going policyholders' obligations.
- The addition of equity risk in the C3P1 calculation was tested as a part of the VM-22 PBR field test. The introduction of stochastic equity returns could introduce interim deficiencies.

Stochastic Equity—Issues

- Like default costs, the introduction of stochastic equity could introduce a double count in capital that is already covered by C-1 equity risk charge.
  - The current C-1 common stock equity factor was based on the 94th percentile worst loss over 24-month periods.
  - The 2013 study continues to use a two-year loss horizon and retained the same 30% factor that was originally proposed in 1993.
  - The interim deficiencies that occur in the first two years of the C-3 calculation as a result of unfavorable equity returns under GOES are already reflected in C-1.

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Stochastic Equity—Proposal

Type of Equity Exposure	Proposal
Equity instruments to hedge predictive liabilities cash flows (e.g., FIA index hedge or indexed GIC)	• **Exclude stochastic equity risk from C3P1.** • Assume hedges are effective and reflect the same index hedge error margin for reserve and capital for additional conservatism.
Equity instruments on general account assets (e.g., equities backing long-duration contracts such as SSC)	• **Develop a prudent estimate levelized return to avoid exacerbating capital requirement.** • Option 1 — The prescribed levelized equity return equals the gross wealth factor (GWF) at specified CTE level for the projection years that reflect the average liability duration and then appending the new levelized return for the remaining years which equal to the GWF at the same CTE level at projection year 50 (See next slide for illustration). • Option 2 — Use AG-53 compliant assumption for general account equities.[1]
Equity instruments to hedge the unpredictive liability cash flows (e.g., FIA with GLWB)	• **Model stochastic equity but allow hedge modeling simplification.** • Unlike VA, the liability cash flows are mostly exposed to the policyholder behavior assumption risk rather than equity risk. • Optional credit adjustment to account for double counting of risk reflected in the C-1 equity risk charge and the C-3 calculation.

[1]: An equity-like instrument under AG53 assumed to have higher value at projection year 10 or later than under an assumption of annual total returns, before the deduction of investment expenses, of 4% for the first 10 projection years after the valuation date followed by 5% for projection year 11 and after.

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Stochastic Equity—Levelized Return (Option1) Illustration

- Assume the following:
  - 30 years projection
  - C3P1 metric is based on the CTE90 (it is similar to 95th percentile)
  - Average liability duration = 10

- Based on the latest GOES equity Gross Wealth Factors (see right table)

- Annualized levelized return:
  - First 10 years: -0.7% = 0.93 ^(1/10) - 1
  - Remaining 20 years: 4.4% = (2.22/0.93) ^ (1/20) - 1

S&P 500	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.50	0.23	0.17	0.09	0.17
1.0%	0.71	0.59	0.58	0.73	1.12
2.5%	0.77	0.71	0.77	1.07	1.60
5.0%	0.83	0.82	0.93	1.40	2.22
10.0%	0.89	0.94	1.16	1.87	3.20
25.0%	0.99	1.19	1.58	2.92	5.45
50.0%	1.10	1.50	2.16	4.50	9.37
75.0%	1.20	1.82	2.88	6.78	15.68
90.0%	1.29	2.14	3.67	9.59	23.92
95.0%	1.35	2.37	4.25	11.72	30.79
97.5%	1.40	2.57	4.86	13.85	37.57
99.0%	1.46	2.83	5.66	17.28	47.69
Max	1.81	4.14	9.45	34.11	136.91

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C-1 Risk Capital Credit—Stochastic Equity

- Ignore the first two years of the projection in the Greatest Present Value of Accumulated Deficiencies of surplus calculation.
- Factor-based credit applied to equity assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit
Common stock	30%
Other equity-like assets	TBD

Metric, Scalar, Working Reserves, and Time Horizon

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Metric and Scalar

- Consideration for measurement of the risk is ongoing, but will hinge on the defined metric while using the following formula:
  - **YY% x (CTE XX less Reserves)**
- YY% and CTE XX to be finalized with support of field-testing results.
- The projection length, or time horizon, will also be dependent on whether a working reserve is included.
- Prior to PBR, statutory reserves were formulaic, so interim reserves could easily be calculated. With PBR, a first principles interim reserve would require a nested stochastic projection, which may be onerous.
- The choice between a short-term **surplus** measure vs a long-term **asset** measure is dependent on what risk is intended to be captured. That is, a short-term surplus measure captures more disintermediation on deferred annuities risk vs. the long-term asset measure capturing more reinvestment risk

Greatest Present Value of Accumulated Deficiencies (Surplus)

- C-3 Phase 1 currently uses a GPVAD (**surplus**) measure.
- This measure focuses on projecting the statutory surplus, which accounts for future reserve changes. The measure inherently accounts for interim deficiencies by reviewing how future reserve changes could impact surplus.
- Due to the requirement of projecting future reserves, this measure may present computational challenges when reprojecting PBR reserves at future points in time. Particularly if those reserves are currently determined using stochastic scenarios.
- Approximations can be made by assuming the working reserve is equal to CSV, factor of formulaic reserve, actuarial present values or other simplifications for nested simulations.
- If this approach is taken, a shorter time horizon would likely be recommended.
- An interim surplus measure would capture more short-term disintermediation risk on deferred annuities.
- As noted earlier in the presentation, if stochastic equity is required, interim deficiencies on assets would be impacted, which would not have occurred in the current calculation methodology.

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Greatest Present Value of Accumulated Deficiencies (Assets)

- C-3 Phase 2 metric uses an GPVAD (**asset**) measure (working reserves are set to zero). This change was made as a part of VA Reform project.
- The metric focuses on claims payment ability and does not look at interim surplus deficiencies due to long-term reserve changes.
- Due to the computational simplicity relative to GPVAD (surplus), the projection horizon can be set long enough to capture the life of the business.
- For PBR business, the same model may be leveraged for both reserve and capital setting.
- It was noted as part of VA Reform that the use of working reserves discouraged hedging due to the accounting mismatch between assets and liabilities.
- A long-term asset measure would capture more reinvestment risk, which could offset short term disintermediation risk.

Example Illustration: Baseline

Assumptions

- 10-yr contract with a bullet payment at the end of 10 years
- Asset earned rate: 2.0% for Yrs 1-5 and 5.5% for Yrs 6-10
- Guaranteed AV credited rate of 5.0%
- CARVM Stat Val Rate of 4.0%

Balance Sheet	0	1	2	3	4	5	6	7	8	9	10
Assets											
Bonds	110.04	112.24	114.49	116.78	119.11	121.50	128.18	135.23	142.67	150.51	158.79
Liabilities and Surplus											
CARVM	110.04	114.44	119.02	123.78	128.73	133.88	139.24	144.81	150.60	156.62	162.89
CSV	100.00	105.00	110.25	115.76	121.55	127.63	134.01	140.71	147.75	155.13	162.89
Surplus	-	(2.20)	(4.53)	(7.00)	(9.62)	(12.39)	(11.06)	(9.58)	(7.94)	(6.11)	(4.10)

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Example Illustration: Baseline

1. For the first 5 years, the change in liabilities (CARVM reserves) exceeds the change in assets, which results in deficiencies in early years. This relationship changes after year 6 when the asset earned rate increases.
2. This results in the C3 requirement under the surplus measure to peak at year 5, despite the liability payment only being in year 10. This is due to the C3 requirement being used to fund interim deficiencies as the reserve changes outpace the asset changes.
3. The C3 requirement under the asset measure is driven by focusing on whether the assets can pay the liability that is due in year 10.

