NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 03/17/21

Virtual Meeting
(in lieu of meeting at 2021 Spring National Meeting)

CAPITAL ADEQUACY (E) TASK FORCE
Tuesday March 23, 2021
1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00 a.m. – 12:00 p.m. MT / 10:00 a.m. – 11:00 a.m. PT

ROLL CALL

Judith L. French, Chair	Ohio	Sharon P. Clark	Kentucky
Doug Slape, Vice Chair	Texas	Grace Arnold	Minnesota
Jim L. Ridling	Alabama	Chlora Lindley-Myers	Missouri
Lori K. Wing-Heier	Alaska	Bruce R. Ramge	Nebraska
Ricardo Lara	California	Marlene Caride	New Jersey
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Karima M. Woods	District of Columbia	Glen Mulready	Oklahoma
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Robert H. Muriel	Illinois	Mike Kreidler	Washington
Doug Ommen	Iowa	Mark Afable	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jane Barr

AGENDA

1. Consider Adoption of its Feb. 1, 2021, and 2020 Fall National Meeting Minutes—*Tom Botsko (OH)* — Attachment One, Attachment Two

2. Consider Adoption of its Working Group Reports and Minutes —*Tom Botsko (OH)*
   a. Health Risk-Based Capital (E) Working Group — Attachment Three
   b. Life Risk-Based Capital (E) Working Group — Attachment Four
   c. Catastrophe Risk (E) Subgroup and Property and Casualty Risk-Based Capital (E) Working Group Minutes — Attachment Five

3. Receive a Guaranty Fund Memorandum—*Philip Barlow (DC)* — Attachment Six

4. Consider Adoption of Proposal 2020-10 (Bond Structure-Health and P/C) —*Tom Botsko (OH)* — Attachment Seven

5. Consider Exposure of Proposal 2021-02-CA (Managed Care Credit Incentives)—*Steve Drutz (WA)* — Attachment Eight

6. Consider Adoption of Proposal 2020-08-CR (Clarification to PR027 Interrogatories)—*Tom Botsko (OH)* — Attachment Nine

7. Consider Adoption of Proposal 2020-11-CR (Remove Operational Risk Factor from Rcat)—*Tom Botsko (OH)* — Attachment Ten

8. Consider Adoption of its Working Agenda—*Tom Botsko (OH)* — Attachment Eleven

9. Discuss Any Other Matters Brought Before the Task Force

10. Adjournment

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Draft: 11/30/20

Capital Adequacy (E) Task Force
Virtual Meeting (in lieu of meeting at the Fall National Meeting)
November 19, 2020

The Capital Adequacy (E) Task Force met Nov. 19, 2020. The following Task Force members participated: Tynesia Dorsey, Chair, represented by Tom Botsko (OH); Tanji J. Northrup, Vice Chair, represented by Jake Garn (UT); Lori K. Wing-Heier represented by Wally Thomas (AK); Jim L. Ridling represented by Richard Ford (AL); Alan McClain represented by Kim Johnson (AR); Ricardo Lara represented by Perry Kupferman (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); David Altmaier represented by Carolyn Morgan (FL); Doug Ommen represented by Mike Yanacheak (IA); Dean L. Cameron represented by Eric Fletcher (ID); Robert H. Muriel represented by Kevin Fry and Vincent Tsang (IL); Vicki Schmidt represented by Sarah Smith (KS); Grace Arnold represented by Kathleen Orth (MN): Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge represented Lindsay Crawford (NE); Marlene Caride represented by Diana Sherman (NJ); Glen Mulready represented by Andrew Schallhorn (OK); Elizabeth Kelleher Dwyer represented by Jack Broccoli (RI); Raymond G. Farmer represented Daniel Morris (SC); Texas represented by Mike Boerner (TX); Mike Kreidler represented by Steve Drutz (WA); and Mark Afable represented by Randy Milquet (WI).

1. Adopted its Oct. 27 Minutes

The Task Force met Oct. 27 and took the following action: 1) exposed a new bond structure to include hybrid securities; and 2) received a proposal regarding asset concentration factors.

Mr. Chou made a motion, seconded by Mr. Boerner, to adopt the Task Force's Oct. 27 minutes (Attachment One). The motion passed unanimously.

2. Adopted its Working Group Reports and Minutes

   a. Health Risk-Based Capital (E) Working Group

Mr. Drutz noted some items of interest from the Health Risk-Based Capital (E) Working Group's Oct. 29 minutes, which included the following action: 1) referred the healthcare receivable guidance to the Blanks (E) Working Group; 2) received an update from the American Academy of Actuaries (Academy) on investment income in the underwriting risk component; 3) received updates from its ad hoc groups, excessive growth charge and the Health Test; and 4) exposed a referral letter to the Academy to add investment income to the underwriting risk in the health risk-based capital (RBC) formula.

   b. Life Risk-Based Capital (E) Working Group

Mr. Barlow said that the Life Risk-Based Capital (E) Working Group met Nov. 10 and took the following action: 1) adopted industry-requested RBC mortgage reporting guidance and; 2) receive a memorandum from the Financial Condition (E) Committee on bond factors. He also said the Working Group will work on 2021 instructions.

   c. Catastrophe Risk (E) Subgroup

Mr. Chou noted that the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group conducted a joint e-vote that concluded Nov. 11 and took the following action: 1) adopted the 2020 Catastrophe Event List; and 2) discussed wildfire as another catastrophe event.

   d. Property and Casualty Risk-Based Capital (E) Working Group

Mr. Botsko said that the Property and Casualty Risk-Based Capital (E) Working Group met Oct. 27 and took the following action: 1) discussed retroactive reinsurance exceptions and a referral received from the Statutory Accounting Principles (E) Working Group; and 2) removed operational risk from the R-cat component.

Mr. Chou made a motion, seconded by Mr. Drutz, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment Two), the Life Risk-Based Capital (E) Working Group (Attachment Three), the joint Catastrophe Risk (E) Subgroup and Property and Casualty Risk-Based Capital (E) Working Group Nov. 11 minutes (Attachment Four), and the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Five). The motion passed unanimously.

3. Adopted Proposal 2020-02-CA

Mr. Drutz said proposal 2020-02-CA was drafted to delete the federal Affordable Care Act (ACA) fee sensitivity test from all three formulas due to the repeal of the ACA fee. The proposed change would be for 2021 reporting. The Task Force exposed the proposal for a 30-day comment period ending May 4. No comments were received.

Mr. Drutz made a motion, seconded by Mr. Boerner, to adopt proposal 2020-02-CA (ACA Fee Sensitivity Test) (Attachment Six). The motion passed unanimously.

4. Adopted Proposal 2020-04-H

Mr. Drutz said the Health Risk-Based Capital (E) Working Group adopted proposal 2020-04-H based on an inquiry from a software vendor on an inconsistency between the health RBC formula within the forecasting spreadsheet and the validation for the MAX function in line 17 of the excessive growth charge. The proposal will add the MAX function to line 17 of the health RBC forecasting formula for 2021 reporting (Attachment Seven).

Mr. Drutz made a motion, seconded by Mr. Chou, to adopt proposal 2020-04-H (Safe Growth/Safe Harbor Max Function). The motion passed unanimously.

5. Adopted Proposal 2020-07-H

Mr. Drutz said XR007 and miscellaneous assets will be reported on page XR008, with all subsequent pages renumbered accordingly. The Health Risk-Based Capital (E) Working Group adopted proposal 2020-07-H to break or separate bonds and miscellaneous assets into separate pages withing the health RBC blank. Bonds will be reported on page XR007.

Mr. Drutz made a motion, seconded by Mr. Boerner, to adopt proposal 2020-07-H (Split Bonds and Misc. Assets) (Attachment Eight). The motion passed unanimously.

6. Adopted Proposal 2020-12-CR

Mr. Chou said the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group jointly conducted an e-vote that concluded Nov. 9 to adopt the 2020 (January through October) Catastrophe Event List. Both groups are planning to conduct another e-vote in January 2021 to adopt any November and December catastrophe events.

Mr. Chou made a motion, seconded by Mr. Milquet, to adopt proposal 2020-12 CR (2020 Catastrophe Event List) (Attachment Nine). The motion passed unanimously.

7. Adopted its Working Agenda

Mr. Barlow said that the Life Risk-Based Capital (E) Working Group removed items from its working agenda that it was not going to work on, or it rolled them up into other agenda items. The Working Group deferred the federal Tax Cuts and Jobs Act, and it rolled consideration of (CDAs) into the updates for C-3 Phase I or C-3 Phase II methodology. He said that one new item was added to develop the economic scenario generator (ESG) for implementation.

Mr. Drutz said the Health Risk-Based Capital (E) Working Group added two new items to its working agenda for 2020: 1) work with the Academy to evaluate incorporating and including investment income in the Underwriting Risk component of the health RBC formula; and 2) to discuss and determine the bond factors for the 20 designations.

Mr. Botsko summarized the changes to the Property and Casualty Risk-Based Capital (E) Working Group's 2020 working agenda: 1) removed "Evaluate the RBC impact on the modification of the installment fees and expenses reporting guidance" as the Ref #2019-40: Reporting of Installment Fees and Expenses was adopted by the Statutory Accounting Principles (E) Working Group on March 18; and 2) added "modify instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the interrogatories" and "remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat" in the new items section. He stated that both items have been exposed for a 30- and 35-day comment period, respectively.

Mr. Botsko added that the Task Force received a proposal regarding the Supplementary Investment Risks Interrogatories (SIRI) to provide clarifying language for the asset concentration factor for mutual funds. Mr. Botsko said that the Task Force will table this discussion until the bond factors are adopted and when all RBC referrals regarding assets (items 39-41) can be reviewed holistically.

