

Draft date: 6/10/25

Virtual Meeting

CAPITAL ADEQUACY (E) TASK FORCE

Monday, June 30, 2025

2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

ROLL CALL

NAIC Member

Doug Ommen, Chair
Judith L. French, Vice Chair
Mark Fowler
Lori K. Wing-Heier
Ricardo Lara
Michael Conway
Andrew N. Mais
Karima M. Woods
Michael Yaworsky
Ann Gillespie
Holly W. Lambert
Vicki Schmidt
Sharon P. Clark
Timothy J. Temple
Grace Arnold
Angela L. Nelson
Remedio C. Mafnas
Eric Dunning
Scott Kipper
Justin Zimmerman
Jon Godfread
Glen Mulready
Michael Humphreys
Elizabeth Kelleher Dwyer
Michael Wise
Carter Lawrence
Cassie Brown
Scott A. White
Patty Kuderer
Nathan Houdek

Representative

Mike Yanacheak, Chair
Tom Botsko, Vice Chair
Charles Hale/Richard Russell
Lori K. Wing-Heier
Thomas Reedy
Rolf Kaumann
Wanchin Chou
Philip Barlow
Jane Nelson
Matt Cheung
Roy Eft
Tish Becker
Russell Coy
Melissa Gibson
Fred Andersen
John Rehagen
Remedio C. Mafnas
Tadd Wegner
Hermoliva Abejar
Justin Zimmerman
Matt Fischer
Andy Schallhorn
Diana Sherman
Ted Hurley
Ryan Basnett
Trey Hancock
Jamie Walker
Doug Stolte
Steve Drutz
Amy Malm

State/Territory

Iowa
Ohio
Alabama
Alaska
California
Colorado
Connecticut
District of Columbia
Florida
Illinois
Indiana
Kansas
Kentucky
Louisiana
Minnesota
Missouri
N. Mariana Islands
Nebraska
Nevada
New Jersey
North Dakota
Oklahoma
Pennsylvania
Rhode Island
South Carolina
Tennessee
Texas
Virginia
Washington
Wisconsin

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of Proposal 2025-10-L (RBC Asset Credit for Modco/
Funds Withheld)—*Philip Barlow (DC)* Attachment A
2. Consider Adoption of Proposal 2025-09-P (Underwriting Risk Line 1
Factors)—*Tom Botsko (OH)* Attachment B
3. Consider Adoption of Proposal 2025-11-CR (Catastrophe Modeling
Attestation)—*Wanchin Chou (CT)* Attachment C
4. Consider Adoption of Proposal 2025-03-CA (Underwriting Risk
Investment Income Update)—*Steve Drutz (WA)* Attachment D
5. Consider Adoption of Its Revised Procedure—*Mike Yanacheak (IA)* Attachment E
6. Consider Adoption of Its 2026 Proposed Charges—*Mike Yanacheak (IA)* Attachment F
7. Consider Exposure of a Statutory Accounting Principles (E) Working
Group Referral Regarding Collateral Loan Schedule BA Reporting
Changes—*Mike Yanacheak (IA)* Attachment G
8. Receive Comment Letter from PineBridge Investments Regarding the
Risk-Based Capital (RBC) Treatment for Securities Valuation Office (SVO)
Designated Investments—*Mike Yanacheak (IA)* Attachment H
9. Discuss Any Other Matters Brought Before the Task Force
—*Mike Yanacheak (IA)*
10. Adjournment

Capital Adequacy (E) Task Force

RBC Proposal Form

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

<p style="text-align: right; margin: 0;">DATE: <u>04/14/2025</u></p> <p>CONTACT PERSON: <u>Kazeem Okosun</u></p> <p>TELEPHONE: <u>816-783-8981</u></p> <p>EMAIL ADDRESS: <u>kokosun@naic.org</u></p> <p>ON BEHALF OF: <u>Life Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Philip Barlow, Chair</u></p> <p>TITLE: <u>Associate Commissioner of Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center; margin: 0;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # <u>2025-10-L</u></p> <p>Year <u>2025</u></p> <hr/> <p style="text-align: center; margin: 0;"><u>DISPOSITION</u></p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>06-20-2025</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05-01-2025</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The 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:

05-01-2025: Proposal was exposed with comments due 05-30-2025. No comment letter received (KO)

6-18-2025: Highlighted in YELLOW were editorial changes we needed to make to the instruction due to the adoption of Proposal 2025-04-L MOD

**** 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

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 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)** **Line (47)** 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 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)~~ **Line (48)** and Line (56), LR009 Column (6) Line (23), LR012 Column (2) Line (20) and LR017 Column (5) Line (29).