GPVAD Scenarios	0	1	2	3	4	5	6	7	8	9	10
Working Reserves = CARVM											
Surplus	-	(2.20)	(4.53)	(7.00)	(9.62)	(12.39)	(11.06)	(9.58)	(7.94)	(6.11)	(4.10)
GPVAD (Surplus)		(2.16)	(4.36)	(6.60)	(8.89)	(11.22)	(9.50)	(7.80)	(6.12)	(4.47)	(2.84)
C3	(11.22)										
Working Reserves = $0											
Surplus = Assets	110.04	112.24	114.49	116.78	119.11	121.50	128.18	135.23	142.67	150.51	(4.10)
GPVAD (Surplus)		110.04	110.04	110.04	110.04	110.04	110.04	110.04	110.04	110.04	(2.84)
C3	**(2.84)**										

Example Illustration: Interest Rate Spike

Assume spike in rates of 3% in year 5.

1. As a result of the interest rate spike, 20% surrender is assumed. This resulted in an outflow of $25.53.
2. Assets are sold at a loss due to the market value decrease. Higher level of assets ($46.35) need to be sold to fund the book value liability, thereby resulting in negative surplus.

Balance Sheet	0	1	2	3	4	5	6	7	8	9	10
Assets											
Bonds	110.04	116.09	122.48	129.22	136.32	75.14	79.28	83.64	88.24	93.09	98.21
						2					
Liabilities and Surplus											
CARVM (WR)	110.04	114.44	119.02	123.78	128.73	107.11	111.39	115.85	120.48	125.30	130.31
CSV	100.00	105.00	110.25	115.76	121.55	102.10	107.21	112.57	118.20	124.11	130.31
						1					
Surplus	-	1.65	3.46	5.43	7.59	(31.96)	(32.11)	(32.21)	(32.24)	(32.21)	(32.10)

Example Illustration: Interest Rate Spike

The example below illustrates that even under an interest rate spike and excess surrenders scenarios, the GPVAD (surplus) and GPVAD (assets) both work as intended to capture their respective risks.

1 2

GPVAD Scenarios	0	1	2	3	4	5	6	7	8	9	10
Working Reserves = CARVM											
Surplus	-	1.65	3.46	5.43	7.59	(31.96)	(32.11)	(32.21)	(32.24)	(32.21)	(32.10)
GPVAD (Surplus)		1.56	3.11	4.63	6.13	(24.46)	(23.29)	(22.14)	(21.01)	(19.89)	(18.79)
C3P1	(24.46)					1					
Working Reserves = $0											
Surplus = Assets	110.04	116.09	122.48	129.22	136.32	75.14	79.28	83.64	88.24	93.09	(32.10)
GPVAD (Surplus)		110.04	110.04	110.04	110.04	57.50	57.50	57.50	57.50	57.50	(18.79)
C3P1	(7.79)										2

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Comparison of Options

GPVAD (Assets)

Pros

- Focus on solving for level of assets that would result in the defeasement of future liabilities.
- Can support a longer projection length and could leverage same model runs as was used for reserving, particularly on PBR business. A longer projection is more conservative.
- Consistency with current C3 Phase 2 methodology.
- May be more optimal for hedging as removes the misalignment of market-sensitivity between economic and statutory funding requirements.

Cons

- Does not consider interim surplus deficiencies, and therefore, will not fully capture future adverse scenarios where PBR reserves could dramatically increase.

GPVAD (Surplus)

Pros

- Focuses on funding future claims and reserve funding requirements.
- Considers interim deficiencies, which ensures capital accounts for both economic and statutory insolvencies.
- Maintains current methodology on C3 Phase 1.

Cons

- Calculating a projected reserve, especially under PBR, would be computationally intensive due to nested stochastic calculations. The impact from the types of approximations for future PBR requirements have not been explored yet and therefore unclear.
- Discourages hedging due to accounting mismatch between hedge assets and working reserves.
- Would require a shorter projection length given the computational requirements.

Next Steps

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Next Steps

- Confirm field testing time horizon.
- Recommend an evaluation of consistency of C-1 methodology between PBR and capital be performed, and adjust recommendations as necessary.
- Review field test specifications based on feedback from discussions.
- Perform field test and leverage output to assist regulators in making final decisions.

Questions?

For more information, please contact

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Prior Presentation

3/24/2025

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Background

- C-3 Phase 1 applies to Single Premium Life and Non-Variable Annuities (excluding Fixed Index Annuities – FIA) and has not been updated in decades.
- C-3 Phase 2, which applies to Variable Annuities including Registered Index Linked Annuities, was recently updated and tested.
- Our purpose is to propose how to harmonize C-3 Phase 1 and C-3 Phase 2 methodology.

Approach to C-3 Alignment

- C-3 Phase 2 methodology was reviewed by the NAIC over the past 8 years.
- Where possible, C-3 Phase 1 will adopt changes to align with C-3 Phase 2.
- Given the scale of changes, we propose a phased approach with some changes being reflected by year-end 2026.
    - This would include the adoption of the new Generator of Economic Scenarios (GOES) which will also the prescribed generator for C-3 Phase 2 and PBR.
- Other changes may be deferred due to feasibility, magnitude of impact, and to avoid unintended consequences.

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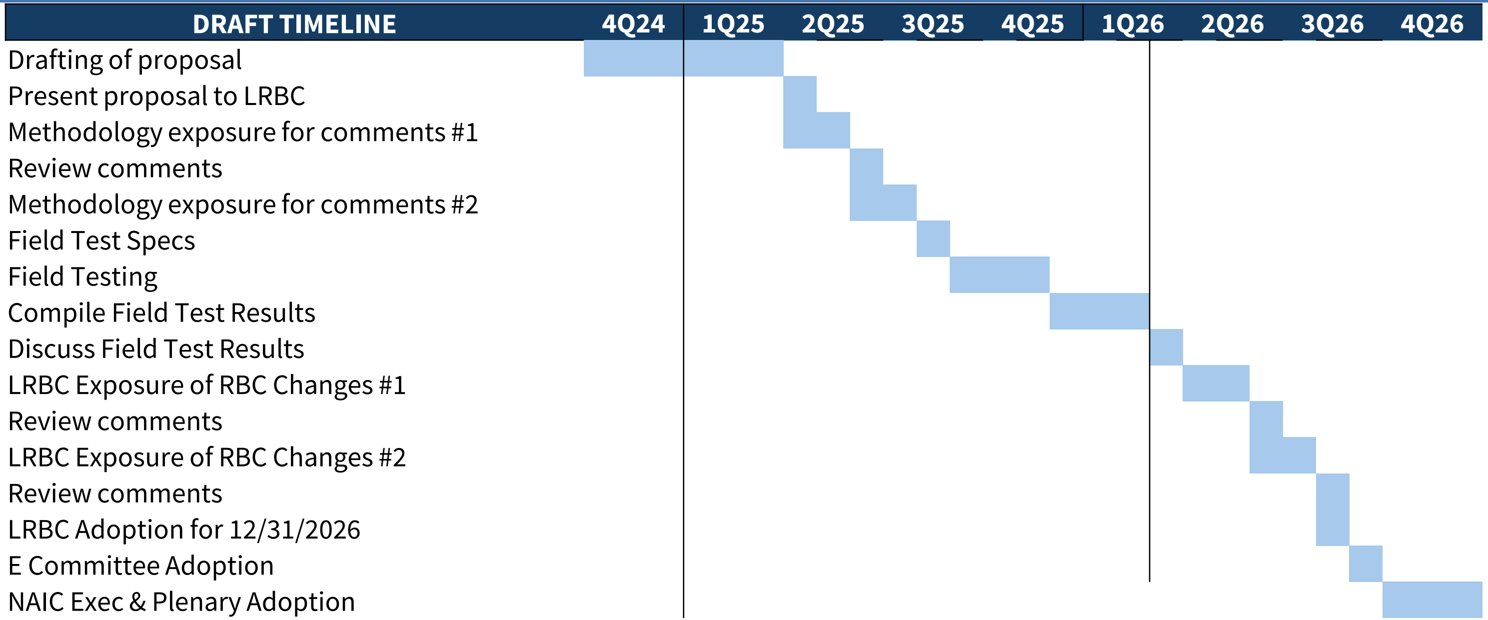
Timeline, Adoption, Phase In Period



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Timeline, Adoption, Phase In Period

- We anticipate a field test during 2025 and adoption effective year-end 2026.
- We propose a three-year phase-in period for changes that are effective at year-end 2026.
- We propose that other C-3 changes are phased in during future years and will be outlined in the rest of the presentation

Scenarios

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Economic Scenarios

- C-3 Phase 1 scenarios have a high Median Reversion Point (MRP) and do not include equity returns.
- C-3 Phase 2 scenarios have a formulaic MRP weighted toward recent rates and include equity returns.
- Propose using the new GOES that is expected to be adopted for an effective date of 2026.