Mr. Chou made a motion, seconded by Mr. Garn, to adopt its working agenda (Attachment Ten). The motion passed unanimously.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

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Draft: 2/23/21

Capital Adequacy (E) Task Force
E-Vote
February 1, 2021

The Capital Adequacy (E) Task Force conducted an e-vote that concluded Feb. 1, 2021. The following Task Force members participated: Tynesia Dorsey, Chair, represented by Tom Botsko (OH); Doug Slape, Vice Chair, represented by Mike Boerner (TX); Lori K. Wing-Heir represented by Wally Thomas (AK); Jim L. Ridling (AL); Ricardo Lara represented by Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Philip Barlow (DC); David Altmaier represented by Virginia Christy (FL); Doug Ommen represented by Mike Yanacheak (IA); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Chlora Lindley-Myers represented by John Rehagen (MO); Grace Arnold represented by John Robinson (MN); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge represented by Lindsay Crawford (NE); Glen Mulready represented by Andrew Schallhorn (OK); and Mike Kreidler represented by Steve Drutz (WA).

1. Adopted the Updated 2020 U.S. and Non-U.S. Catastrophe Risk Event Lists

The Task Force conducted an e-vote to consider adoption of the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Mr. Chou made a motion, seconded by Mr. Thomas, to adopt the lists (Attachment 1). The motion passed unanimously.

Having no further business, the Capital Adequacy (E) Task Force adjourned.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Wednesday, March 17, 2021
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

Meeting Summary Report

The Health Risk-Based Capital (E) Working Group met March 17, 2021. During this meeting, the Task Force:

1. Adopted its Feb. 10, 2021; Jan. 22, 2021; and Dec. 18, 2020, minutes, which included the following action:
    a. Received, exposed and discussed the American Academy of Actuaries (Academy) report on the inclusion of investment income in the underwriting risk component and the impact analysis.
    b. Met March 5 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss the company specific impact analysis.
    c. Referred the Health Care Receivable Proposal to the Blanks (E) Working Group for consideration in 2021 reporting.
    d. Exposed proposal 2021-02-CA (Managed Care Credit – Incentives) for a 30-day public comment period ending March 12.
    e. Received an update on the bond factor impact analysis.
    f. Received a summary of the Blanks (E) Working Group's proposals related to health business reporting and discussed the next steps for the Health Test Ad Hoc Group.

2. Adopted its 2021 working agenda.

3. Referred proposal 2021-02-CA (Managed Care Credit – Incentives) to the Capital Adequacy (E) Task Force for exposure for a 30-day public comment period.

4. Received the Academy's letter on the recommended underwriting factors adjusted for investment income. Discussed the impact analysis for including the adjusted factors for a 0.5%, 1%, 1.5% and 2% return yield and the frequency for adjusting the factors. Exposed proposal 2021-04-CA for a 30-day public comment period ending April 16.

5. Received an update on the bond factor impact analysis.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Virtual Meeting
(in lieu of meeting at the 2021 Spring National Meeting)

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Friday, March 12, 2021
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

Meeting Summary Report

The Life Risk-Based Capital (E) Working Group met March 12, 2021. During this meeting, the Working Group:

1. Adopted its Feb. 26, 2021; Feb. 11, 2021; Jan. 21, 2021; Dec. 17, 2020; and 2020 Fall National Meeting minutes, which included the following action:
    a. Adopted updated mortgage reporting guidance.
    b. Discussed the American Council of Life Insurers' (ACLI's) real estate proposal.
    c. Discussed the Moody's Analytics Bond Report.
    d. Adopted revisions to its working agenda.

2. Continued discussion of the ACLI's real estate proposal.

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Draft: 3/9/21

Catastrophe Risk (E) Subgroup
Virtual Meeting (in lieu of meeting at the 2021 Spring National Meeting)
March 8, 2021

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met March 8, 2021. The following Subgroup members participated: Wanchin Chou, Chair (CT); Robert Ridenour, Vice Chair (FL); Laura Clements (CA); Gordon Hay (NE); Anna Krylova (NM); Halina Smosna and Sak-man Luk (NY); Tom Botsko (OH); Andrew Schallhorn (OK), Will Davis (SC); and Miriam Fisk (TX).

1. Adopted its Jan. 27 Minutes

Mr. Chou said the Subgroup conducted an e-vote that concluded Jan. 27 to adopt the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Mr. Botsko made a motion, seconded by Ms. Clements, to adopt the Subgroup's Jan. 27 minutes. The motion passed unanimously.

2. Adopted Proposal 2020-08-CR (Clarification to PR027 Interrogatories)

Mr. Luk said some insurers with minimal or no gross earthquake and/or hurricane exposure did not file PR027A or PR027B, and the Interrogatories on PR027 will create some validation issues in the catastrophe risk component. He said the purpose of this proposal is to add instructions to PR027 Interrogatories that clarify how insurers with minimal or no gross exposure to the catastrophe risk should complete the interrogatories. Mr. Chou stated that the Subgroup received no comments during the exposure period.

Mr. Luk made a motion, seconded by Mr. Botsko, to adopt proposal 2020-08-CR. The motion passed unanimously.

3. Adopted Proposal 2020-11-CR (Remove Operational Risk Factor from Rcat)

Mr. Botsko said the operational risk is now separately addressed in the risk-based capital (RBC) formula as a stand-alone capital add-on. The purpose of this proposal is to remove the embedded 3% operational risk charge in the Rcat component to avoid double-counting of the charge. He also stated that the Subgroup received two comment letters during the exposure period. Stephen W. Broadie (American Property Casualty Insurance Association—APCIA) and Scott Williamson (Reinsurance Association of America—RAA) support this proposal to eliminate the duplicative application of operational risk charges for modeled reinsurance recoverable in Rcat component.

Mr. Botsko made a motion, seconded by Mr. Davis, to adopt proposal 2020-11-CR. The motion passed unanimously.

4. Discussed Wildfire Modeling and RBC Charge Development Progress

Mr. Chou said understanding the wildfire model and engaging the state insurance regulators and industry to get involved in the development of the RBC charge are the two key elements of implementing the RBC charge properly. He stated that the Subgroup met three times since the 2020 Fall National Meeting in regulator-to-regulator session to discuss wildfire models. He said the Subgroup planned to continue with more in-depth technical reviews of different model assumptions, limitations and impact studies in the upcoming months. Also, Mr. Chou urged the Subgroup to provide thoughts regarding the wildfire peril during its next meeting on: 1) other key items to be considered during the RBC charge development phases; 2) using the worst year in 100 in the calculation of the RBC charge; and 3) expected actual implementation reporting year. He stated that a meeting will be scheduled in the near future to continue discussing this issue. Mr. Broadie said developing an appropriate charge for the wildfire peril is crucial; he recommended that the Subgroup should consider taking time on the development progress. Mr. Chou agreed.

5. Discussed its Working Agenda

Mr. Chou summarized the changes to the Subgroup's 2021 working agenda: 1) changed "Evaluate other catastrophe risks for possible inclusion in the charge" item expected completion date to year-end 2022 or later; 2) modified "Evaluate the possibility of allowing additional third-party models to calculate the cat model losses" to "Evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses," and the expected completion date was changed to year-end 2021 or later; and 3) added "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)" in the new items section. Ralph Blanchard (Travelers) asked the Subgroup to consider changing the expected completion date of implementing wildfire peril in the Rcat component for informational purpose only to after the 2022 Spring National Meeting.

Mr. Botsko made a motion, seconded by Mr. Schallhorn, to adopt the Subgroup's 2021 working agenda, with the change of the expected completion date for "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)." The motion passed unanimously.

6. Discussed the Internal Catastrophe Model Evaluation Process

Mr. Chou said there are three different kinds of CAT models that deviate from the vendor models: 1) internal CAT models; 2) vendor CAT models with adjustments or different weights; and 3) derivative models based on the vendor models. He stated that detailed instructions in evaluating the internal CAT models have been included in the RBC instructions. However, he said he thinks more in-depth instructions on the derivative model and the vendor models with adjustments may be necessary. Mr. Botsko recommended that the Subgroup should take wildfire peril into consideration as it continues discussing this issue. Mr. Blanchard said a different level of evaluation and validation process should be applied to vendor CAT models with adjustments or different weights. He said he believes that a more simplified instructions is worthy of consideration for this type of model. Mr. Chou asked all the interested parties to share thoughts during the Subgroup's upcoming meeting.

7. Discussed Other Matters

Mr. Chou said he believes that creating a technical review ad hoc group to conduct a more in-depth review on different wildfire models would speed up the entire wildfire charge development progress. He said encourages interested parties to join the ad hoc group so this project will be completed in time.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

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Draft: 03/17/21

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting *(in lieu of meeting at the 2021 Spring National Meeting)*
March 15, 2021

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met March 15, 2021. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Wanchin Chou (CT); Robert Ridenour (FL); Judy Mottar (IL); Anna Krylova (NM); Sak-man Luk (NY); Miriam Fisk (TX); and Randy Milquet (WI).

1) Adopted the Minutes of the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group

a) Catastrophe Risk (E) Subgroup

Mr. Chou said the Catastrophe Risk (E) Subgroup met March 8 and took the following action: 1) adopted its Jan. 27 minutes; 2) adopted proposal 2020-08-CR (Clarification to PR027 Interrogatories); 3) adopted proposal 2020-11-CR (Remove Operational Risk Factor from Contingent Credit Risk); 4) discussed the development progress of wildfire modeling and a risk-based capital (RBC) charge; 5) discussed its 2021 working agenda; 6) discussed the internal catastrophe model evaluation process; and 7) established an ad hoc group to conduct a more in-depth review on different wildfire models. Steve Broadie (American Property Casualty Insurance Association—APCIA) recommended the Subgroup take appropriate time to decide: 1) whether wildfire peril needs to be added to the Rcat component; and 2) how to implement the wildfire in the Rcat component if decision is made.

b) Joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup

Mr. Chou said the Property and Casualty Risk-Based (E) Working Group met in joint session with the Catastrophe Risk (E) Subgroup to conduct an e-vote that concluded Jan. 27 to adopt the updated 2020 U.S. and non-U.S. catastrophe risk event lists.

Mr. Chou made a motion, seconded by Ms. Krylova, to adopt the Catastrophe Risk (E) Subgroup's March 8 minutes (Attachment Six-xx) and the joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's Jan. 27 minutes (Attachment Six-xx). The motion passed unanimously.