Capital Adequacy (E) Task Force

RBC Proposal Form

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

<p style="text-align: right; margin: 0;">DATE: <u>4/16/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>P/C RBC (E) Working Group</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 West Town Street, Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center; margin: 0;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2025-09-P</u> Year <u>2025</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>ADOPTED: <input type="checkbox"/> TASK FORCE (TF) _____ <input checked="" type="checkbox"/> WORKING GROUP (WF) <u>06/11/25</u> <input checked="" type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED: <input type="checkbox"/> TASK FORCE (TF) _____ <input checked="" type="checkbox"/> WORKING GROUP (WG) <u>05/02/25</u> <input checked="" type="checkbox"/> SUBGROUP (SG) <u>05/02/25</u></p> <p>REJECTED: <input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER: <input type="checkbox"/> DEFERRED TO _____ <input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____ <input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The proposed change aims to deliver a routine annual update to the industry underwriting factors, including premium and reserve, within the PCRBC formula.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

Schedule P Line of Business	LOB	Proposed for adoption - 2025 Industry Average Development	2024 Industry Average Development	2023 Industry Average Development	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development
H/F	A	0.997	1.020	0.999	1.001	0.998	0.993	0.989	0.989	0.984	0.972
PPA	B	1.072	1.061	1.047	1.022	1.025	1.035	1.026	1.022	1.012	1.002
CA	C	1.110	1.115	1.106	1.082	1.083	1.078	1.087	1.060	1.034	1.015
WC	D	0.912	0.882	0.873	0.906	0.912	0.916	0.955	0.952	0.971	0.971
CMP	E	1.018	1.024	1.026	1.037	0.999	1.016	0.992	0.967	0.956	0.942
MM Occurrence	F1	0.914	0.910	0.906	0.887	0.874	0.861	0.864	0.871	0.868	0.841
MM Clms Made	F2	1.024	0.996	0.984	0.983	0.973	0.940	0.907	0.886	0.854	0.822
SL	G	0.995	0.996	0.994	0.990	0.976	0.963	0.938	0.933	0.926	0.919
OL	H	0.995	0.993	0.969	0.995	0.964	0.968	0.971	0.966	0.952	0.929
Fidelity / Surety	K	0.875	0.875	0.852	0.842	0.915	0.907	0.995	0.996	1.016	1.035
Special Property/Pet Insurance Plan	I/U	0.985	0.989	0.983	0.993	0.978	0.977	0.972	0.971	0.982	0.973
Auto Physical Damage	J	1.002	0.999	1.016	1.011	0.989	0.993	0.996	1.000	1.001	0.995
Other (Credut, A&H)	L	0.938	0.942	0.946	0.955	0.965	0.971	0.973	0.976	0.981	0.986
Financial / Mortgage Guaranty	S	0.486	0.493	0.674	0.694	0.723	0.682	0.788	0.870	0.820	0.853
Intl	M	1.927	2.168	2.414	3.041	1.104	1.162	1.037	0.851	0.855	0.897
Rein. Property & Financial Lines	N/P	0.925	0.930	0.924	0.917	0.893	0.886	0.872	0.834	0.814	0.814
Rein. Liability	O	1.090	1.054	1.024	1.008	0.989	0.985	0.955	0.945	0.914	0.896
PL	R	0.911	0.882	0.874	0.867	0.879	0.900	0.913	0.921	0.935	0.937
Warranty	T	0.978	0.991	0.995	0.998	1.007	1.013	1.017	1.015	0.989	0.977

Schedule P Line of Business	LOB	Proposed for Adoption - 2025 Industry Average Loss & Expense Ratio	2024 Industry Average Loss & Expense Ratio	2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio
H/F	A	0.700	0.695	0.679	0.665	0.681	0.678	0.681	0.687	0.688	0.701
PPA	B	0.807	0.799	0.791	0.793	0.795	0.810	0.810	0.806	0.800	0.792
CA	C	0.792	0.787	0.777	0.761	0.761	0.759	0.737	0.724	0.706	0.689
WC	D	0.649	0.646	0.651	0.664	0.682	0.705	0.726	0.744	0.751	0.752
CMP	E	0.683	0.684	0.671	0.661	0.673	0.672	0.666	0.664	0.647	0.648
MM Occurrence	F1	0.763	0.752	0.767	0.750	0.731	0.726	0.730	0.780	0.777	0.767
MM Clms Made	F2	0.840	0.828	0.815	0.829	0.821	0.797	0.768	0.747	0.722	0.691
SL	G	0.565	0.583	0.578	0.585	0.593	0.603	0.593	0.569	0.567	0.572
OL	H	0.664	0.649	0.641	0.637	0.635	0.639	0.638	0.633	0.629	0.618
Fidelity / Surety	K	0.374	0.375	0.363	0.366	0.394	0.384	0.399	0.417	0.430	0.464
Special Property/Pet Insurance Plan	I/U	0.552	0.559	0.550	0.547	0.559	0.553	0.554	0.563	0.555	0.559
Auto Physical Damage	J	0.731	0.733	0.727	0.718	0.726	0.732	0.730	0.732	0.727	0.711
Other (Credit, A&H)	L	0.714	0.711	0.702	0.698	0.693	0.684	0.682	0.709	0.712	0.699
Financial / Mortgage Guaranty	S	0.159	0.158	0.209	0.203	0.252	0.513	0.811	1.099	1.175	1.293
Intl	M	1.184	1.153	1.136	1.166	0.769	0.758	0.795	0.584	0.565	0.607
Rein. Property & Financial Lines	N/P	0.597	0.587	0.578	0.566	0.558	0.534	0.522	0.486	0.459	0.512
Rein. Liability	O	0.788	0.760	0.743	0.725	0.713	0.708	0.679	0.666	0.609	0.600
PL	R	0.609	0.594	0.597	0.601	0.617	0.645	0.656	0.671	0.670	0.684
Warranty	T	0.641	0.641	0.652	0.665	0.681	0.691	0.695	0.732	0.645	0.611