Product Scope

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Product Scope

The ultimate goal is a C-3 framework with consistent scenarios, metrics, and legal entity level aggregation for all products. We propose reviewing other products at a future date.

		Smallest step Option1	**Recommended** Option 2[1]	Option 3	*Closest to Ultimate Goal* Option 4
C3P1	Single Premium Life	Old C3P1	**New C3P1**	Old C3P1	**New C3P1**
	Single/Flexible Premium Annuity	**New C3P1**	**New C3P1**	Old C3P1 **PBR Annuity to New C3P1**	**New C3P1**
C3P2	VA RILA	C3P2	C3P2	C3P2	C3P2
Currently out of scope	FIA	**New C3P1**	**New C3P1**	**New C3P1**	**New C3P1**
	LTC	defer	defer	defer	**New C3P1**
	ULSG	defer	defer	defer	**New C3P1**
	Remaining Life & Health products	defer	defer	defer	defer
	Pro	small manageable step	maintains existing aggregation	aligns reserving and capital models to PBR only business	closest to ultimate goal
	Con	lose aggregation between life & annuity - which would ultimately be added back later	larger step, could be harder to execute quickly	inconsistent capital between in force and new business	most difficult to implement in one step

1: This option aligns with the timeline presented on slide 5

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Discounting

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Discounting

- **Background**
  - Phase 1 uses one-year Treasury rate discounting. Inforce assets and reinvestment assets are typically longer in duration than one year and lower in credit quality than Treasuries, both of which tend to increase yields.
  - Phase 2 allows discounting at the Net Asset Earned Rate (NAER), which likely produces better estimates of the amount of additional assets needed to eliminate a deficiency than does phase 1 discounting.
  - Phase 2 also allows Direct Iteration which solves for the amount of additional assets needed to eliminate a deficiency, whereas Phase 1 does not.
- **Proposal**
  - Use Phase 2 discounting rules which allow the use of NAER for discounting or Direct Iteration.
- **Rationale**
  - Better estimate of the amount of additional assets needed to eliminate a deficiency.
  - More principle-based.

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Assumptions and Models

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Current Assumptions and Models

- C-3 Phase 1: Cash Flow Testing (CFT)-based assumptions that are considered "moderately adverse."
- C-3 Phase 2: Principles Based Reserve (PBR) prudent estimate assumptions.

Short-Term Solution Starting Year-End 2026 (Recommended)

- **Proposal: bifurcated solution**
  - Use PBR models and assumptions for business subject to PBR (VM-20, VM-21, VM-22).
  - Use CFT models and assumptions for non-PBR business.
  - Potentially allow flexibility between the two approaches for business subject to PBR due to operational complexity.
  - Add other products if/when underlying reserve moves to PBR.
- **Pros**
  - Efficiency of using same underlying model for reserves and capital.
  - Similar to C3P2 for Variable Annuities.
- **Cons**
  - Need to maintain two sets of models/assumptions.

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Default Costs

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C-3 Default Costs

Current		
	Non-PBR	PBR
Reserves	Moderately adverse (approach varies)	CTE70
Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation
C-3 Phase 1	Expected Defaults	Expected Defaults
C-3 Phase 2	CTE70	CTE70

Recommended		
	Non-PBR	PBR
Reserves	Moderately adverse (approach varies)	CTE70
Reserves (assumed in C-1 RBC)	Mean + ½ standard deviation	Mean + ½ standard deviation
C-3 Phase 1	CTE70	CTE70
C-3 Phase 2	CTE70	CTE70

- Recommend updating default cost assumptions in C-3 Phase 1 to more conservative CTE70 level.
- CTE70 is a generally accepted standard for moderately adverse default costs and consistent with PBR and C-3 Phase 2.
- Because of difference with default assumption in C-1 capital, results in potential additional margin on C-1 risk capital.

C-1 Risk Capital Credit

- Generally, adjustments are not made in the RBC framework for potential deficiencies or excess in other components.
- If an adjustment is included, a possible recommendation is a factor-based credit applied to the assets included in C-3 testing to offset the C-1 risk capital margin.

Asset category	Estimated factor credit
Bonds – investment grade bonds	20%
Bonds – below investment grade	15%
Commercial mortgages	Double bond credit

- Recommend further study to explore an *optional* credit that would address the double counting.

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Stochastic Equity Risk

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Stochastic Equity

- **Background & Considerations**
  - Similar to default costs, double counting of RBC related to general account (GA) equity (or equity-like) assets is being reviewed
  - Additionally, equity risk reflected in the current C-1 charge (based on 2013 historical experience measured over a 2-year exposure period) differs from the C-3 stochastic equity element captured over a set of real-world scenarios
  - Considerations for companies with a material equity exposure in the GA are being discussed. Topics include:
    - Definition of the materiality threshold, e.g., 5% of GA for liquid liabilities or 15% for illiquid liabilities
    - Excluding equity-like assets in C-3 calculations from C-1 charge
    - Maintain C-1 charge, but allow for deficiency smoothing to address equity volatility, akin to SSAP 108 hedge accounting practices

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Aggregation of C3P1 and C3P2

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Aggregation

- **Background**
  - C-3 Phase 1 and C-3 Phase 2 are calculated separately with no aggregation.
- **Ideal Proposal**
  - No differences between C-3 Phase 1 and C-3 Phase 2 methodology and aggregation fully reflected.
- **Current Proposal**
  - Aggregation is permitted but not required (under certain conditions). Pros and cons reference this proposal.
- **Pros**
  - Reflects diversification between products, consistent with how a company manages interest rate risk.
- **Cons**
  - Requires consistency between C-3 Phase 1 and C-3 Phase 2 methodologies (dependent on outcome of other C3 – Alignment proposals)
  - Operationally complex; requires methodology for splitting VA market risk from aggregated interest rate risks.

Aggregation - Continued

- **Parameters for Permitted Aggregation in 2026**
  - This will need to be revisited based on proposals for other topics, such as models, assumptions, and number of scenarios.
  - If there is not full consistency between C-3 Phase 1 and C-3 Phase 2, is there still some level of aggregation that can be used?
  - For example, if Company does not have alignment on interim reserves for CFT vs. PBR assumptions, can Company still reflect aggregation across scenarios if both C-3 Phase 1 and C-3 Phase 2 use the same 1000 scenarios?

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Factor Based C-3 Floor

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C-3 Floor Amount - Background

- The C-3 factors are meant to provide for a "lack of synchronization of asset and liability flows."
  - Factors are from the 1991 study report. The "Low-Risk" category assumes a well-matched portfolio (1/8th of a year difference). The other risk category factors were developed by stochastic modeling of asset and liability cashflows.
- For companies that utilize the C-3 cash flow approach, there is a floor equal to ½ the standard factors.
- Assets, liabilities, and investment strategies are likely much different today than 1991, for many companies:
  - Assets – ABS, floating rate assets, equities
  - Liabilities – Embedded options in products
  - Investment Strategies – Using floating rate assets and/or equities to support some fixed rate liabilities

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C-3 Floor Amount - Recommendation

- C-3 Phase 2 does not have a floor
  - PBR applies to almost all VA products and such reserves are reset each quarter, with a floor.
  - C-3 Phase 2 is based on a high CTE level (CTE 98) to encourage tail hedging.
- Significant changes to C-3 Phase 1 are being proposed for year-end 2026
  - GOES scenarios
  - Equity risk
  - FIAs
- Given the timeline, we cannot support the effort to update the C-3 factors and/or review the appropriateness of the floor at this time
- **Proposal**
  - Retain the current factors and floors for year-end 2026.
  - To be reviewed in greater detail after efforts to adopt year-end 2026 recommendations are complete.