2. Adopted Proposal 2020-08-CR (Clarification to PR027 Interrogatories)

Mr. Chou said some insurers with minimal or no gross earthquake and/or hurricane exposure did not file PR027A or PR027B, and the Interrogatories on PR027 will create some validation issues in the catastrophe risk component. He said the purpose of this proposal is to add instructions to PR027 Interrogatories that clarify how insurers with minimal or no gross exposure to the catastrophe risk should complete the interrogatories. Mr. Chou also stated that the Subgroup received no comments during the exposure period.

Mr. Chou made a motion, seconded by Mr. Luk, to adopt proposal 2020-08-CR. The motion passed unanimously.

3. Adopted Proposal 2020-11-CR (Remove Operational Risk Factor from Rcat)

Mr. Chou said the operational risk is now separately addressed in the risk-based capital (RBC) formula as a stand-alone capital add-on. The purpose of this proposal is to remove the embedded 3% operational risk charge in the Rcat component to avoid double-counting of the charge. He also stated that the Subgroup received comment letters from the APCIA and Reinsurance Association of America (RAA) during the exposure period. They both support this proposal to eliminate the duplicative application of operational risk charges for modeled reinsurance recoverable in the Rcat component.

Mr. Chou made a motion, seconded by Ms. Krylova, to adopt proposal 2020-08-CR. The motion passed unanimously.

4. Received an Update from its Subgroup on the Development Process of Wildfire Modeling and an RBC Charge

Mr. Chou said understanding the wildfire model and engaging the state insurance regulators and industry to get involved in the development of the RBC charge are the two key elements of implementing the RBC charge properly. He stated that the Subgroup met three times since the 2020 Fall National Meeting in regulator-to-regulator session to discuss wildfire models. He said the Subgroup planned to continue with more in-depth technical reviews of different model assumptions, limitations and impact studies in the upcoming months. Also, Mr. Chou urged the interested parties to provide thoughts regarding the wildfire peril during Subgroup's next meeting on: 1) other key items to be considered during the RBC charge development phases; 2) using the worst year in 100 in the calculation of the RBC charge; and 3) expected actual implementation reporting year.

5. Exposed Proposal 2021-03-P (Credit Risk Instruction Modification)

Mr. Botsko said the purpose of this proposal is to provide examples to clarify how the reporting companies should select the designation in the Annual Statement Schedule F, Part 3, Reinsurer Designation Equivalent Rating column if the reporting entities subscribe to one or multiple rating agencies. He also stated that since the accurate reporting on reinsurer designation equivalent rating in the Schedule F, Part 3 is crucial to calculate the R3 charge appropriately, NAIC staff will conduct a more in-depth review on Schedule F, Part 3 in the near future.

The Working Group agreed to expose proposal 2021-03-P for a 30-day public comment period ending April 14.

6. Heard an Update from its Runoff Ad Hoc Group

Mr. Botsko said an ad hoc group was formed to determine the best course of treatment of run-off companies during the 2020 Fall National Meeting. Mr. Botsko stated that the ad hoc group identified those companies that: 1) stopped renewing policies for at least 12 months; 2) are closed to new business; 3) are large on reserves to premium written ratio; and 4) have zero premium written on the reserves to premium written ratio. He also stated that the ad hoc group is reviewing: 1) the possibility of adding an identifier in the annual statement; and 2) the current risk-based capital (RBC) calculation including R5 and operational risk components. Since different lines of business may have their own definition of runoff, Mr. Botsko said the ad hoc group will share its progress and findings with not only the Working Group and the Restructuring Mechanisms (E) Subgroup, but also the Life Risk-Based Capital (E) Working Group and Health Risk-Based Capital (E) Working Group for their consideration.

7. Discussed its 2021 Working Agenda

Mr. Botsko summarized the changes to the Working Group's 2021 working agenda: 1) changed "Evaluate other catastrophe risks for possible inclusion in the charge" item expected completion date to year-end 2022 or later; 2) removed "Evaluate the possibility of using the NAIC as a centralized location for reinsurer designations" and "Evaluate the RBC impact on two different retroactive reinsurance exception approaches"; 3) modified "Evaluate the possibility of allowing additional third-party models to calculate the cat model losses" to "Evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses," and the expected completion date was changed to year-end 2021 or later; and 4) added "Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)" in the new items section.

Mr. Chou made a motion, seconded by Mr. Luk, to adopt the Working Group's 2021 working agenda. The motion passed unanimously.

8. Heard Updates on Property/Casualty RBC Underwriting Risk Factors from the Academy

David Traugott (American Academy of Actuaries—Academy) said the Academy report *Update to Property and Casualty Risk-Based Capital Underwriting Factors Experience Through December 31, 2017* (Attachment Six-xx) was based on data from annual statements reporting between 1989 and 2017 and RBC filings between 1997 and 2017. He stated that the approach in this report is broadly the same as the approach in the 2016 report, with some refinements. Mr. Traugott also said the Academy planned to devote more time to discuss this report in the upcoming Working Group meeting to allow state insurance regulators and interested parties to have chance to review it. In addition, he stated that the investment income adjustment factors and the loss/premium concentration factor reports will be provided to the Working Group later.

Mr. Botsko said he planned to schedule another meeting to discuss this report and other Working Group outstanding items in April.

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

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NAIC National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

MEMORANDUM

TO: Tom Bostko (OH), Chair, Capital Adequacy (E) Task Force

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

DATE: January 21, 2021

RE: Recommendation Regarding Risk-Based Capital Charge for Guaranty Association Assessment Risk

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The Life Risk-Based Capital (E) Working Group received a request from the Capital Adequacy (E) Task Force to review the referral letter regarding adopted amendments to the *Life and Health Insurance Guaranty Association Model Act*, Model #520. The referral outlined significant amendments to Model #520, including: 1) broadening the assessment base for long-term care insurance (LTCI) insolvencies to include both life and health insurers and splitting the assessment 50%/50% between the life and health insurers; 2) clarifying the guaranty associations' coverage of LTCI; and 3) including health maintenance organizations (HMOs) as members of the guaranty association, similar to other health insurers. The referral letter requested that the Task Force consider if changes were warranted to the life RBC formula in light of the changes made to Model #520. The reason for this item being referred to the Working Group was concern with the fact that the C-4a risk component is based on the amount of guaranty fund assessments. The risk charge is based on the maximum amount of assessments in any one year for a life company, and that is not affected by the changes to Model #520.

Based on the current instructions and reporting, the Working Group does not believe that modifications to the life RBC formula are required for the change to Model #520.

The recommendation above does not preclude the Working Group from potential changes to long-term care or the business risk component charge in the future.

If you have any questions regarding this memorandum, please contact me at philip.barlow@dc.gov or Dave Fleming (NAIC) at dfleming@naic.org.

Capital Adequacy (E) Task Force

RBC Proposal Form

[X] Capital Adequacy (E) Task Force	[X] Health RBC (E) Working Group	[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Operational Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[X] P/C RBC (E) Working Group	[ ] Longevity Risk (A/E) Subgroup

	DATE: 10-15-20	**FOR NAIC USE ONLY**	
CONTACT PERSON:	Jane Barr	Agenda Item # 2020-10-CA	
TELEPHONE:		Year 2021	
EMAIL ADDRESS:		**DISPOSITION**	
ON BEHALF OF:	Capital Adequacy Task Force	[ ] ADOPTED	
NAME:	Tom Botsko	[ ] REJECTED	
TITLE:		[ ] DEFERRED TO	
AFFILIATION:		[ ] REFERRED TO OTHER NAIC GROUP	
ADDRESS:		[X] EXPOSED	12/11/2020
		[ ] OTHER (SPECIFY)	

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

[X] Health RBC Blanks	[X] Property/Casualty RBC Blanks	[ ] Life and Fraternal RBC Instructions
[X] Health RBC Instructions	[X] Property/Casualty RBC Instructions	[ ] Life and Fraternal RBC Blanks
[ ] OTHER ___________________________		

DESCRIPTION OF CHANGE(S)

Modified the structure for the bonds to pull directly from Schedule D, Schedule DA and Schedule E footnotes for the 20 RBC bond designations. Exempt bonds (Line 1) is pulled direct from Schedule D, Part 1, Col. 11, Line 0599999; Schedule DA, Part 1, Col. 7, Line 0599999; and Schedule E, Part 2, Col. 7, Line 0599999 + 8599999.

Hybrid securities will be incorporated into the bonds.

P/C blanks and instruction pages impacted: PR006, PR007, PR011, PR015, PR030, PR031 and PR032.
Health blanks and instruction pages impacted: XR006, XR007.1, XR007.2, XR009, XR011, XR023 and XR024.

REASON OR JUSTIFICATION FOR CHANGE **

The structure of the bonds reported in the health and P/C RBC formulas will be modified to pull from the footnotes of Schedule D, Part 1; Schedule DA, Part 1; and Schedule E, Part 2 for greater consistency and transparency in the RBC reporting. Hybrid securities reported as in Schedule D, Part 1; Schedule DA, Part 1; and Schedule E, Part 2 will be reported as a bond in on the Bonds pages and removed as a separate section in the health and P/C RBC blanks (XR009 and PR007).

Once the factors have been finalized, they will be incorporated into the proposal.

Additional Staff Comments:

10/27/20 jdb Exposed for a 45-day comment period.
01/12/21 cgb Editorial change made to page XR008 to strike-through the "Schedule E, Part 2" in line description and "in part" reference in the Annual Statement Source column for Line (30).

**** This section must be completed on all forms.** **Revised 2-2019**

OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS
XR006

Security lending programs are required to maintain collateral. Some entities post the collateral supporting security lending programs on their financial statements and incur the related risk charges on those assets. Other entities have collateral that is not recorded on their financial statements. While not recorded on the financial statements of the company, such collateral has risks that are not otherwise captured in the RBC formula.