Capital Adequacy (E) Task Force

RBC Proposal Form

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<p style="text-align: right; margin: 0;">DATE: <u>4/15/25</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>Catastrophe Risk (E) Subgroup</u></p> <p>NAME: <u>Wanchin Chou</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Connecticut Department of Insurance</u></p> <p>ADDRESS: <u>153 Market St., Hartford CT 06103</u></p>	<p style="text-align: center; margin: 0;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item #<u>2025-11-CR</u></p> <p>Year <u>2025</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>5/2/25</u></p> <p><input checked="" type="checkbox"/> SUBGROUP (SG) <u>5/2/25</u></p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The purpose of this proposal is to update the PR002 Attestation by incorporating the newly added wildfire and severe convective storm perils for informational purposes only from PR027.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

ATTESTATION RE: CATASTROPHE MODELING USED IN RBC CATASTROPHE RISK CHARGES PR002

(1) [Redacted Company Name] hereby certifies that the modeled catastrophe losses for earthquake risk, hurricane risk, wildfire risk, and severe convective storm risk entered on lines 1 through 4 of Schedule PR027A,PR027B, PR027C and PR027D of this Risk-Based Capital Report were determined by applying the same catastrophe models or combination of models to the same underlying exposure data, and using the same modeling assumptions, as the company uses in its own internal risk managemnt process, with the following exceptions:

(1a) [Redacted]

These exceptions, if any, are made for the following reasons:

(1b) [Redacted]

The following describes the company's application of catastrophe modeling to the determination of the Rcat risk charges: (Include which models are used in what combinations for each of the Rcat charges; what key modeling assumptions are used, including but not limited to time dependency, secondary uncertainty, storm surge, demand surge, and fire following earthquake; and the rationale for treatment of each issue or item): (provide attachments if necessary):

(2) [Redacted]

The company further certifies that the underlying exposure data used in the catastrophe modeling process is accurate and complete to the best of our knowledge and ability, with the following limitations:

(3) [Redacted]

The following describes the extent to which the exposure location data is accurate to GPS coordinates; to zip code; and to a level less accurate than zip code: (provide attachments if necessary):

(4) [Redacted]

The following describes the steps taken to validate, to the best of the Company's knowledge and belief, the accuracy and completeness of the exposure data used in the modeling process to determine the Rcat catastrophe risk charges (provide attachments if necessary):

(5) [Redacted]

Provide an explanation of the methodology used to derive the amounts in columns 3 and 4 of page PR027A, PR027B, PR027C, and PR027D.

(6) [Redacted]

(7) Completed on behalf of: [Redacted] (7) Completed By: [Redacted] [Redacted] [Redacted] [Redacted]
Last First Middle Title

(7) Email: [Redacted] (7) Phone: [Redacted] Date: [Redacted]

Capital Adequacy (E) Task Force

RBC Proposal Form

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

<p style="text-align: right;">DATE: _____</p> <p>CONTACT PERSON: <u>Derek Noe</u></p> <p>TELEPHONE: <u>816-783-8973</u></p> <p>EMAIL ADDRESS: <u>dnoe@naic.org</u></p> <p>ON BEHALF OF: <u>Health Risk-Based Capital (E) Working Group</u></p> <p>NAME: <u>Steve Drutz</u></p> <p>TITLE: <u>Chief Financial Analyst/Chair</u></p> <p>AFFILIATION: <u>WA Office of Insurance Commissioner</u></p> <p>ADDRESS: <u>5000 Capital Blvd SE</u> <u>Tumwater, WA 98501</u></p>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <hr/> <p>Agenda Item # <u>2025-03-CA</u> Year <u>2025</u></p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input checked="" type="checkbox"/> TASK FORCE (TF) <u>05/15/2025</u></p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>03/24/2025</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input checked="" type="checkbox"/> REFERRED TO OTHER NAIC GROUP</p> <p><input type="checkbox"/> (SPECIFY) <u>CADTF 4/30/25</u></p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

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

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision for the investment income adjustment.

Update the Underwriting factors for Comprehensive Medical, Medicare Supplement, and Dental & Vision on pages XR013, LR019, LR020, PR019, and PR020 for the investment income adjustment.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