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Metric, Scalar, Working Reserves, Time Horizon

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Metric and Scalar

- C-3 Phase 1 metric is a **surplus** measure whereas C-3 Phase 2 uses an **asset** measure (working reserves are set to zero).
- Currently contemplating two Greatest Present Value of Accumulated Deficiency (GPVAD) methods:
    - GPVAD (**assets**) with projection horizon to sufficiently represent life of the business.
        - Set working reserves to zero and focus on claim payment capabilities – most aligned with C-3 Phase 2.
    - GPVAD (**surplus**) with shorter projection horizon, reasonable working reserve proxy and focus on reserve funding capabilities.
        - Working reserve proxy may range from Cash Surrender Value to Actuarial Present Value methods.

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Metric and Scalar

- Consideration for measurement of the risk is ongoing, but will hinge on the defined metric while using the following formula:
  - **YY% x (CTE XX less Reserves)**
- YY% and CTE XX to be finalized with support of field testing results.
- The projection length, or time horizon, will also be dependent on whether a working reserve is included.

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Next Steps

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Next Steps

- Provide recommendation on remaining topics:
  - Metric and Scalar
  - Working Reserves and Interim Measurement
  - Time Horizon
  - Stochastic Equity Risk
- Design field test

Correlation in Life Risk Based Capital

Life Investment and Capital Adequacy Committee

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Guiding Principles for this review

Consistent measure of aggregate company risk

- A best estimate view of tail risk aggregation supports the regulatory objective to identify potentially weakly capitalized companies and provides consistent differentiation between companies with concentration or diversification of risks

Consistent with targeted statistical safety level of RBC

- Target a correlation approach that achieves a Company Action Level RBC that maintains the statistical safety level to which the individual risk factors within RBC are calibrated over a multiyear horizon
- Recognize that correlations may not be linear across all outcomes

Practical to implement

- Avoid false precision in both methodology and numerical values: maintain simple linear correlation approach with appropriate rounding of correlation factors

Recommendation

Linear correlation between major risk categories expressed as a correlation matrix:

No change to the structure of how existing risk factors are defined

	Credit C-1o, C-3b	Equity C-1cs, C-3c	Interest Rate C-3a	Insurance C-2a, C-2b	Business C-4a, C-4b
Credit	100%	50%	25%	0%	0%
Equity	50%	100%	50%	0%	0%
Interest Rate	25%	50%	100%	0%	0%
Insurance	0%	0%	0%	100%	0%
Business	0%	0%	0%	0%	100%

Nested correlation used to combine C risks that fall within each major risk category:

Credit	C-1o	C-3b
C-1o	100%	25%
C-3b	**25%**	100%

Insurance	Mortality C-2a	Longevity C-2b
Mortality C-2a	100%	-25%
Longevity C-2b	**-25%**	100%

Equity	C-1cs	C-3c
C-1cs	100%	100%
C-3c	**100%**	100%

Business	C-4a	C-4b
C-4a	100%	0%
C-4b	**0%**	100%

Data Sources and Limitations

Recommendations are informed by analysis of historical correlations among data used to proxy C-risks within LRBC

Risk	Proxy Data	Key Assumptions
Credit	**Primary** – Issuer weighted corporate bond default rates **Secondary** – NCREIF real estate index total returns	Correlation of data weighted by issuer used as a proxy for correlations for mix of insurer bond holdings
Equity	S&P 500 Total Return	Insurer equity holdings under C-1cs assumed to be correlated with other risks similarly to S&P 500 equity returns
Interest Rate	Total Return of Investment Grade Bond Fund FBNDX	Correlations in bond fund returns driven by rates and spreads are assumed to be a reasonable proxy for more the complex C-3 calculation Recommend the absolute value of correlations with interest rates since rate & spread movements could be in either direction and not practical to differentiate correlation between up rate and down rate binding scenarios given the current structure of the C-3 calculation
Insurance	United States population mortality rates by age and socioeconomic decile	Age weighting based on SOA Mortality Experience Studies for Individual Life Insurance and Individual Payout Annuity used to represent Mortality and Longevity risks
Business	Life and Annuity State Guaranty Association Assessments as a Percentage of Capacity; *data available 1988 to 2021*	Represents portion of C-4a whose factor is in part intended to cover potential exposure to guaranty fund assessments

Time Period – Core period of 1982 to 2019 to create a consistent period for all risks (except Business); longer time periods were also reviewed for individual pairs where available to check for consistency with core period

Calibration

The guiding principle for calibration is a linear correlation assumption that achieves an aggregate RBC amount that maintains the statistical safety level to which the individual risk factors were calibrated.

Our approach to achieving this calibration result considered three elements:

1. **Analysis of average risk correlation**
   - Numerous metrics were considered aimed at calibrating the average observed correlation between risks across different time horizons
   - A mathematical appendix demonstrates that for normally distributed risks that are linearly correlated, this average correlation achieves this calibration objective
2. **Confirmed that average correlation remains appropriate for non-normal market loss distributions**
   - Analysis was done to confirm that for market losses that are not normally distributed the average correlation remains an appropriate calibration target for the approximate level of statistical significance targeted by RBC
3. **Considered if there is evidence of non-linear correlations that are higher in unfavorable risk scenarios**
   - Cumulative 5 year risk losses were calculated and compared to the corresponding rolling 5 year correlations to identify risk pairs where higher correlations have been observed in years where losses were greater (e.g. tail events)

Summary Results & Rationale – Market Risks

The primary metric was the average annual correlation over the core 1982-2019 period

Numerous secondary metrics along with qualitative factors were also considered; more information on these additional considerations is included in the appendices

Risk Pair	Average Annual Correlation	Recommend	Reasonable Alternatives	Key Additional Insights from Secondary metrics
Credit - Equity	24% with bond default 9% with real estate	50%	25%, 75%	• Multi-year cumulative correlations more strongly supported 50% • Rolling 5 and 10 year distributions were most consistent with 25% or 0% • Data was consistent with nonlinearity with higher correlations in stress scenarios which could support 50% or 75% assumption
Interest Rate - Credit	18% with bond default 17% with real estate	25%	0%	• Rolling 5 and 10-yr distributions were consistent with both 0% and 25% while 50% was a much poorer fit
Interest Rate - Equity	43%	50%	75%	• Rolling 5-year distribution tail supported both 50% and 75% • Other metrics most consistent with 50%

Summary Results & Rationale – Insurance Risks

There was little quantitative evidence or qualitative considerations supporting a non-zero correlation for Insurance risk

Risk Pair	Average Annual Correlation	Recommend
Insurance – Credit	8% Life Mortality with Bond default -10% Life Mortality with Real Estate -6% Annuity Mortality with Bond default 8% Annuity Mortality with Real Estate	0%
Insurance – Equity	16% with Life Mortality -14% with Annuity Mortality	0%
Insurance – Interest Rate	4% with Life Mortality -1% with Annuity Mortality	0%

Correlations for mortality risk based on q(x) values while longevity risk represented by p(x) = 1 - q(x)

Results reflect total population mortality, though analysis done on the wealthiest population decile showed similar results

Summary Results & Rationale – Business Risk

The average annual correlations for business risk analysis used the available 1988-2021 period

The 1998-2021 results were also considered which exclude the wave of guaranty fund assessments in the early 1990's and also supported the recommendation