The collateral in these accounts is maintained by a third party (typically a bank or other agent). The collateral agent maintains on behalf of the company detail asset listings of the collateral assets, and this data is the source for preparation of this schedule. The company should maintain such asset listings, at a minimum CUSIP, market value, book/adjusted carrying value, and maturity date.

The asset risk charges are derived from existing RBC factors for bonds, preferred and common stocks, other invested assets, and invested assets not otherwise classified (aggregate write-ins).

Specific Instructions for Application of the Formula

<u>Column (2)</u> – Schedule DL, Part 1 Book/Adjusted Carrying Value comes from Annual Statement Schedule DL, Part 1, Column (6) Securities Lending Collateral Assets reported On-Balance Sheet (Assets Page, Line 10).

Off-balance sheet collateral included in General Interrogatories Part 1, Lines 24.05 and 24.06 of the annual statement should agree with Line (40), Column (1).

<u>Lines (1) through (27) – Bonds</u> – Bond factors described on page XR007 – Fixed Income Assets.

<u>Line (28) through (34) – Preferred Stock</u> – Preferred stock factors described on page XR010 – Equity Assets.

<u>Line (35) – Common Stock</u> – Common stock factors described on page XR010 – Equity Assets.

<u>Line (36) – Real Estate and Property and Equipment Assets</u> – Real Estate and Property and Equipment Assets factors described on page XR011 – Property & Equipment Assets.

<u>Line (37) – Other Invested Assets</u> – Other invested assets factor described on page XR008 – Fixed Income Assets.

<u>Line (38) – Mortgage Loans on Real Estate</u> – Mortgage Loans on Real Estate factors described on page XR008 – Fixed Income Assets.

<u>Line (39) – Cash, Cash Equivalents and Short-Term Investments</u> – Cash, Cash Equivalents and Short-Term Investments factors described on page XR008 – Fixed Income Assets.

FIXED INCOME ASSETS
XR007 AND XR008

The RBC requirement for fixed income assets is largely driven by the default risk on those assets. There are two major subcategories: Bonds and Miscellaneous. Bonds include item that meet the definition of a bond, regardless if the bond is long-term (reported on Schedule D-1), short-term (reported on schedule DA) or a cash equivalent (reported on Schedule E-2.) Miscellaneous fixed income assets include non-bond items reported on the cash equivalent and short-term schedules, derivatives, mortgage loans, collateral loans, and other items reported on Schedule BA: Other Long-Term Invested Assets.

Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation Category (1.A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by NAIC Designation Category and that year's economic environment .The default probabilities were based on historical data intended to reflect a complete business cycle of favorable and unfavorable credit environments.
The risk of default was measured over a ___-year time horizon, based on the duration of assets or liabilities held for health companies.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC designation category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

While the life and property/casualty formulas have a separate calculation for the bond size factor (based on the number of issuers in the RBC filer's portfolio), the health formula does not include a separate calculation, instead a bond size component was incorporated into the bond factors. A representative portfolio of 382 issuers was used in calculating the bond risk factors.

There is no RBC requirement for bonds guaranteed by the full faith and credit of the United States, Other U.S. Government Obligations, and securities on the NAIC U.S. Government Money Market Fund List because it is assumed that there is no default risk associated with U.S. Government issued securities.

The book/adjusted carrying value of all bonds should be reported in Columns (1), (2) or (3). The bonds are split into twenty-one different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the Purposes and Procedures Manual of the NAIC Investment Analysis Office. The subtotal of Columns (1), (2) and (3) will be calculated in Colum (4). The RBC requirement will be automatically calculated in Column (5).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021, and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3 percent factor is equal to the factor for cash. The amount reported in Line (35) reflects the total from Schedule DA: Short-Term Investments (Line 33), less the short-term bonds (Line 34). (The short-term bonds reported in Line (34) should equal Schedule DA, Part 1, Column 7, Line 8399999.)

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20 percent factor (Line (43))..

- Collateral Loans reported on Line (40) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (41) and (42), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.

- Low income housing tax credit investments are reported in Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.

    - Federal Guaranteed Low-Income Housing Tax Credit (LIHTC) investments are to be included in Line (44). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.

    - Federal Non-Guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (45):

        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.

    - State Guaranteed LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (46).

    - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (47).

    - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (44) through (47) would be reported on Line (48).

EQUITY ASSETS
XR010

Unaffiliated Preferred Stocks

Experience data to develop preferred stock factors is not readily available; however, it is believed that preferred stocks are somewhat more likely to default than bonds. The loss on default would be somewhat higher than that experienced on bonds; however, formula factors are equal to bond factors.

The RBC requirements for unaffiliated preferred stocks are based on the NAIC designation. Column (1) amounts are from Schedule D, Part 2, Section 1 not including affiliated preferred stock. The preferred stocks must be broken out by asset designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines. The total amount of unaffiliated preferred stock reported should equal annual statement Page 2, Column 3, Line 2.1, less any affiliated preferred stock in Schedule D Summary by Country, Column 1, Line 18.

Unaffiliated Common Stock

Federal Home Loan Bank Stock has characteristics more like a fixed income instrument rather than common stock. A 2.3 percent factor was chosen. The factor for other unaffiliated common stock is based on studies which indicate that a 10 percent to 12 percent factor is needed to provide capital to cover approximately 95 percent of the greatest losses in common stock over a one-year future period. The higher factor of 15 percent contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time of loss in market value.

ASSET CONCENTRATION
XR012

The purpose of the asset concentration calculation is to reflect the additional risk of high concentrations of certain types of assets in single exposures, termed "issuers." An issuer is a single entity, such as IBM or the Ford Motor Company. When the reporting entity has a large portion of its asset portfolio concentrated in only a few issuers, there is a heightened risk of insolvency if one of those issuers should default. An issuer may be represented in the reporting entity's investment portfolio by a single security designation, such as a large block of NAIC Designation Category 2.A bonds, or a combination of various securities, such as common stocks, preferred stocks, and bonds. The additional RBC for asset concentration is applied to the ten largest issuers.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the ten largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and unaffiliated preferred stock; affiliated common stock; affiliated preferred stock; property and equipment; U.S. government full faith and credit, other U.S. government obligations, and NAIC U.S. government money market fund list securities; NAIC 01 bonds and unaffiliated preferred stock; any other asset categories with risk-based capital factors less than 1 percent**,** and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting entity is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the federal Investment Company Act and providing this information upon request of the Commissioner, Director or Superintendent of the Department of Insurance. The reporting entity is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the Commissioner, Director or Superintendent upon request.

The assets that **ARE INCLUDED** in the calculation when determining the 10 largest issuers are as follows:

NAIC Designation Category 2.A – 2.C Bonds
NAIC Designation Category 3.A – 3.C Bonds
NAIC Designation Category 4.A – 4.C Bonds
NAIC Designation Category 5.A – 5.C Bonds
Collateral Loans
Mortgage Loans
NAIC 02 Unaffiliated Preferred Stock
NAIC 03 Unaffiliated Preferred Stock
NAIC 04 Unaffiliated Preferred Stock
NAIC 05 Unaffiliated Preferred Stock
Other Long-Term Assets
NAIC 02 Working Capital Finance Investments
Federal Guaranteed 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

All Other Low Income Housing Tax Credits
Unaffiliated Common Stock

The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) for assets held in the 10 largest issuers. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in Column (2), Lines (1) through (26). Aggregate all similar asset types before entering the amount in Column (2). To determine the 10 largest issuers, first pool all of the assets subject to the concentration factor. From this pool, aggregate the various securities by issuer. The aggregate book/adjusted carrying values for the assets are computed, and the 10 largest are subject to the concentration factor. For example, an organization might own $6,000,000 in NAIC Designation Category 2.A bonds of IBM, plus $4,000,000 in NAIC Designation Category 2.C plus $5,000,000 of common stock. The total investment in that issuer is $15,000,000. If that is the largest issuer, then the identifier ("IBM Corporation") would be entered in the space allowed for the first Issuer Name, and the $6,000,000 would be entered under the book/adjusted carrying value column for Line (1) (NAIC Designation Category 2.A Bonds) $4,000,000 would be entered on Line (3) (NAIC Designation Category 2.C Bonds) and the $5,000,000 would be entered on Line (22) (Unaffiliated Common Stock).