2025 Investment Yield for Investment Income Adjustment

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

Date	1 Mo	1.5 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2025	4.45	N/A	4.36	4.36	4.31	4.25	4.17	4.25	4.29	4.38	4.47	4.57	4.86	4.79
01/03/2025	4.44	N/A	4.35	4.34	4.31	4.25	4.18	4.28	4.32	4.41	4.51	4.60	4.88	4.82
01/06/2025	4.43	N/A	4.36	4.35	4.31	4.24	4.17	4.28	4.30	4.42	4.52	4.62	4.91	4.85
01/07/2025	4.42	N/A	4.35	4.35	4.31	4.24	4.19	4.30	4.33	4.46	4.57	4.67	4.97	4.91
01/08/2025	4.41	N/A	4.34	4.35	4.31	4.25	4.19	4.28	4.31	4.45	4.56	4.67	4.97	4.91
01/09/2025	4.44	N/A	4.36	4.35	4.31	4.24	4.16	4.27	4.31	4.46	4.57	4.68	4.98	4.92
01/10/2025	4.42	N/A	4.35	4.36	4.33	4.27	4.25	4.40	4.46	4.59	4.70	4.77	5.04	4.96
01/13/2025	4.42	N/A	4.36	4.37	4.34	4.30	4.24	4.40	4.49	4.61	4.71	4.79	5.05	4.97
01/14/2025	4.42	N/A	4.35	4.36	4.33	4.29	4.22	4.37	4.46	4.59	4.70	4.78	5.06	4.98
01/15/2025	4.40	N/A	4.34	4.35	4.32	4.26	4.19	4.27	4.34	4.45	4.55	4.66	4.95	4.88
01/16/2025	4.43	N/A	4.36	4.34	4.32	4.26	4.18	4.23	4.29	4.39	4.50	4.61	4.91	4.84
01/17/2025	4.43	N/A	4.35	4.34	4.32	4.28	4.21	4.27	4.33	4.42	4.52	4.61	4.91	4.84
01/21/2025	4.42	N/A	4.35	4.36	4.33	4.28	4.21	4.29	4.33	4.40	4.49	4.57	4.87	4.80
01/22/2025	4.42	N/A	4.35	4.36	4.32	4.28	4.20	4.29	4.34	4.43	4.51	4.60	4.89	4.82
01/23/2025	4.45	N/A	4.36	4.36	4.32	4.27	4.18	4.29	4.35	4.45	4.55	4.65	4.92	4.87
01/24/2025	4.45	N/A	4.36	4.35	4.32	4.25	4.17	4.27	4.33	4.43	4.53	4.63	4.91	4.85
01/27/2025	4.44	N/A	4.36	4.32	4.30	4.25	4.13	4.17	4.24	4.32	4.43	4.53	4.82	4.76
01/28/2025	4.44	N/A	4.35	4.31	4.30	4.26	4.14	4.19	4.25	4.33	4.43	4.55	4.84	4.78
01/29/2025	4.43	N/A	4.34	4.31	4.34	4.27	4.17	4.21	4.27	4.35	4.44	4.55	4.85	4.79
01/30/2025	4.37	N/A	4.38	4.30	4.33	4.27	4.16	4.18	4.24	4.31	4.41	4.52	4.81	4.76
01/31/2025	4.37	N/A	4.37	4.31	4.33	4.28	4.17	4.22	4.27	4.36	4.47	4.58	4.88	4.83



February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries¹ Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
High Tier (i.e., less than \$3Million (M) or less than \$25M)			
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
Low Tier			
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.



If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

Health Instructions**Page XR013, Line 13**


 Detail Eliminated to Conserve Space
 

Line (13) Underwriting Risk Factor. A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 54.5%.

	\$0 – \$3 Million	\$3 – \$25 Million	Over \$25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond ([U.S. Department of the Treasury](https://www.treasury.gov/)) on each Monday through the month of January and determine if further modifications to the 54.5% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions**Page PR020, Line 10**


 Detail Eliminated to Conserve Space
 

Line (10) Underwriting Risk Factor
A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	\$0 - \$3 Million	\$3-\$25 Million	Over \$25 Million
Comprehensive Medical	0.14 <u>4027</u>	0.14 <u>4027</u>	0.08 <u>4432</u>
Medicare Supplement	0.09 <u>8773</u>	0.0 <u>609596</u>	0.0 <u>609596</u>
Dental & Vision	0.11 <u>5343</u>	0.07 <u>1606</u>	0.07 <u>1606</u>
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Life Instructions**LR020, Line 10**

Detail Eliminated to Conserve Space

**Line (10) Underwriting Risk Factor**

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	\$0 - \$3 Million	\$3 - \$25 Million	Over \$25 Million
Comprehensive Medical	0.14 4027	0.14 4027	0.08 4432
Medicare Supplement	0.09 8773	0.0 609596	0.0 609596
Dental <u>& Vision</u>	0.11 5343	0.07 1606	0.07 1606
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

UNDERWRITING RISK**Experience Fluctuation Risk**

	Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non- Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non- Health
\$0 - \$3 Million	0.144027	0.09873	0.115343	0.251	0.130	0.130
\$3 - \$25 Million	0.144027	0.0609596	0.071606	0.251	0.130	0.130
Over \$25 Million	0.084432	0.0609596	0.071606	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND

(Experience Fluctuation Risk in Life RBC Formula)

	(1)	(2)	(3)	(4)	(5)
	<u>Comprehensive</u>	<u>Medicare</u>		<u>Stand-Alone</u>	
	<u>Medical</u>	<u>Supplement</u>	<u>Dental & Vision</u>	<u>Medicare Part D</u>	<u>TOTAL</u>
	<u>Coverage</u>				
(1.1) Premium – Individual	0	0	0	0	0
(1.2) Premium – Group	0	0	0	0	0
(1.3) Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2) Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3) Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4) Other Health Risk Revenue‡	0	XXX	0	0	0
(5) Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6) Net Incurred Claims	0	0	0	0	0
(7) Fee-for-Service Offset†	0	XXX	0	0	0
(8) Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9) Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1) Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2) Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3) Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11) Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12) Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13) Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14) RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15) Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16) Alternate Risk Charge*	0	0	0	0	0
(17) Net Alternate Risk Charge‡	0	0	0	0	0
(18) Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000	\$50,000	\$50,000	\$150,000	Maximum
	or	or	or	or	of
	2 x Maximum	2 x Maximum	2 x Maximum	6 x Maximum	Columns
	Individual Risk	Individual Risk	Individual Risk	Individual Risk	(1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	0.144027	0.09873	0.115343	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	0.084432	0.0609596	0.071606	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is \$3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is \$25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	\$1,500,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$50,000 or 2 x Maximum Individual Risk	\$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)
------------	---	--	--	---	---