Risk Pair	Average Annual Correlation	Recommended
Business - Credit	-34% with bond default 29% with real estate	0%
Business - Equity	-28%	0%
Business – Interest Rate	-5%	0%
Business - Insurance	-46% with Life 48% with Annuity	0%

Current RBC includes a C-4b health administrative component within the correlation matrix with 0% correlation to the other risks, while C-4a is excluded from the correlation matrix and added to the total after covariance

- The limited historical data supports a 0% correlation assumption which is achieved by including Business Risk within the correlation matrix
- A theoretical argument for keeping Business Risk as additive outside of the correlation matrix is that guaranty assessments result from insurance company failures which would be caused by the realization of RBC risks in aggregate, therefore should be expected to have high correlation with the total RBC amount in times of stress
- Counterarguments include cases of insolvencies driven by underpricing or a lack of diversification rather than systemic risk events along with the lag between low RBC indicating financial difficulty and the ultimate guaranty fund assessment
- Recommend combining C-4a and C-4b to a single Business Risk value then treating all business risk consistently whether included within or additive to the correlation matrix

Nested Correlation Rationale

Rationale for nested correlations rely on descriptions of risks covered and judgment of reasonable correlations in the absence of data

Credit: Recommend 25% Correlation between C-1o and C-3b

- C-3b Health Credit Risk covers the risk that the company will pay capitation payments to health care providers but will not receive the agreed-upon services and will encounter unexpected expenses in arranging for alternative coverage
- It seems plausible that this risk would be independent from asset default risk covered in C-1o which would support a 0% correlation assumption
- It could also be possible that a weak economic environment that would lead to C-1o asset defaults could also be associated with increased incidence of failure of health care provider entities
- In the absence of data, we recommend the more conservative argument for a correlation of 25%.

Equity: Recommend 100% Correlation (additive) between C-1cs and C-3c

- Both C-1cs and C-3c capture market risk of equity assets and therefore the existing approach of combining the risks for covariance purposes is reasonable

Nested Correlation Rationale - Continued

Insurance: Recommend no change to existing -25% Correlation between C-2a and C-2b

- Correlation between C-2a mortality and C-2b longevity was recently reviewed when Longevity risk was added to LRBC; we are not recommending changes to the existing negative 25% correlation between C-2a and C-2b.

Business: Recommend 0% Correlation between C-4a and C-4b

- C-4a premium and liability components cover in part the risk of guaranty fund assessments following the failure of other insurers in addition to other risks not covered elsewhere in the RBC formula such as exposure to litigation
- C-4b health administrative expense component provides for the risk that actual expenses of administering certain types of health insurance will exceed the portion of the premium allocated to cover these expenses
- The lack of an expected relationship between these components supports a zero correlation assumption

Impacts – 2023 Aggregate Industry Mix

The recommendation would increase the effective required capital after covariance for Equity and Credit Risk and decrease the effective required capital for Insurance, Interest Rate and Business Risks

The net impact to a hypothetical company with a risk distribution equal to the 2023 aggregate industry mix would be an increase of 1.6% to RBC After Covariance

YE'23 Industry Mix	
C-0	15.5%
C-1cs	26.1%
C-1o	30.0%
C-2	14.5%
C-3a	7.3%
C-3b	0.0%
C-3c	1.1%
C-4a	5.3%
C-4b	0.3%
Total	**100.0%**

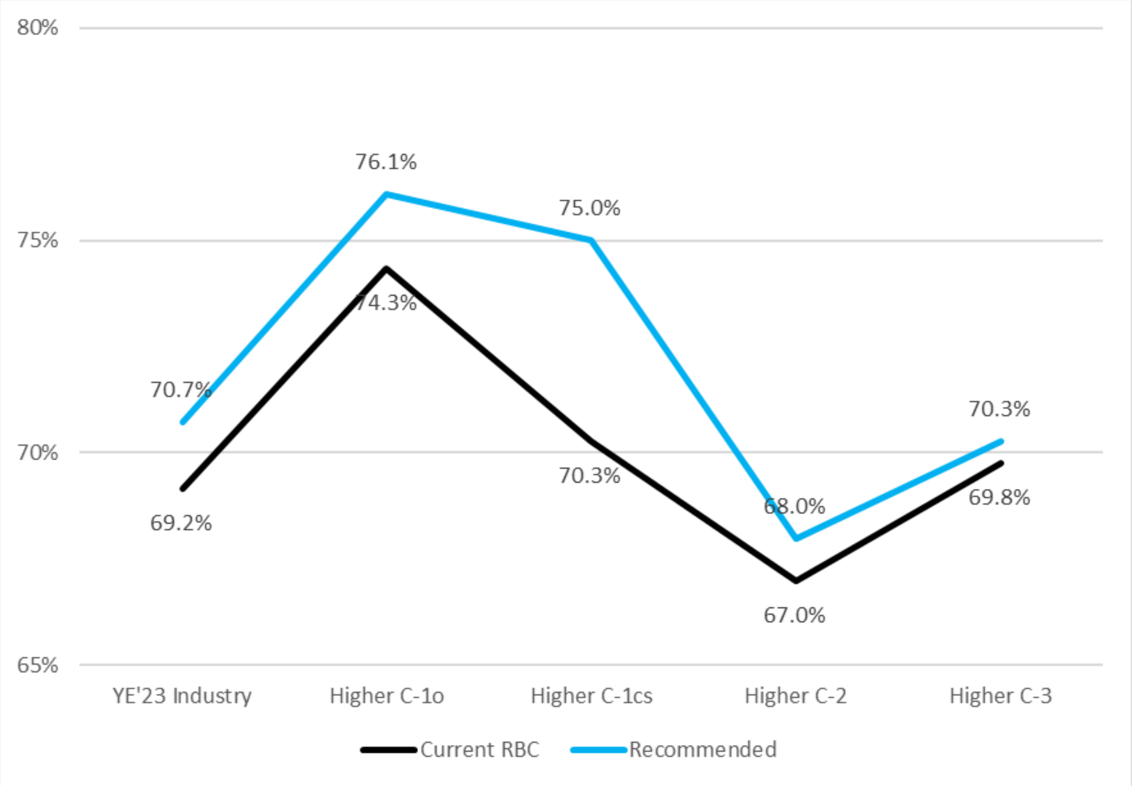
RBC After Covariance as a % of RBC Before Covariance

	Current RBC	Recommended	Change
Equity	56%	83%	27%
Credit	77%	82%	5%
Insurance	30%	26%	-4%
Interest Rate	77%	51%	-26%
Business	100%	10%	-90%
Total	**69.2%**	**70.7%**	**1.6%**

Impact shown for a hypothetical company with a distribution of risks equal to the reported 2023 aggregate industry RBC mix
This is not necessarily representative of the impact to average company RBC across the industry

Impact Sensitivities

Each of the sensitivities tested resulted in an increase to RBC after covariance
The impact is greatest for companies with higher concentration of C-1cs risk



Sensitivities increase the percentage of each risk noted by 50% relative to the 2023 Aggregate Industry baseline while all other risks are reduced proportionally

	YE'23 Industry	Higher C-1o	Higher C-1cs	Higher C-2	Higher C-3
C-0	15.5%	15.5%	15.5%	15.5%	15.5%
C-1cs	26.1%	18.9%	39.2%	23.4%	24.9%
C-1o	30.0%	45.0%	23.3%	26.9%	28.6%
C-2	14.5%	10.5%	11.2%	21.7%	13.8%
C-3a	7.3%	5.3%	5.6%	6.5%	10.9%
C-3b	0.0%	0.0%	0.0%	0.0%	0.0%
C-3c	1.1%	0.8%	0.8%	1.0%	1.0%
C-4a	5.3%	3.9%	4.1%	4.8%	5.1%
C-4b	0.3%	0.2%	0.2%	0.2%	0.2%

Questions?