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

OFF-BALANCE SHEET SECURITY LENDING COLLATERAL AND SCHEDULE DL, PART 1 ASSETS

	Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	Factor	(4) RBC Requirement
	Fixed Income Assets						
	Bonds						
(1)	**NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)**	Company Records	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A Bonds	Company Records	0	0	**0**	**0.000**	**0**
(3)	NAIC Designation Category 1.B Bonds	Company Records	0	0	**0**	**0.000**	**0**
(4)	NAIC Designation Category 1.C Bonds	Company Records	0	0	**0**	**0.000**	**0**
(5)	NAIC Designation Category 1.D Bonds	Company Records	0	0	**0**	**0.000**	**0**
(6)	NAIC Designation Category 1.E Bonds	Company Records	0	0	**0**	**0.000**	**0**
(7)	NAIC Designation Category 1.F Bonds	Company Records	0	0	**0**	**0.000**	**0**
(8)	NAIC Designation Category 1.G Bonds	Company Records	0	0	**0**	**0.000**	**0**
(9)	Total NAIC 01 Bonds	Sum of Lines (1) through (8)	0	0	**0**		**0**
(10)	NAIC Designation Category 2.A Bonds	Company Records	0	0	**0**	**0.000**	**0**
(11)	NAIC Designation Category 2.B Bonds	Company Records	0	0	**0**	**0.000**	**0**
(12)	NAIC Designation Category 2.C Bonds	Company Records	0	0	**0**	**0.000**	**0**
(13)	Total NAIC 02 Bonds	Sum of Lines (10) through (12)	0	0	**0**		**0**
(14)	NAIC Designation Category 3.A Bonds	Company Records	0	0	**0**	**0.000**	**0**
(15)	NAIC Designation Category 3.B Bonds	Company Records	0	0	**0**	**0.000**	**0**
(16)	NAIC Designation Category 3.C Bonds	Company Records	0	0	**0**	**0.000**	**0**
(17)	Total NAIC 03 Bonds	Sum of Lines (14) through (16)	0	0	**0**		**0**
(18)	NAIC Designation Category 4.A Bonds	Company Records	0	0	**0**	**0.000**	**0**
(19)	NAIC Designation Category 4.B Bonds	Company Records	0	0	**0**	**0.000**	**0**
(20)	NAIC Designation Category 4.C Bonds	Company Records	0	0	**0**	**0.000**	**0**
(21)	Total NAIC 04 Bonds	Sum of Lines (18) through (20)	0	0	**0**		**0**
(22)	NAIC Designation Category 5.A Bonds	Company Records	0	0	**0**	**0.000**	**0**
(23)	NAIC Designation Category 5.B Bonds	Company Records	0	0	**0**	**0.000**	**0**
(24)	NAIC Designation Category 5.C Bonds	Company Records	0	0	**0**	**0.000**	**0**
(25)	Total NAIC 05 Bonds	Sum of Lines (22) through (24)	0	0	**0**		**0**
(26)	Total NAIC 06 Bonds	Company Records	0	0	0	**0.000**	0
(27)	Total Bonds	**Lines (9) + (13) + (17) + (21) + (25) + (26)**	0	0	0		0
	Equity Assets						
	Preferred Stock - Unaffiliated						
(28)	NAIC 01 Unaffiliated Preferred Stock	Company Records			0	0.003	0
(29)	NAIC 02 Unaffiliated Preferred Stock	Company Records			0	0.010	0
(30)	NAIC 03 Unaffiliated Preferred Stock	Company Records			0	0.020	0
(31)	NAIC 04 Unaffiliated Preferred Stock	Company Records			0	0.045	0
(32)	NAIC 05 Unaffiliated Preferred Stock	Company Records			0	0.100	0
(33)	NAIC 06 Unaffiliated Preferred Stock	Company Records			0	0.300	0
(34)	Total Unaffiliated Preferred Stock	Sum of Lines (28) through (33)	0	0	0		0
(35)	Unaffiliated Common Stock	Company Records			0	0.150	0
(36)	Real Estate and Property & Equipment Assets	Company Records			0	0.100	0
(37)	Other Invested Assets	Company Records			0	0.200	0
(38)	Mortgage Loans on Real Estate	Company Records			0	0.050	0
(39)	Cash, Cash Equivalents and Short-Term Investments (Not reported on Bonds above)	Company Records			0	0.003	0
(40)	Total	Lines (27) + (34) + (35) + (36) + (37) + (38) + (39)	0	0	0		0

Denotes items that must be manually entered on the filing software

FIXED INCOME ASSETS

BONDS

		Annual Statement Source	(1) Long-Term Bonds Schedule D, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch D Pt1F	(2) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch DA Pt1F	(3) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L2 thr 26 = Sch E Pt2F	(4) Subtotal C(1) + C(2) + C(3)	Factor	(5) RBC Requirement
(1)	NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1)=Sch D, Pt 1, C11 L0599999 C(2)=Sch DA, Pt 1, C7 L0599999 C(3)=Sch E, Pt 2, C7 L0599999 + L8599999	0	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	Footnote Amt 1 L000001A- L(1)	0	0	0	0	0.000	0
(3)	NAIC Designation Category 1.B	Footnote Amt 2 L000001A	0	0	0	0	0.000	0
(4)	NAIC Designation Category 1.C	Footnote Amt 3 L000001A	0	0	0	0	0.000	0
(5)	NAIC Designation Category 1.D	Footnote Amt 4 L000001A	0	0	0	0	0.000	0
(6)	NAIC Designation Category 1.E	Footnote Amt 5 L000001A	0	0	0	0	0.000	0
(7)	NAIC Designation Category 1.F	Footnote Amt 6 L000001A	0	0	0	0	0.000	0
(8)	NAIC Designation Category 1.G	Footnote Amt 7 L000001A	0	0	0	0	0.000	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0	0		0
(10)	NAIC Designation Category 2.A	Footnote Amt 1 L000001B	0	0	0	0	0.000	0
(11)	NAIC Designation Category 2.B	Footnote Amt 2 L000001B	0	0	0	0	0.000	0
(12)	NAIC Designation Category 2.C	Footnote Amt 3 L000001B	0	0	0	0	0.000	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0	0		0
(14)	NAIC Designation Category 3.A	Footnote Amt 1 L000001C	0	0	0	0	0.000	0
(15)	NAIC Designation Category 3.B	Footnote Amt 2 L000001C	0	0	0	0	0.000	0
(16)	NAIC Designation Category 3.C	Footnote Amt 3 L000001C	0	0	0	0	0.000	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0	0		0
(18)	NAIC Designation Category 4.A	Footnote Amt 1 L000001D	0	0	0	0	0.000	0
(19)	NAIC Designation Category 4.B	Footnote Amt 2 L000001D	0	0	0	0	0.000	0
(20)	NAIC Designation Category 4.C	Footnote Amt 3 L000001D	0	0	0	0	0.000	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0	0		0
(22)	NAIC Designation Category 5.A	Footnote Amt 1 L000001E	0	0	0	0	0.000	0
(23)	NAIC Designation Category 5.B	Footnote Amt 2 L000001E	0	0	0	0	0.000	0
(24)	NAIC Designation Category 5.C	Footnote Amt 3 L000001E	0	0	0	0	0.000	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0	0	0.000	0
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F	0	0	0	0	0.000	0
(27)	**Total Bonds RBC**	L(9) + L(13) + L(17) + L(21) + L(25) + L(26)	0	0	0	0		0

Denotes items that must be vendor linked.

Page numbers have been updated based on proposal 2020-07-H that will be considered by the HRBCWG on the Oct. 29, 2020 call

FIXED INCOME ASSETS (cont.)

MISCELLANEOUS FIXED INCOME ASSETS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(28)	Cash	Page 2, Line 5, inside amount 1		0.0030	$0
(29)	Cash Equivalents	Page 2, Line 5, inside amount 2			
(30)	Less: Cash Equivalents, Total Bonds ~~included in Schedule D, Part 1A~~	Schedule E, Part 2, Column 7, Line 839999~~, in part~~			
(31)	Less: Exempt Money Market Mutual Funds~~*~~ as Identified by SVO	Schedule E, Part 2, Column 7, Line 859999			
(32)	Net Cash Equivalents	Lines (29) - (30) - (31)	$0	0.0030	$0
(33)	Short-Term Investments	Page 2, Line 5, inside amount 3			
(34)	Short-Term Bonds ~~*~~	Schedule DA, Part 1, Column 7, Line 839999			
(35)	Total Other Short -Term Investments	Lines (33) - (34)	$0	0.0030	$0
(36)	Mortgage Loans - First Liens	Page 2, Column 3, Line 3.1		0.0500	$0
(37)	Mortgage Loans - Other Than First Liens	Page 2, Column 3, Line 3.2		0.0500	$0
(38)	Receivable for Securities	Page 2, Column 3, Line 9		0.0250	$0
(39)	Aggregate Write-Ins for Invested Assets	Page 2, Column 3, Line 11		0.0500	$0
(40)	Collateral Loans	Included in Page 2, Column 3, Line 8		0.0500	$0
(41)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	$0
(42)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	$0
(43)	Other Long-Term Invested Assets Excluding Collateral Loans and Working Capital Finance Investme	Included in Page 2, Column 3, Line		0.2000	$0
(44)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	$0
(45)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	$0
(46)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0014	$0
(47)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.0260	$0
(48)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500	$0
(49)	Total Other Long-Term Invested Assets (Page 2, Col 3, Line 8)	Lines (40) + (41) + (42) + (43) + (44) + (45) + (46) + (47) + (48)	$0		$0
(50)	Derivatives	Page 2, Column 3, Line 7		0.0500	$0
(51)	Total Fixed Income Assets RBC	Lines (27) + (28) + (32) + (35) + (36) + (37) + (38) + (39) + (49) + (50)			$0

Denotes items that must be manually entered on filing software.

~~* These bonds appear in page XR007 Schedule D Part 1A Section 1 and are already recognized in the Bond portion of the formula.~~

Page numbers have been updated based on proposal 2020-07-H that will be considered by the HRBCWG on the Oct. 29, 2020 call

EQUITY ASSETS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
PREFERRED STOCK - UNAFFILIATED					
(1)	NAIC 01 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.003	
(2)	NAIC 02 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.010	
(3)	NAIC 03 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.020	
(4)	NAIC 04 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.045	
(5)	NAIC 05 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.100	
(6)	NAIC 06 Preferred Stock	Included in Schedule D, Part 2, Section 1		0.300	
(7)	~~**Sub**~~**Total** - Unaffiliated Preferred Stock	Sum of Lines (1) through (6)			
(Should equal Page 2, Column 3, Line 2.1 less Sch D Sum, Column 1, Line 18)					
~~**HYBRID SECURITIES - UNAFFILIATED**~~					
~~(8)~~	~~NAIC 01 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.1~~		~~0.003~~	
~~(9)~~	~~NAIC 02 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.2~~		~~0.010~~	
~~(10)~~	~~NAIC 03 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.3~~		~~0.020~~	
~~(11)~~	~~NAIC 04 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.4~~		~~0.045~~	
~~(12)~~	~~NAIC 05 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.5~~		~~0.100~~	
~~(13)~~	~~NAIC 06 Hybrid Securities~~	~~Schedule D, Part 1A, Section 1, Column 7, Line 7.6~~		~~0.300~~	
~~(14)~~	~~Subtotal - Hybrid Securities~~	~~Sum of Lines (8) through (13)~~			
~~(15)~~	~~Total Unaffiliated Preferred Stock and Hybrids~~	~~Lines (7) + (14)~~			
COMMON STOCK - UNAFFILIATED					
(8)	Federal Home Loan Bank Stock	Company Records		0.023	
(9)	Total Common Stock	Schedule D, Summary, Column 1, Line 25			
(10)	Affiliated Common Stock	Schedule D, Summary, Column 1, Line 24			
(11)	Other Unaffiliated Common Stock	**Lines (9) - (8) - (10)**		0.150	
(12)	Total Unaffiliated Common Stock	**Lines (8) + (11)**			

Denotes items that must be manually entered on filing software.