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

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

**PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S
CAPITAL ADEQUACY TASK FORCE IN CONNECTION WITH PROPOSED AMENDMENTS TO RISK-BASED CAPITAL
BLANKS AND INSTRUCTIONS**

The following establishes procedures and rules of the Financial Condition (E) Committee's Capital Adequacy Task Force (Task Force) and its Working Groups with respect to proposed amendments to the NAIC RBC Forecasting (blanks) and Instructions.

1. The Task Force may consider relevant proposals to change the RBC blanks and instructions at the national meeting or designated interim meeting as scheduled by the Task Force.
2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmte_e_capad.htm. All interested party proposals should be emailed to the appropriate NAIC staff support with a completed proposal form and mocked-up changes.

The following guidelines apply:

- Although proposal shall be exposed throughout the year to allow ample time for consideration, any proposals that affect ~~an RBCa structural change to the RBC blank blank~~ (e.g. ~~all pages addition/deletion of a row or column~~ after LR001, PR001, XR001) must be exposed by the Task Force or its Working Groups no later than March 31 of the effective year of the change. - The proposal must be adopted by the Task Force no later than May 15 of the effective year of the change.
- Any proposal that only affects the instructions, ~~non-structural change to the RBC Blanks (e.g. description or reference change)~~ or factors must be exposed by the Task Force / Working Group by May 15 and adopted by the Task Force by June 30 of the current year.
- Only the Task Force may extend the June 30th adoption deadline for previously considered proposals upon a -two-thirds- consent of the Task Force members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high and implementation by the RBC software vendors is feasible. The two-thirds consent applies only in the instance of a Task Force vote that is outside of the standard RBC adoption deadlines (May 15 and June 30).

An illustration of the proposed change to the RBC blank, factors, or instructions should accompany the Proposal Form. In addition, an impact analysis is preferred for any factor change. If another NAIC Committee, Task Force or Working Group is known to have considered this proposal, that Committee, Task Force or Working Group should provide any relevant information.

The Task Force/Working Groups will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days to ensure adequate time to provide comment on any structural change, unless a shorter exposure is approved by the Task Force or Working Groups) or to reject the proposal. The comment period shall end at least 3 business days prior to the next designated national or interim meetings of the Task Force/ Working Group. The Task Force/Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Task Force/Working Group if the proposal has merit but warrants additional work or input. The Task Force may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group it will be considered again after comments/recommendations are received. The Task Force will review and adopt the working agenda at the each Fall National Meeting, ~~if necessary, to ensure all items designated as a priority 1 are being addressed~~ to assess the status of the priority items, to add or delete items that have been addressed or to reprioritize the remaining items on the working agenda.

3. Interested Party proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Task Force/Working Group if the proposal is filed at least fifteen business days prior to the meeting.
4. The NAIC staff support shall prepare the meeting materials including all suggested proposals. Interim meeting materials will be posted no later than three business days prior to the scheduled meeting on the NAIC website. Initial national meeting materials will be posted ten business-calendar days before the first day of each National Meeting on the NAIC website. Materials posted ten business-calendar days in advance of the National Meeting will not be printed for distribution.
5. At each meeting, the Task Force/Working Group will review comments that were received by the comment exposure due date for suggested proposals.
6. NAIC staff support will incorporate editorial changes discovered in the annual updates of the RBC formulas e.g., reference changes

due to new SSAPs or annual statement references. NAIC staff support may also request that the Task Force/Working Group reconsider items adopted, if these items contain substantial -modifications.

7. The Task Force/Working Group may, when deemed necessary, appoint an Ad Hoc Group to study proposals and/or certain issues.
8. The NAIC will publish the RBC Forecasting and Instructions for the next subsequent year on, or about November 1 each year. The following documentation will be posted to the NAIC Web site:
 - RBC Proposals adopted by the Task Force (after each interim and National Meeting)
 - Annual RBC Newsletters (after Summer National Meeting)
 - Annual RBC Statistics (after Summer National Meeting)
 - Working Agenda (after ~~each~~ Fall National Meeting)
 - Any subsequent corrections to these publications (as needed)

Draft: 8/14/24

Adopted by the Executive (EX) Committee and Plenary, Dec. xx, ~~2024~~2025

Adopted by the Financial Condition (E) Committee, Dec. xx, ~~2024~~2025

Adopted by the Capital Adequacy (E) Task Force, ~~Sept~~June. 26xx, ~~2024~~2025

2025-2026 Proposed Charges

CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Capital Adequacy (E) Task Force** will:

- A. ~~Evaluate application of the Risk-Based Capital (RBC) formula and Evaluate~~ emerging “risk” issues for referral to ~~the risk-based capital (RBC)~~ working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
- B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
- C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.
- ~~C.D.~~ Continually review the RBC instructions, blanks and forecastings and revise as appropriate.