For more information, please contact:

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Appendix

Overview of Secondary Metrics

Several metrics were used to inform the recommendation and improve consistency with core principles:

- Average annual correlation over core 1982-2019 period (primary metric)
- Average annual correlation over extended period where data is available for each risk pair
- Average correlation of cumulative multi-year risk outcomes (rolling 2-year, 5-year and 10-year periods) – recognizes the fact that the calibration of RBC factors considers losses over the risk cycle which is generally longer than one year
- Distribution of observed multi-year rolling correlations (5-year, 10-year):
    - Correlations observed from data over rolling 5 and 10-year periods
    - Observations rounded to nearest 10% and plotted as a histogram
    - Expected histogram distributions for 0%, 25%, 50% correlations developed through simulation
    - Goodness of fit (error sum of squares) evaluated to quantify best fit to data distribution
    - Considered error sum of squares for only values >=0 and >=50% to ensure appropriate right tail
    - Also provided graphical perspective on level of uncertainty from only 37 years of data

Calibration

Demonstration that within a linear correlation framework, the average correlation is appropriate for calculating target capital

- Let X1 and X2 denote individual risk random variables
- Y = X1 + X2 is the aggregate outcome resulting from the risks
- Assume for illustration that X1 and X2 are standard normally distributed with mean zero and variance 1
- It follows that Y is also normally distributed with variance = $\sigma_{X1}^2 + \sigma_{X2}^2 + 2\,\rho\,\sigma_{X1}\,\sigma_{X2} = 2 + 2\,\rho$ where ρ is the linear correlation between X1 and X2
- C1 and C2 are capital factors for risks X1 and X2
- Assume that C1 and C2 are calibrated to capture risk of X1 and X2 between 1 standard deviation and 95th percentile, so that C1 and C2 both equal ~0.645
- Assume that aggregate reserves cover aggregate risk of Y at approximately 1 standard deviation
- Assume the objective is to combine C1 and C2 with covariance to achieve an aggregate capital requirement C_A equal to the excess of the 95th percentile of Y over the 1 standard deviation covered by reserves
- The targeted C_A is achieved across all correlations by combining C1 and C2 using the average linear correlation ρ between X1 and X2

Risk correlation ρ	**0**	**25%**	**50%**	**75%**	**100%**
Y 95th	2.33	2.60	2.85	3.08	3.29
Y 1σ	1.41	1.58	1.73	1.87	2.00
Target Capital	0.91	1.02	1.12	1.21	1.29
Correlation that achieves Target	0%	25%	50%	75%	100%

Analysis was done to empirically validate this result using the observed loss distributions for equity, credit and interest rate risk as well as using loss distributions output by the published ESG

Tail Calibration

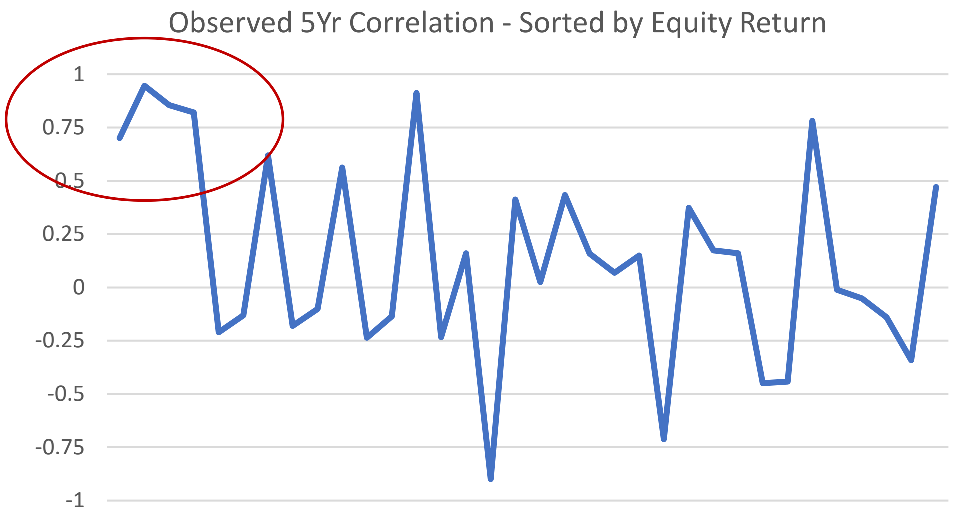
A key assumption in a linear correlation framework is that correlations are static across time

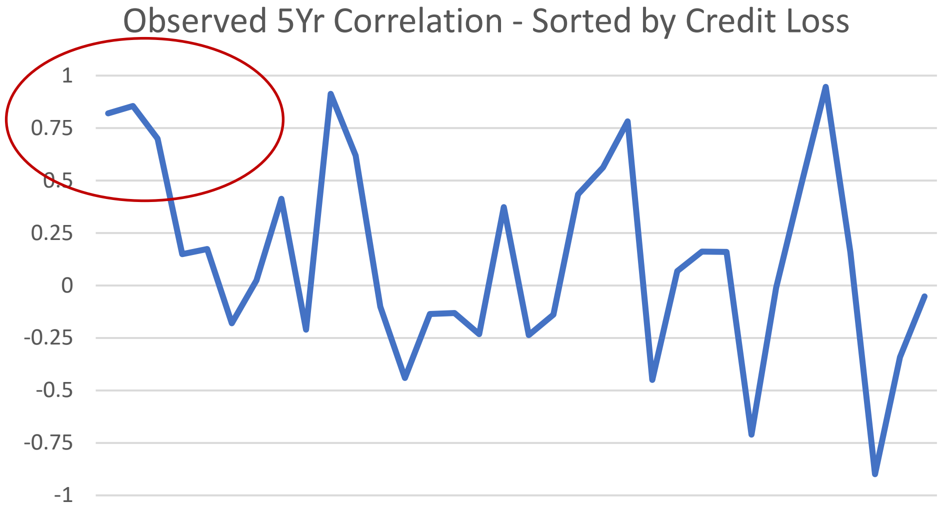
The calibration process also considered whether there was evidence to suggest that correlations may be higher in tail scenarios

The Credit – Equity risk pair showed the most evidence consistent with correlations increasing during times of stress, and this observation influenced the recommendation

The graphs below show observed rolling 5 year correlations between Equity and Credit data, each sorted with the worst outcomes for each risk on the left. In both cases the worst several risk outcomes were observed to also have higher observed correlations

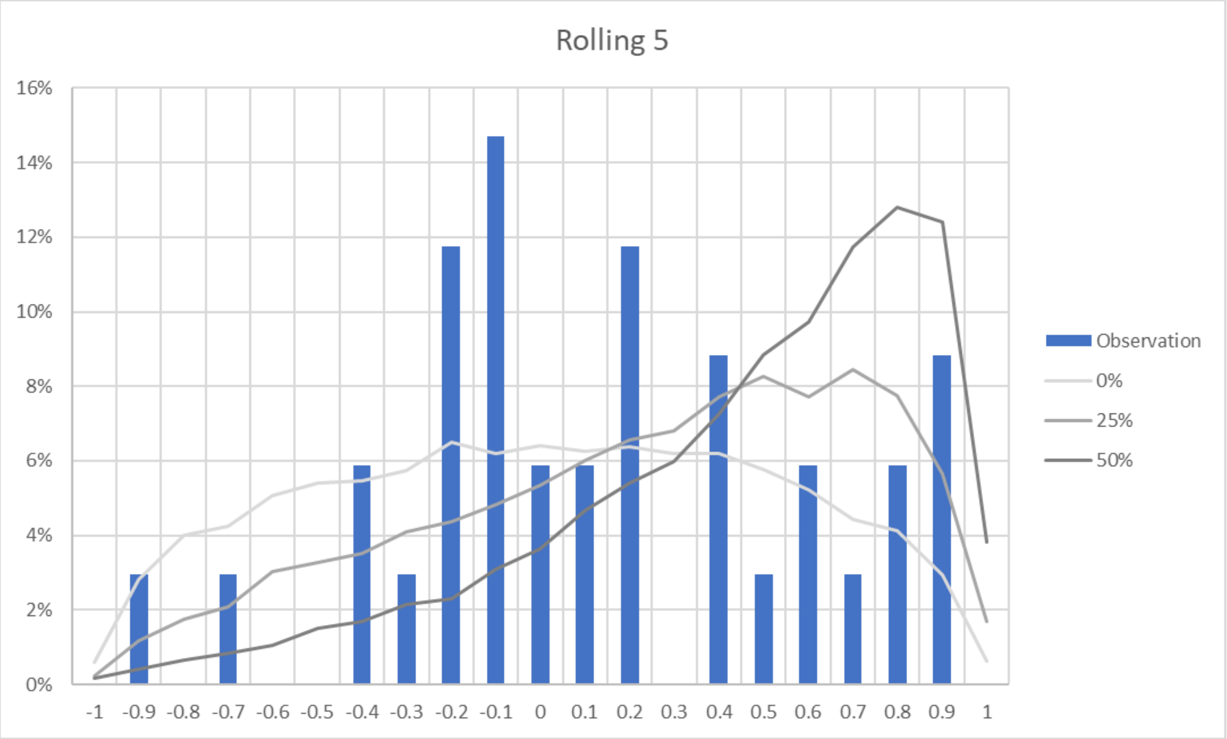
The small number of data points available in stress scenarios limits the credibility that should be assigned to this observation