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ASSET CONCENTRATION

(1)

Issuer Name

Issuer		(2) Bk/Adj Carrying Value	Factor	(3) Additional RBC
01	**(1) NAIC Designation Category 2.A Bonds**		**0.0000**	**$0**
01	**(2) NAIC Designation Category 2.B Bonds**		**0.0000**	**$0**
01	**(3) NAIC Designation Category 2.C Bonds**		**0.0000**	**$0**
01	**(4) NAIC Designation Category 3.A Bonds**		**0.0000**	**$0**
01	**(5) NAIC Designation Category 3.B Bonds**		**0.0000**	**$0**
01	**(6) NAIC Designation Category 3.C Bonds**		**0.0000**	**$0**
01	**(7) NAIC Designation Category 4.A Bonds**		**0.0000**	**$0**
01	**(8) NAIC Designation Category 4.B Bonds**		**0.0000**	**$0**
01	**(9) NAIC Designation Category 4.C Bonds**		**0.0000**	**$0**
01	**(10) NAIC Designation Category 5.A Bonds**		**0.0000**	**$0**
01	**(11) NAIC Designation Category 5.B Bonds**		**0.0000**	**$0**
01	**(12) NAIC Designation Category 5.C Bonds**		**0.0000**	**$0**
01	**(13)** Collateral Loans		0.0500	$0
01	**(14)** Mortgages		0.0500	$0
01	**(15)** NAIC 02 Unaffiliated Preferred Stock		0.0100	$0
01	**(16)** NAIC 03 Unaffiliated Preferred Stock		0.0200	$0
01	**(17)** NAIC 04 Unaffiliated Preferred Stock		0.0450	$0
01	**(18)** NAIC 05 Unaffiliated Preferred Stock		0.1000	$0
~~01~~	~~(19) NAIC 02 Hybrid Securities~~		~~0.0100~~	~~$0~~
~~01~~	~~(20) NAIC 03 Hybrid Securities~~		~~0.0200~~	~~$0~~
~~01~~	~~(21) NAIC 04 Hybrid Securities~~		~~0.0450~~	~~$0~~
~~01~~	~~(22) NAIC 05 Hybrid Securities~~		~~0.1000~~	~~$0~~
01	**(19)** Other Long-Term Invested Assets		0.1000	$0
01	**(20)** NAIC 02 Working Capital Finance Investments		0.0125	$0
01	**(21)** Federal Guaranteed Low Income Housing Tax Credits		0.0014	$0
01	**(22)** Federal Non-Guaranteed Low Income Housing Tax Credits		0.0260	$0
01	**(23)** State Guaranteed Low Income Housing Tax Credits		0.0014	$0
01	**(24)** State Non-Guaranteed Low Income Housing Tax Credits		0.0260	$0
01	**(25)** All Other Low Income Housing Tax Credits		0.1500	$0
01	**(26)** Unaffiliated Common Stock		0.1500	$0
01	**(27)** Total of Issuer = Lines (1) through **(26)**	$0		$0

Denotes items that must be manually entered on filing software.

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS			
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)	$0
(2)	Directly Owned Insurer Subject to RBC	XR003, Affiliates Page, Line (1)	$0
(3)	Indirectly Owned Insurer Subject to RBC	XR003, Affiliates Page, Line (2)	$0
(4)	Directly Owned Health Entity Subject to RBC	XR003, Affiliates Page, Line (3)	$0
(5)	Indirectly Owned Health Entity Subject to RBC	XR003, Affiliates Page, Line (4)	$0
(6)	Directly Owned Alien Insurer	XR003, Affiliates Page, Line (7)	$0
(7)	Indirectly Owned Alien Insurers	XR003, Affiliates Page, Line (8)	$0
(8)	Total H0	Sum Lines (1) through (7)	$0
H1 - ASSET RISK - OTHER			
(9)	Investment Affiliates	XR003, Affiliates Page, Line (5)	$0
(10)	Holding Company Excess of Subsidiaries	XR003, Affiliates Page, Line (6)	$0
(11)	Investment in Parent	XR003, Affiliates Page, Line (9)	$0
(12)	Other Affiliates	XR003, Affiliates Page, Line (10)	$0
(13)	Fair Value Excess Affiliate Common Stock	XR003, Affiliates Page, Line (11)	$0
(14)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + **XR008**, Fixed Income Assets Page Line (51)	$0
(15)	Replication & Mandatory Convertible Securities	**XR009**, Replication/MCS Page, Line (9999999)	$0
(16)	Unaffiliated Preferred Stock ~~and Hybrid Securities~~	XR006, Off-Balance Sheet Collateral, Line (34) + **XR010**, Equity Assets Page, Line **(7)**	$0
(17)	Unaffiliated Common Stock	XR006, Off-Balance Sheet Collateral, Line (35) + **XR010**, Equity Assets Page, Line **(12)**	$0
(18)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + **XR011**, Prop/Equip Assets Page, Line (9)	$0
(19)	Asset Concentration	**XR012**, Grand Total Asset Concentration Page, Line (**27**)	$0
(20)	Total H1	Sum Lines (9) through (19)	$0
H2 - UNDERWRITING RISK			
(21)	Net Underwriting Risk	**XR013**, Underwriting Risk Page, Line (21)	$0
(22)	Other Underwriting Risk	**XR015**, Underwriting Risk Page, Line (25.3)	$0
(23)	Disability Income	**XR015**, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3)	$0
		+ (29.3) + (30.6) + (31.3) + (32.3)	$0
(24)	Long-Term Care	**XR016**, Underwriting Risk Page, Line (41)	$0
(25)	Limited Benefit Plans	**XR017,** Underwriting Risk Page, Lines (42.2) + (43.6) + (44)	$0
(26)	Premium Stabilization Reserve	**XR017**, Underwriting Risk Page, Line (45)	$0
(27)	Total H2	Sum Lines (21) through (26)	$0

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CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H3 - CREDIT RISK			
(28)	Total Reinsurance RBC	**XR020**, Credit Risk Page, Line (17)	$0
(29)	Intermediaries Credit Risk RBC	**XR020**, Credit Risk Page, Line (24)	$0
(30)	Total Other Receivables RBC	**XR021**, Credit Risk Page, Line (30)	$0
(31)	Total H3	Sum Lines (28) through (30)	$0
H4 - BUSINESS RISK			
(32)	Administrative Expense RBC	**XR022**, Business Risk Page, Line (7)	$0
(33)	Non-Underwritten and Limited Risk Business RBC	**XR022**, Business Risk Page, Line (11)	$0
(34)	Premiums Subject to Guaranty Fund Assessments	**XR022**, Business Risk Page, Line (12)	$0
(35)	Excessive Growth RBC	**XR022**, Business Risk Page, Line (19)	$0
(36)	Total H4	Sum Lines (32) through (35)	$0
(37)	RBC after Covariance Before Basic Operational Risk	H0 + Square Root of ($H1^2 + H2^2 + H3^2 + H4^2$)	$0
(38)	Basic Operational Risk	0.030 x Line (37)	$0
(39)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(40)	Net Basic Operational Risk	Line (38) - (39) (Not less than zero)	$0
(41)	RBC After Covariance Including Basic Operational Risk	Lines (37) + (40)	$0
(42)	Authorized Control Level RBC	.50 x Line (41)	$0

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ASSETS
PR006 – PR014

PR006 - Bonds and Bond Size Factor Adjustment

Basis of General Bond Factors

The bond risk factors for investment grade bonds (NAIC Designation Category 1.A – 2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by NAIC Designation category and that year's economic environment. The default probabilities were based on historical data intended to reflect a complete cycle of favorable and unfavorable credit environments. The risk of default was measured over a 5-year time horizon, selected considering the duration of property/casualty assets and liabilities.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC designation category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

The bond risk factors are selected with consideration of the effect of the bond size factors.

Bond Size Factor

The bond factors assume a portfolio of 802 issuers. The size factor reflects that the risk increases as the number of bond issuers decreases. The bond size factor adjusts the computed RBC for those bonds that are subject to the size factor to more accurately reflect the risk.

The bond size factor is to be multiplied by the risk-based capital of the bonds subject to the size factor. This calculation produces the *additional* RBC required for a portfolio that has 801 or less bonds in it. Portfolios with 803 or more issuers will receive a discount. The bond size factor was developed as a step factor (as in a tax table) so that the overall factor decreases as the portfolio size increases. The bond size factors are the same for property/casualty and life insurance RBC Formulas.

Bonds should be aggregated by issuer (the first six digits of the CUSIP number should be used for aggregation). In determining the total number of issuers, do not count:

- U.S. government bonds that are direct and guaranteed and backed by the full faith and credit of the U.S. government, other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List which receive a zero factor (Definitions of these categories are in the Annual Statement Instructions).

The calculation shown below will not appear in the software but will be calculated automatically. However, you must enter the total number of issuers in the appropriate field on the RBC filing software. If you leave this field blank, the program will assume that there are less than 10 issuers and will default to the maximum bond size factor adjustment. The calculation to derive the bond size factor is:

	Source	(a) No of Issuers			(b) Wgtd Issuers
First 10	Co Records	______	X	7.8=	______
Next 90	Co Records	______	X	1.75=	______
Next 100	Co Records	______	X	1.0 =	______
Next 300	Co Records	______	X	0.8 =	______
Over 500	Co Records	______	X	0.75 =	______
Total	Co Records	______			______

Size Factor = Total Weighted Issuers/Total No of Issuers less 1

PR007 - Unaffiliated Preferred and Common Stock

Unaffiliated Preferred Stock

Detailed information on unaffiliated preferred stocks is found in Schedule D Part 2 Section 1 of the annual statement. The preferred stocks must be broken out by NAIC Designation (NAIC 01 through NAIC 06) and these individual groups are to be entered in the appropriate lines of the RBC software. The total amount of unaffiliated preferred stock reported should equal annual statement P2 L2.1 C3 less any affiliated preferred stock in Schedule D-Summary by Country C1 L18.