2. The **Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, and Property and Casualty Risk-Based Capital (E) Working Group** will:

- A. Evaluate refinements to the existing NAIC RBC formulas implemented in the prior year. ~~Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.~~
- B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than May 15 of the reporting year, and any proposal that affects ~~the~~ a non-structural change to the RBC Blanks, RBC factors and/or instructions must be adopted no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by July 30, where the Capital Adequacy (E) Task Force votes to pursue by two-thirds consent of members.
- C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.
- D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.

3. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group

and the Life Actuarial (A) Task Force will:

- A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation and determine if additional revisions need to be made.
 - B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.
4. The **Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
- A. Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.
5. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
- A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
 - B. Continue to update the U.S. and non-U.S. catastrophe event list.
 - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
 - D. Evaluate the RBC results inclusive of a catastrophe risk charge.
 - E. Refine instructions for the catastrophe risk charge.
 - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
 - G. Evaluate other catastrophe risks for possible inclusion in the charge.
6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
- A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
 - i. ~~Identifying and acknowledging uses that extend beyond the purpose of the Risk-Based Capital (RBC) for Insurers Model Act (#312). Evaluating relevant historical data and applying defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to current asset risk structure and factors (e.g. C-1o and C1-cs).~~
 - ii. ~~Facilitating coordination and alignment among NAIC committees/task forces/working groups related to its work in reviewing current asset risk framework.~~
 - iii. ~~Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels. Documenting the modifications made over time to the formulas, including, but not limited to, an analysis of the costs in study and development, implementation (internal and external), assimilation, verification, analysis, and review of the desired change to the RBC formulas and facilitating the appropriate allocation of resources.~~
7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
- A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.
 - B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
 - C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
 - D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
 - E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung

SharePoint/FRS-RBC/CADTF/Charges/~~2024~~2026/~~2024~~2026 Proposed Charges.docx

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June 11, 2025

Mike Yanacheak

Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Tom Botsko

Vice Chair, NAIC Capital Adequacy (E) Task Force (CADTF)

Re: CADTF's May 2025 Exposures

Dear Chair Yanacheak and Vice Chair Botsko:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on the three items which were exposed by the Task Force following its meeting on May 15th.

Regarding the Proposed 2026 Charges, we support the edits and welcome their adoption at a future CADTF meeting. We especially support the addition to the RBC Investment Risk and Evaluation (E) Working Group's charges which calls out "coordination and alignment" between different NAIC workstreams. We believe this charge, along with the efforts of the Model Governance (EX) Task Force, will help ensure that the current review of RBC is as robust, coordinated, and holistic as possible. ACLI does not have any feedback on the proposed edits to the RBC Procedures or RBC Proposal Form 2025-03-CA.

Thank you once again for the chance to provide these comments and we look forward to further discussion soon.

Sincerely,

Handwritten signatures of Brian Bayerle and Colin Masterson in black ink.

cc: Eva Yeung, NAIC

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

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

acli.com

MEMORANDUM

TO: Mike Yanacheak, Chair of the Capital Adequacy (E) Task Force
Tom Botsko, Vice Chair of the Capital Adequacy (E) Task Force
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice Chair of the Life Risk-Based Capital (E) Working Group

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

DATE: June 5, 2025

RE: Collateral Loan Schedule BA Reporting Changes

On May 29, 2025, the Blanks (E) Working Group adopted revisions to the Asset Valuation Reserve (AVR) and Schedule BA: Other Long-Term Assets to incorporate more granular reporting of collateral loans based on the type of underlying collateral that secures the loan. (These revisions are detailed in 2024-19BWGMOD). The revisions reflect the adopted recommendations from the Statutory Accounting Principles (E) Working Group (SAPWG) from agenda item 2023-28: Collateral Loan Reporting. With the revised reporting, the SAPWG requests consideration of updated AVR (for life companies) and RBC factors for collateral loans (for all companies). The SAPWG identified that some reporting entities were using collateral loans as a way to access certain types of investment structures while obtaining more favorable RBC than if they held the underlying collateral directly. As such, the ability to incorporate RBC parity for certain collateral loans to what would be incurred if the collateral was held directly was a focus of the project to incorporate more granular reporting lines.

The adopted AVR and Schedule BA reporting lines for collateral loans are as follows (all lines divided between unaffiliated and affiliated loans):

- Backed by Mortgage Loans
- Backed by Investments in Joint Ventures, Partnerships or Limited Liability Companies
- Backed by Residual Tranches or Interests
- Backed by Debt Securities
- Backed by Real Estate
- Backed by Other Collateral Types

There are also new Schedule BA reporting lines for non-collateral loans to separate related party loans, affiliated loans and other loans. These are believed to be captured in the 2025 AVR Schedule BA line 102 for “Other Invested Assets” and incur the standard Schedule BA RBC Charge (e.g., 30% in the Life formula).

A new disclosure was available for year-end 2024 to detail collateral loans based on certain types of collateral. The aggregated results from a review of that disclosure are provided:

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509

p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197

p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004

p | 212 398 9000

www.naic.org

An aggregate review of the 2024 collateral loan disclosure is as follows:

(This information is from the reported note only and does not include a comparison to Schedule BA.)

As shown in the detail below, collateral loans backed by “affiliated ICO bonds,” unaffiliated mortgage loans” and “affiliated investments in joint ventures, LLCs and partnerships” are greater than 70% of the total.