Results Detail – Credit & Equity

Recommended:	50%
Average Annual Correlation – Core 1982-2019	24%
Average Annual Correlation – Extended 1972-2021	11%
Average Cumulative 2yr, 5yr, 10yr Correlations	46% 2-year 56% 5-year 53% 10-year
5-year Rolling Distribution best fit	**0% best fit** using all data (25% also good fit)
10-year Rolling Distribution best fit	**0% best fit** using all data (25% also good fit)
Tail Correlation in Worst 10% & 20% of 5Yr Credit Outcomes	63% in worst 4 rolling 5yr data points 36% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Equity Outcomes	81% in worst 4 rolling 5yr data points 51% in worst 7 rolling 5yr data points

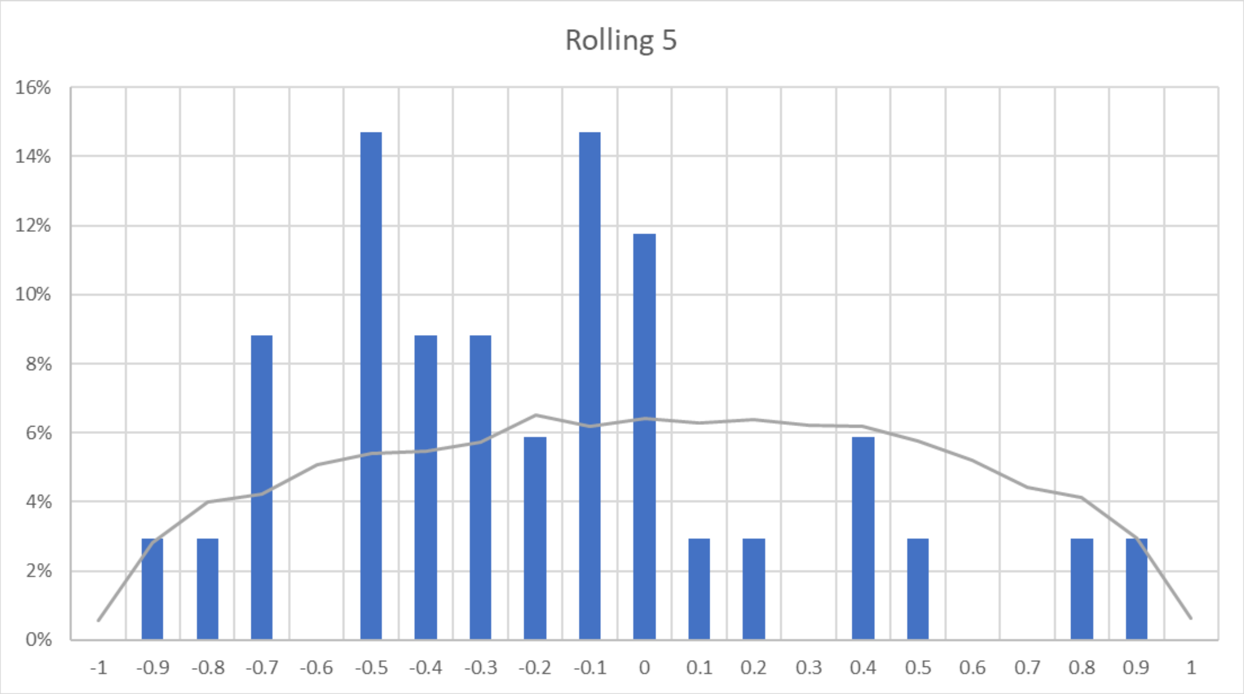


Qualitative Considerations

- Expect positive correlation given the nature of the risks
- Weak economic environment with company credit defaults to debt holders would also be expected to be unfavorable for equity holders
- There may be a time lag in the data between the risks which weakens the observed correlations
- The longer time period for calibration of risks within LRBC would support a lower correlation compared to 1 year capital frameworks

Results Detail – Credit & Interest Rate

Recommended:	25%
Average Annual Correlation – Core 1982-2019	18%
Average Annual Correlation – Extended 1972-2021	33%
Average Cumulative 2yr, 5yr, 10yr Correlations	31% 5-year 5% 10-year
5-year Rolling Distribution best fit	**25% best fit** using all data, taking the absolute value of -25% (0% also good fit)
10-year Rolling Distribution best fit	**25% best fit** using all data
Tail Correlation in Worst 10% & 20% of 5Yr Credit Outcomes	49% in worst 4 rolling 5yr data points 27% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Rate Outcomes	3% in worst 4 rolling 5yr data points 9% in worst 7 rolling 5yr data points



Qualitative Considerations

- Since interest rate losses could be driven by either increases or decreases in rates, we have considered the absolute value of all interest rate correlations in our results
- Correlations may differ in up rate vs down rate binding scenarios; the current structure of RBC does not easily allow for this differentiation
- The data used for interest rate risk captures both rate and spread movements; we might expect a positive relationship between credit defaults and increase in spreads

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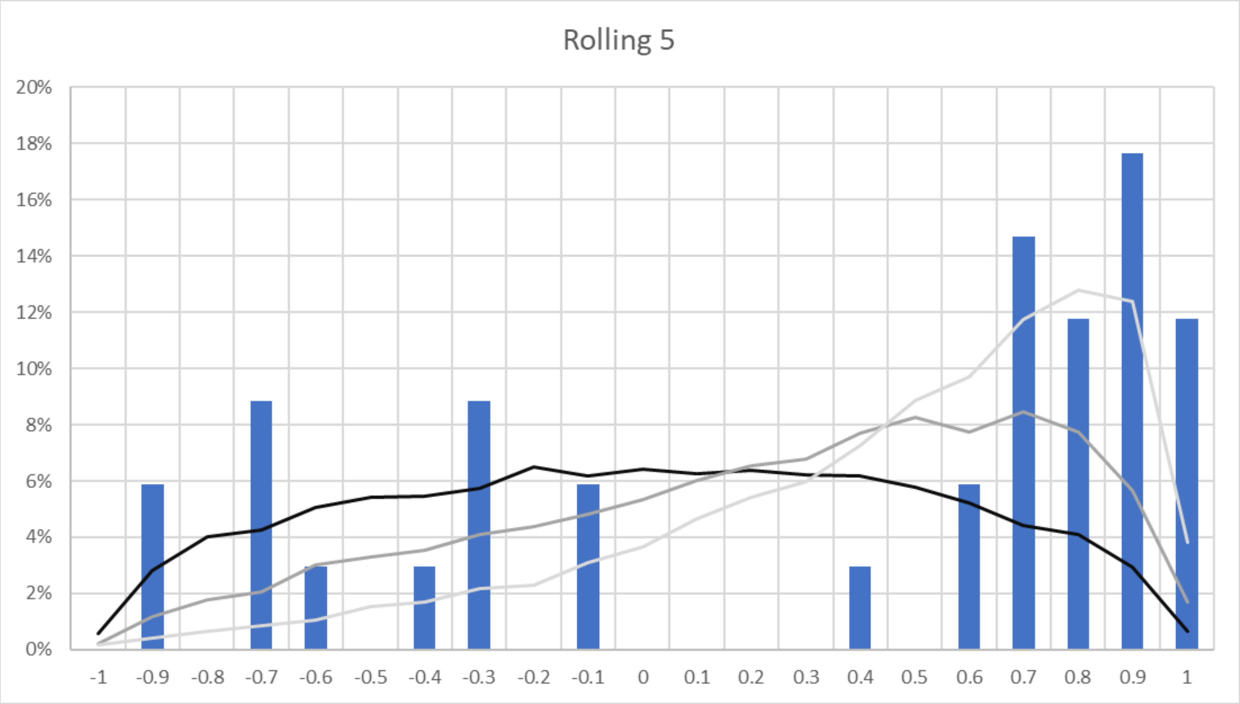
Results Detail – Equity & Interest Rate