Unaffiliated Common Stock

The factor for other unaffiliated common stock is based on studies that indicate a 10 percent to 12 percent factor is needed to provide capital to cover approximately 95 percent of the greatest losses in common stock value over a one-year future period. The higher factor of 15 percent contained in the formula reflects the increased risk when testing a period in excess of one year. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

The total of all unaffiliated common stock reported should be equal to the total value of common stock in Schedule D-Summary by Country C1 L25 less the sum of Schedule D-Summary by Country C1 L24 and PR007, Column 1, Line 18.

PR009 - Miscellaneous Assets

Collateral loans and write-ins for invested assets are generally a small proportion of total portfolio value. A factor of 5 percent is consistent with other risk-based capital formulas studied by the working group.

The factor for cash is 0.3%. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021, and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

If the book/adjusted carrying value of Aggregate Write-ins for Invested Assets (Page 2, Line 11, Column 3 of the annual statement) is less than zero, the RBC amount will be zero.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3% factor is equal to the factor for cash. The amount entered for short-term bonds should equal the total short-term investments found in Schedule DA Part 1 C7 L8399999. This amount is subtracted from the total of short-term investments, as they are captured with bonds on PR006.

PR011 - Asset Concentration

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an issuer of a security or a mortgage borrower, etc.). The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) of the 10 largest asset exposures excluding various low-risk categories or categories which already have a 30 percent factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the 10 largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds and preferred stock, affiliated common stock, affiliated preferred stock, property and equipment, U.S. government guaranteed bonds, NAIC 01 bonds or preferred stock, any other asset categories with risk-based capital factors less that 1 percent, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting company is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the Investment Company Act and provide this information upon request of the commissioner, director or superintendent of the department of insurance. The reporting company is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the commissioner, director or superintendent upon request.

The assets that ARE INCLUDED in the calculation are divided into two categories – Fixed Income Assets and Equity Assets. The following asset types should be aggregated to determine the 10 largest issuers:

FIXED INCOME ASSETS	EQUITY ASSETS
Bonds – NAIC Designation Category 2.A	Unaffiliated Preferred Stock –NAIC 02
Bonds – NAIC Designation Category 2.B	Unaffiliated Preferred Stock –NAIC 03
Bonds – NAIC Designation Category 2.C	Unaffiliated Preferred Stock –NAIC 04
Bonds – NAIC Designation Category 3.A	Unaffiliated Preferred Stock –NAIC 05
Bonds – NAIC Designation Category 3.B	-
Bonds – NAIC Designation Category 3.C	-
Bonds –NAIC Designation Category 4.A	-
Bonds – NAIC Designation Category 4.B	Unaffiliated Common Stock
Bonds – NAIC Designation Category 4.C	Investment Real Estate
Bonds –NAIC Designation Category 5.A	Encumbrances on Inv. Real Estate
Bonds – NAIC Designation Category 5.B	Schedule BA Assets (excluding Collateral Loans)
Bonds – NAIC Designation Category 5.C	Receivable for Securities
Collateral Loans	Aggregate Write-ins for Invested Assets
Mortgage Loans	Derivatives
Working Capital Finance Investments – NAIC 02	
Federal Guaranteed 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	
All Other Low Income Housing Tax Credits	

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in C(2) Ls (01) through (20) for fixed income assets and C(2), Ls (22) through (32) for equity assets. Aggregate all similar asset types before entering the amount in C(2). For instance, if you own five separate $1,000,000 NAIC 03.A bonds from Issuer #1, enter $5,000,000 in C(2)L(02) – NAIC 03.A Unaffiliated Bonds.

OFF-BALANCE SHEET COLLATERAL AND SCHEDULE DL, PART 1 ASSETS PR015

Security lending programs are required to maintain collateral. Some entities post the collateral supporting security lending programs on their financial statements, and incur the related risk charges on those assets. Other entities have collateral that is not recorded on their financial statements. While not recorded on the financial statements of the company, such collateral has risks that are not otherwise captured in the RBC formula.

The collateral in these accounts is maintained by a third party (typically a bank or other agent). The collateral agent maintains on behalf of the company detail asset listings of the collateral assets, and this data is the source for preparation of this schedule. The company should maintain such asset listings, at a minimum CUSIP, market value, book/carrying value, and maturity date.

The asset risk charges are derived from existing RBC factors for bonds, preferred and common stocks, other invested assets, and invested assets not otherwise classified (aggregate write-ins).

Specific Instructions for Application of the Formula

<u>Column (2) – Schedule DL, Part 1 Book/Adjusted Carrying Value</u> comes from Annual Statement Schedule DL, Part 1, Column (6) Securities Lending Collateral Assets reported On-Balance Sheet (Assets Page, Line 10).

Off-balance sheet collateral included in General Interrogatories Part 1, Lines 24.05 and 24.06 of the Annual Statement should agree with Line (41), Column (1).

<u>Lines (1) through (26) – Bonds</u>
Bond factors described on PR006 –Bonds and Bond Size Factor Adjustment

<u>Line (28) through (33) – Preferred Stocks</u>
Preferred stock factors described on PR007 – Unaffiliated Preferred and Common Stock

<u>Lines (35) – Common Stock</u>
Common stock factors described on PR007 – Unaffiliated Preferred and Common Stock

<u>Line (36) – Real Estate and Schedule BA - Other Invested Assets</u>
Real Estate and other invested asset factors described on PR008 – Other Long-Term Assets

<u>Line (37) – Other Invested Assets</u>
Other invested assets factors described on PR009 – Miscellaneous Assets

<u>Line (38) – Mortgage Loans on Real Estate</u>
Mortgage Loans on Real Estate factor described on PR009 – Miscellaneous Assets

<u>Line (39) – Cash, Cash Equivalents and Short-Term Investments</u>
Cash, Cash Equivalents and Short-Term Investments factors described on PR007 – Unaffiliated Preferred, Common Stock and Hybrid Securities and PR009 – Miscellaneous Assets

BONDS PR006

		Annual Statement Source	(1) Long-Term Bonds Schedule D, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch D Pt1F	(2) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value L2 thru 26 = Sch DA Pt1F	(3) Cash Equivalents Schedule E, Part 2 Book/Adjusted Carrying Value L2 thr 26 = Sch E Pt2F	(4) Subtotal C(1) + C(2) + C(3)	Factor	(5) RBC Requirement
(1)	NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)	C(1)=Sch D, Pt 1, C11 L0599999 C(2)=Sch DA, Pt 1, C7 L0599999 C(3)=Sch E, Pt 2, C7 L0599999 + L8599999	0	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	Footnote Amt 1 L000001A- L(1)	0	0	0	0	0.000	0
(3)	NAIC Designation Category 1.B	Footnote Amt 2 L000001A	0	0	0	0	0.000	0
(4)	NAIC Designation Category 1.C	Footnote Amt 3 L000001A	0	0	0	0	0.000	0
(5)	NAIC Designation Category 1.D	Footnote Amt 4 L000001A	0	0	0	0	0.000	0
(6)	NAIC Designation Category 1.E	Footnote Amt 5 L000001A	0	0	0	0	0.000	0
(7)	NAIC Designation Category 1.F	Footnote Amt 6 L000001A	0	0	0	0	0.000	0
(8)	NAIC Designation Category 1.G	Footnote Amt 7 L000001A	0	0	0	0	0.000	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0	0		0
(10)	NAIC Designation Category 2.A	Footnote Amt 1 L000001B	0	0	0	0	0.000	0
(11)	NAIC Designation Category 2.B	Footnote Amt 2 L000001B	0	0	0	0	0.000	0
(12)	NAIC Designation Category 2.C	Footnote Amt 3 L000001B	0	0	0	0	0.000	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0	0		0
(14)	NAIC Designation Category 3.A	Footnote Amt 1 L000001C	0	0	0	0	0.000	0
(15)	NAIC Designation Category 3.B	Footnote Amt 2 L000001C	0	0	0	0	0.000	0
(16)	NAIC Designation Category 3.C	Footnote Amt 3 L000001C	0	0	0	0	0.000	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0	0		0
(18)	NAIC Designation Category 4.A	Footnote Amt 1 L000001D	0	0	0	0	0.000	0
(19)	NAIC Designation Category 4.B	Footnote Amt 2 L000001D	0	0	0	0	0.000	0
(20)	NAIC Designation Category 4.C	Footnote Amt 3 L000001D	0	0	0	0	0.000	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0	0		0
(22)	NAIC Designation Category 5.A	Footnote Amt 1 L000001E	0	0	0	0	0.000	0
(23)	NAIC Designation Category 5.B	Footnote Amt 2 L000001E	0	0	0	0	0.000	0
(24)	NAIC Designation Category 5.C	Footnote Amt 3 L000001E	0	0	0	0	0.000	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0	0	0.000	0
(26)	Total NAIC 06 Bonds	Footnote Amt 1 L000001F	0	0	0	0	0.000	0
(27)	Subtotal - Bonds Subject to Bond Size Factor	L(9) - L(1) + L(13) + L(17) + L(21) + L(25) + L(26)	0	0	0	0		0
(28)	Number of Issuers		0	0	0	0		
(29)	Bond Size Factor							6.800
(30)	Bond Size Factor RBC	C(5)L(27) x C(5)L(29)						0
(31)	Total Bonds RBC	L(27) + L(30)						0