Of the \$27.8B in collateral loans, only \$65M was disclosed as nonadmitted:

- Of the \$10.6B reported as backed by affiliated JV, LLC or partnership investments, \$3M was nonadmitted.
- Of the \$309M reported as backed by affiliated other qualifying investments, \$32.5M was nonadmitted.
- Of the \$45.8M reported as backed by unaffiliated non-qualifying collateral, \$28.5M was nonadmitted.

Collateral Backing Collateral Loan	Note Disclosure Total	% of Total
Unaffiliated Cash / CE & ST	\$145,575,627	0.52%
Issuer Credit Obligations - Affiliated	\$3,286,243,783	11.79%
Issuer Credit Obligations - Unaffiliated	\$1,196,181,621	4.29%
Asset-Backed Securities - Affiliated	\$1,292,104,481	4.63%
Asset-Backed Securities - Unaffiliated	\$547,154,663	1.96%
Preferred Stocks - Affiliated	\$25,000,000	0.09%
Preferred Stocks - Unaffiliated	\$875,892,650	3.14%
Common Stocks - Affiliated	\$10,089,663	0.04%
Common Stocks - Unaffiliated	\$93,746,538	0.34%
Real Estate - Affiliated	\$584,798,322	2.10%
Real Estate - Unaffiliated	\$304,055,142	1.09%
Mortgage Loans - Affiliated	\$377,120,058	1.35%
Mortgage Loans - Unaffiliated	\$5,966,730,875	21.40%
JV, LLC & Partnerships - Affiliated	\$10,603,824,022	38.04%
JV, LLC & Partnerships - Unaffiliated	\$1,292,344,887	4.64%
Other Qualifying - Affiliated	\$309,339,173	1.11%
Other Qualifying - Unaffiliated	\$916,698,627	3.29%
Does Not Qualify - Affiliated	\$4,912,141	0.02%
Does Not Qualify - Unaffiliated	\$45,869,262	0.16%
Reported Note Total	\$27,877,681,535	100%

The SAPWG highlights that mortgage loans and collateral reflecting investments that would be in scope of SSAP No. 48—*Joint Ventures, Partnerships and Limited Liability Companies* represent the highest percentage of the collateral backing collateral loans.

For collateral loans backed by mortgage loans, during the bond project, the SAPWG learned that companies were not reporting these loans on the dedicated “collateral loan” reporting line but were instead reporting these items on Schedule BA as “Private Equity Funds” so that they would flow through AVR to obtain more desirable RBC. The private equity fund reporting line was eliminated with the bond project, and an interim provision was allowed to permit these loans to be reported in AVR lines 38-64 (Schedule BA investments with underlying characteristics of mortgage loans) based on the mortgage loan details. As reporting entities have been classifying these collateral loans in accordance with the underlying mortgage loan details pursuant to the interim provision, this could be considered for a permanent option, with potential of a default category if the reporting entity does not know the mortgage loan details for granular reporting.

Collateral loans backed by investments in scope of SSAP No. 48, representing the largest population of collateral loans, have the greatest potential for inequitable RBC as entities can structure the investment to reflect a collateral loan rather than reporting the SSAP No. 48 investment directly. Previous SAPWG actions have incorporated requirements to ensure that such designs are only admitted if the underlying collateral is audited, as audited support for these investments is a requirement for admittance under SSAP No. 48, but consideration of comparable RBC would assist in further ensuring appropriate reflection of the underlying risk of these items.

The SAPWG appreciates the focus on this referral, and the consideration of specific AVR and RBC factors for the different collateral loan reporting lines. If you have any questions, or would like to further discuss, please contact the Statutory Accounting Principles (E) Working Group chair or vice chair (Dale Bruggeman, or Kevin Clark), or NAIC staff Julie Gann (jgann@naic.org).

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

June 18, 2025

Dear Chairs and members of NAIC Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Capital Adequacy (E) Task Force, Property and Casualty Risk-Based Capital (E) Working Group (Health Risk-Based Capital (E) Working Group), Valuation of Securities (E) Task Force, and Risk-Based Capital (RBC) Model Governance (EX) Task Force:

We commend the working groups for your efforts in harmonizing in the risk-based capital (RBC) treatment for bond funds. In [our March 2025 comment letter](#), we proposed allowing non-life insurers to apply the Securities Valuation Office (SVO) fund designation for RBC purposes for mutual funds and private funds. This harmonization will accomplish several important objectives:

- Creating consistent RBC treatment across fund types (ETF, mutual fund, private fund) and insurer types (Life, P&C, and Health).
- Leveling the playing field for small insurers regarding market access and diversification. Small insurers, for instance, represent over 90% of the P&C industry by insurer count.
- In addition to funds, applying bond-like RBC treatment to tens of billions of non-bond debt obligations that were reclassified as Schedule BA assets and moved out of Schedule D-1 under the Principles-Based Bond Definition (PBBD). This is another area for harmonization across life and non-life.

P&C Industry is Built on Small Insurers

Over 90% of the P&C industry by insurer count is comprised of small insurers that have less than \$5 billion in assets under management (AUM) per entity, totaling \$375 billion in aggregate.¹ These small insurers are a key part of the industry, yet they currently face structural disadvantages. They are subject to an onerous capital charge of 20% on fixed-income funds except for ETFs; and the same treatment is applied to assets held by health insurers. In contrast, life insurers in the same funds would receive bond-like RBC treatment commensurate with their SVO designations.