Recommended:	50%
Average Annual Correlation – Core 1982-2019	43%
Average Annual Correlation – Extended 1972-2023	46%
Average Cumulative 2yr, 5yr, 10yr Correlations	12% 5-year 42% 10-year
5-year Rolling Distribution best fit	**75% best fit** using all data (50% also good fit)
10-year Rolling Distribution best fit	**50% best fit** using all data
Tail Correlation in Worst 10% & 20% of 5Yr Equity Outcomes	31% in worst 4 rolling 5yr data points 2% in worst 7 rolling 5yr data points
Tail Correlation in Worst 10% & 20% of 5Yr Rate Outcomes	91% in worst 4 rolling 5yr data points 68% in worst 7 rolling 5yr data points



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- Since interest rate losses could be driven by either increases or decreases in rates, we have considered the absolute value of all interest rate correlations in our results
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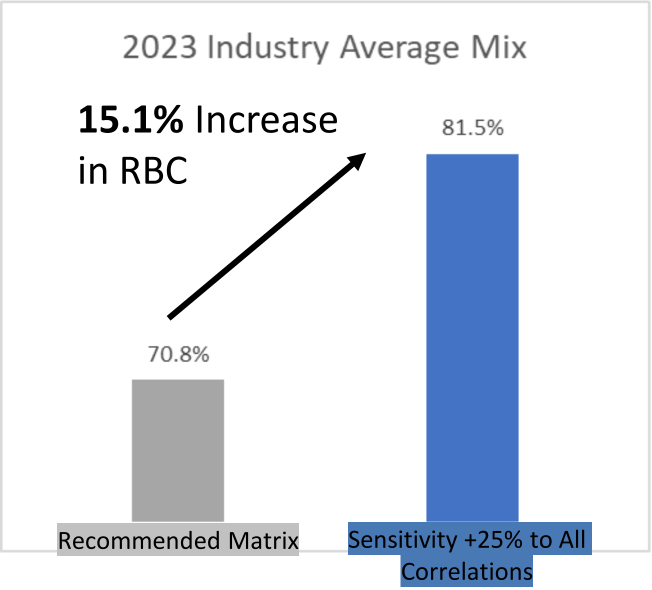
Conservatism in Calibration

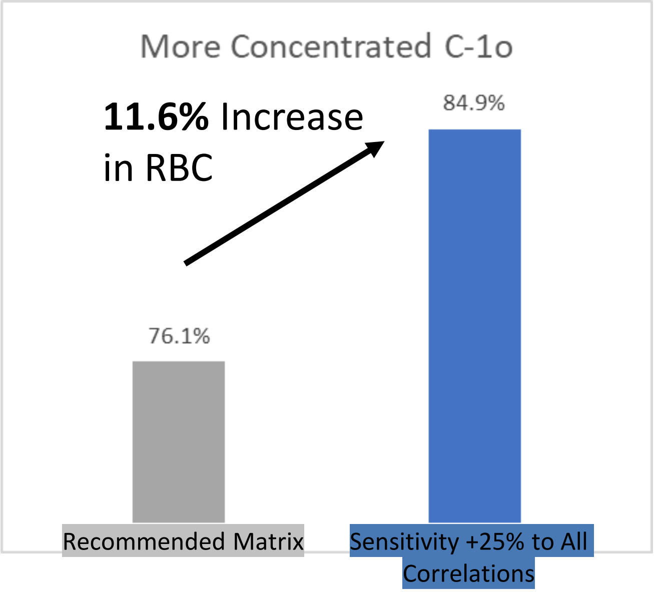
Higher correlation assumptions are 'conservative' in that they will increase aggregate RBC

However the impact would disproportionately impact diversified companies while having less impact on aggregate RBC for companies with relatively more concentrated risk exposures

This could weaken the effectiveness of RBC as a tool for identifying potentially weakly capitalized companies

Recommend best estimate correlations without explicit conservatism consistent with the objective of maintaining the statistical safety level to which risk factors were calibrated





Sensitivity shows the impact of increasing correlations between major risk categories 25% higher than the recommendation

Higher correlations increase RBC for both companies, but the impact less for companies with more concentrated risk exposures

The "More Concentrated C-1o" sensitivity increases C-1o risk by 50% while proportionally reducing all other C risks

Background

- The Life Risk Based Capital Working Group has reviewed and made updates to many areas of the LRBC formula in recent years to maintain the effectiveness of LRBC as a regulatory tool to identify potentially weakly capitalized insurers
- The calculation of each individual risk factor within LRBC has been reviewed and/or updated since the introduction of formula in the 1990s
- A holistic review of correlation of risks within the formula has not yet been undertaken
    - In 2001, the C1-cs component was created with separate covariance from C-1o
    - In 2021, C-2b longevity risk was introduced, including correlation with mortality C-2a
- Except for longevity and mortality risk, all correlations within LRBC are either 0% or 100%
- The scope of this analysis is initially focused on correlation between C-risks within LRBC; an extension of this effort could also consider correlation within individual C-risks (such as within C-1o)

Rationale for Review of Covariance Within LRBC

Due for regular maintenance review

- Every C-factor within LRBC has been individually reviewed in recent years; covariance between C-factors is due for a routine review to maintain the effectiveness of LRBC

Current approach is simplistic

- Except for C-2b longevity which was recently added, every correlation within LRBC is either 0% or 100%
- A more refined approach could be considered that improves effectiveness without adding undue complexity

Impact to effectiveness of LRBC could be material

- Changes to covariance could improve the effectiveness of RBC in differentiating between companies with concentration or diversification of risks

Current Life Risk Based Capital

RBC after Covariance =

$C0 + C4a + \text{Square Root of } [(C1o + C3a)^2 + (C\text{-}1cs + C\text{-}3c)^2 + (C2)^2 + (C3b)^2 + C4b)^2]$

Expressed as a correlation matrix, all correlations are either 0% or 100% except for the nested correlation within C-2 between mortality and longevity:

	C-1cs	C-1o	C-2	C-3a	C-3b	C-3c	C-4b
C-1cs	100%						
C-1o	0%	100%					
C-2	0%	0%	100%				
C-3a	0%	100%	0%	100%			
C-3b	0%	0%	0%	0%	100%		
C-3c	100%	0%	0%	0%	0%	100%	
C-4b	0%	0%	0%	0%	0%	0%	100%

Nested correlation for C-2:

	C-2 Mortality	C-2 Longevity
C-2 Mortality	100 %	
C-2 Longevity	-25%	100 %