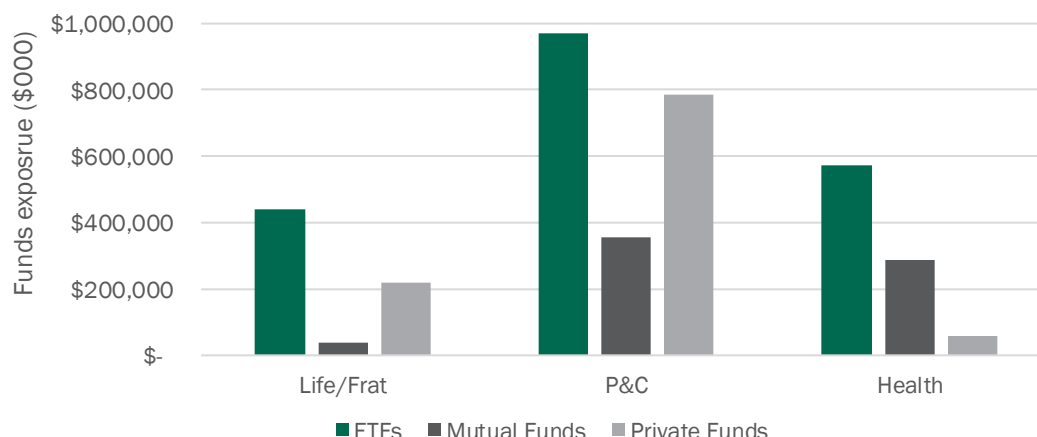
	Aggregate Small Insurers AUM (\$ billion)	Small Insurer Count	Industry Insurer Count	%Count
Life/Fraternal	\$207	281	387	73%
P&C	\$375	1035	1151	90%
Health	\$92	280	428	65%

Source: PineBridge Investments. Based on 2024 Annual Statutory Filings retrieved from S&P Capital IQ

¹ Insurer counts are based on S&P Capital IQ's consolidated subgroups. **Without the subgrouping, 94% of total 2679 P&C entities fall into <\$5 billion in assets.** AUM represents total cash and invested assets of general account.

Investment Funds: A Critical Tool for Market Access and Diversification

Investment funds are essential tools for small insurers. They offer efficient market access, diversification, and asset management expertise that would otherwise be out of reach. For these reasons, small non-life insurers with under \$5 billion in assets, are the most prolific users of funds across all categories including ETFs, mutual funds, and private funds, as indicated in the chart below.



Source: PineBridge Investments. Based on 2024 annual statutory filings data retrieved from S&P Capital IQ

A Disproportionate Burden for Non-Life Insurers

Despite their importance, non-life insurers who purchase interests in non-ETF, fixed-income funds are penalized under the current RBC framework. Using P&C insurers as an example, these funds can be subject to RBC charges as much as twenty times those for life insurers.²

SVO Fund Designation	Non-life Funds RBC	Bond-Like RBC (for P&C Insurers)	Multiplier
NAIC 1.E (A+)	20.0%	1.0%	20.0x
NAIC 2.B (BBB)	20.0%	2.1%	9.5x
NAIC 3.B (BB)	20.0%	6.0%	3.3x

Source: PineBridge Investments. Based on NAIC P&P manual and public materials

These onerous capital charges discourage small, non-life insurers to invest in funds, limit diversification, and disproportionately harm the insurers who need these tools the most. While covariance adjustments may dampen the unfavorable RBC impact illustrated above, for small insurers overall, we expect covariance adjustment will fall short of correcting the significant imbalance illustrated above. For example, assuming covariance adjustment would reduce P&C funds RBC charge by half from 20% to 10%, the multiples would be lowered to 10x, 4.8x, and 1.7x respectively, which remain materially in excess of the investment risk commensurate with a bond-like profile.

² [Assuming the American Council of Life Insurers' \(ACLI\) proposal on harmonizing mutual fund treatment is adopted for the life insurance industry.](#)

Treatment for Non-Bond Debt with SVO Designation

Given the implementation of the PBBD, tens of billions of non-bond debt were reclassified as Schedule BA assets and moved out of D-1, increasing the size of the Schedule BA bucket materially for certain insurers.³ Currently, for life insurers, bond-like treatment is applied to the non-bond debt with SVO designation, but not for non-life insurers. Furthermore, the larger reportable Schedule BA allocation due to non-bond debt can be a challenge for non-life insurers that face tight state regulatory limits on Schedule BA assets in addition to the penal fund RBC charges, further constraining their ability to invest in funds. For non-life insurers, applying the same bond-like treatment for non-bond debt is another area for harmonization.

A Call for Consistency and Harmonization

We are encouraged by [the recent launch of the NAIC RBC Model Governance Task Force by the NAIC Executive Committee](#) to promote RBC consistency. We believe aligning asset RBC charge with appropriate investment risk will improve the accuracy of regulatory capital assessment and promote leveled market access to diverse investment strategies—all of which goes to support a sound solvency framework.

Sincerely yours,
PineBridge Insurance Solutions and Strategies

³ “Q1 bond definition change nets billions of dollars in reclassifications,” published by S&P Capital IQ on May 19, 2025.