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

UNAFFILIATED PREFERRED AND COMMON STOCK ~~AND HYBRID SECURITIES~~ PR007

	Unaffiliated Preferred Stock	Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	NAIC 01 Preferred Stock	Sch D Pt 2 Sn 1	0	0.003	0
(2)	NAIC 02 Preferred Stock	Sch D Pt 2 Sn 1	0	0.010	0
(3)	NAIC 03 Preferred Stock	Sch D Pt 2 Sn 1	0	0.020	0
(4)	NAIC 04 Preferred Stock	Sch D Pt 2 Sn 1	0	0.045	0
(5)	NAIC 05 Preferred Stock	Sch D Pt 2 Sn 1	0	0.100	0
(6)	NAIC 06 Preferred Stock	Sch D Pt 2 Sn 1	0	0.300	0
(7)	~~SUB~~TOTAL - UNAFFILIATED PREFERRED STOCK (should equal P2 L2.1 C3 less Sch D-Sum C1 L18)	Sum of Ls(1) through (6)	0		0
~~(8)~~	~~NAIC 01 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.1)~~	~~0~~	~~0.003~~	~~0~~
~~(9)~~	~~NAIC 02 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.2)~~	~~0~~	~~0.010~~	~~0~~
~~(10)~~	~~NAIC 03 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.3)~~	~~0~~	~~0.020~~	~~0~~
~~(11)~~	~~NAIC 04 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.4)~~	~~0~~	~~0.045~~	~~0~~
~~(12)~~	~~NAIC 05 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.5)~~	~~0~~	~~0.100~~	~~0~~
~~(13)~~	~~NAIC 06 Hybrid Securities~~	~~Sch D Pt 1A Sn 1 C(7) L (7.6)~~	~~0~~	~~0.300~~	~~0~~
~~(14)~~	~~SUBTOTAL - HYBRID SECURITIES~~	~~Sum of Ls(8) through (13)~~	~~0~~		~~0~~
~~(15)~~	~~Total Unaffiliated Preferred Stock and Hybrid Securities~~	~~Line (7) + Line (14)~~	~~0~~		~~0~~

	Unaffiliated Common Stock	Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(8)	Total Common Stock	Sch D - Summary C1 L25	0		
(9)	Affiliated Common Stock	Sch D - Summary C1 L24	0		
(10)	Non-Admitted Unaffilated Common Stock	P2 C2 L2.2 - Sch D Pt6 Sn1 C10 L1899999	0		
(11)	Admitted Unaffiliated Common Stock	**L(8) - L(9) - L(10)**	0	0.150	0
(12)	Fair Value Excess Affiliated Common Stock	PR003 C(14) L(9999999)			0
(13)	Total Unaffiliated Common Stock	**L(11) + L(12)**	0		0

MISCELLANEOUS ASSETS PR009

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Receivable for Securities	P2C3L9	0	0.025	0
(2)	Aggregate W/I for Invest Assets	P2C3 L11	0	0.050	0
(3)	Cash	P2 L5, inside amt 1	0	0.003	0
(4)	Cash Equivalents	P2 L5, inside amt 2	0		
(5)	**Less: Cash Equivalents, Total Bonds**	Sch E Pt 2 C7 L8399999	0		
(6)	**Less: Exempt Money Market Mutual Funds as Identified by SVO**	Sch E Pt 2 C7 L8599999	0		
(7)	Net Cash Equivalents	L(4)-L(5)-L(6)	0	0.003	0
(8)	Short-Term Investments	P2 L5, inside amt 3	0		
(9)	**Short-Term Bonds**	Sch DA Pt 1 C7 L8399999	0		
(10)	Total Other Short-Term Investments	L(8)-L(9)	0	0.003	0
(11)	Collateral Loans	Sch BA Pt1 C12 L2999999+3099999	0		
(12)	Less: Non-Admitted Collateral Loans	P2 L8 C2 in part	0		
(13)	Net Admitted Collateral Loans	L(11) - L(12)	0	0.050	0
(14)	Derivatives	P2C3 L7	0	0.050	0
(15)	Total Miscellaneous Assets	L(1)+L(2)+L(3)+L(7)+L(10)+L(13)+L(14)	0		0

~~*** These bonds appear in Schedule D Part 1A Section 1 and are already recognized in the Bonds portion of the formula.**~~

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

ASSET CONCENTRATION PR011

		(1)	(2)		(3)
	ISSUER #1		Book/Adjusted Carrying Value	Factor	Additional RBC
(1)	NAIC Designation Category 2.A Bonds		0	0.0000	0
(2)	NAIC Designation Category 2.B Bonds		0	0.0000	0
(3)	NAIC Designation Category 2.C Bonds		0	0.0000	0
(4)	NAIC Designation Category 3.A Bonds		0	0.0000	0
(5)	NAIC Designation Category 3.B Bonds		0	0.0000	0
(6)	NAIC Designation Category 3.C Bonds		0	0.0000	0
(7)	NAIC Designation Category 4.A Bonds		0	0.0000	0
(8)	NAIC Designation Category 4.B Bonds		0	0.0000	0
(9)	NAIC Designation Category 4.C Bonds		0	0.0000	0
(10)	NAIC Designation Category 5.A Bonds		0	0.0000	0
(11)	NAIC Designation Category 5.B Bonds		0	0.0000	0
(12)	NAIC Designation Category 5.C Bonds		0	0.0000	0
(13)	Collateral Loans		0	0.0500	0
(14)	Mortgage Loans		0	0.0500	0
(15)	NAIC 02 Working Capital Finance Investments		0	0.0125	0
(16)	Federal Guaranteed Low Income Housing Tax Credits		0	0.0014	0
(17)	Federal Non-Guaranteed Low Income Housing Tax Credits		0	0.0260	0
(18)	State Guaranteed Low Income Housing Tax Credits		0	0.0014	0
(19)	State Non-Guaranteed Low Income Housing Tax Credits		0	0.0260	0
(20)	All Other Low Income Housing Tax Credits		0	0.1500	0
(21)	SUBTOTAL - FIXED INCOME		0		0
(22)	NAIC 02 Unaffiliated Preferred Stock		0	0.0100	0
(23)	NAIC 03 Unaffiliated Preferred Stock		0	0.0200	0
(24)	NAIC 04 Unaffiliated Preferred Stock		0	0.0450	0
(25)	NAIC 05 Unaffiliated Preferred Stock		0	0.1000	0
~~(26)~~	~~NAIC 02 Hybrid Securities~~		~~0~~	~~0.0100~~	~~0~~
~~(27)~~	~~NAIC 03 Hybrid Securities~~		~~0~~	~~0.0200~~	~~0~~
~~(28)~~	~~NAIC 04 Hybrid Securities~~		~~0~~	~~0.0450~~	~~0~~
~~(29)~~	~~NAIC 05 Hybrid Securities~~		~~0~~	~~0.1000~~	~~0~~
(26)	Property Held For Production of Income or For Sale Excluding Home Office		0	0.1000	0
(27)	Property Held For Production of Income or For Sale Encumbrances Excluding Home Office		0	0.1000	0
(28)	Schedule BA Assets		0	0.1000	0
(29)	Receivable for Securities		0	0.0250	0
(30)	Aggregate Write-Ins for Invested Assets		0	0.0500	0
(31)	Derivatives		0	0.0500	0
(32)	Unaffiliated Common Stock		0	0.1500	0
(33)	SUBTOTAL - EQUITY		0		0
(34)	TOTAL - ISSUER #1 (L21+L33)		0		0

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

OFF-BALANCE SHEET COLLATERAL AND SCHEDULE DL, PART 1 ASSETS PR015

	Asset Category	Annual Statement Source	(1) Off-Balance Sheet Collateral Book/Adjusted Carrying Value	(2) Schedule DL, Part 1 Book/Adjusted Carrying Value	(3) Subtotal	Factor	(4) RBC Requirement
	Fixed Income Assets						
	Bonds						
(1)	**NAIC 1.A - U.S. Government Full Faith and Credit, Other U.S. Government Obligations, and NAIC U.S. Government Money Market Fund List (Refer to A/S Instructions)**	Company Records	0	0	0	0.000	0
(2)	NAIC Designation Category 1.A	Company Records	0	0	0	0.000	0
(3)	NAIC Designation Category 1.B	Company Records	0	0	0	0.000	0
(4)	NAIC Designation Category 1.C	Company Records	0	0	0	0.000	0
(5)	NAIC Designation Category 1.D	Company Records	0	0	0	0.000	0
(6)	NAIC Designation Category 1.E	Company Records	0	0	0	0.000	0
(7)	NAIC Designation Category 1.F	Company Records	0	0	0	0.000	0
(8)	NAIC Designation Category 1.G	Company Records	0	0	0	0.000	0
(9)	Total NAIC 01 Bonds	Sum of Ls (1) through (8)	0	0	0		0
(10)	NAIC Designation Category 2.A	Company Records	0	0	0	0.000	0
(11)	NAIC Designation Category 2.B	Company Records	0	0	0	0.000	0
(12)	NAIC Designation Category 2.C	Company Records	0	0	0	0.000	0
(13)	Total NAIC 02 Bonds	Sum of Ls (10) through (12)	0	0	0		0
(14)	NAIC Designation Category 3.A	Company Records	0	0	0	0.000	0
(15)	NAIC Designation Category 3.B	Company Records	0	0	0	0.000	0
(16)	NAIC Designation Category 3.C	Company Records	0	0	0	0.000	0
(17)	Total NAIC 03 Bonds	Sum of Ls (14) through (16)	0	0	0		0
(18)	NAIC Designation Category 4.A	Company Records	0	0	0	0.000	0
(19)	NAIC Designation Category 4.B	Company Records	0	0	0	0.000	0
(20)	NAIC Designation Category 4.C	Company Records	0	0	0	0.000	0
(21)	Total NAIC 04 Bonds	Sum of Ls (18) through (20)	0	0	0		0
(22)	NAIC Designation Category 5.A	Company Records	0	0	0	0.000	0
(23)	NAIC Designation Category 5.B	Company Records	0	0	0	0.000	0
(24)	NAIC Designation Category 5.C	Company Records	0	0	0	0.000	0
(25)	Total NAIC 05 Bonds	Sum of Ls (22) through (24)	0	0	0		0
(26)	Total NAIC 06 Bonds	Company Records	0	0	0	0.000	0
(27)	Total Bonds	L(9) + (13) + (17) + (21) + (25) + (26)	0	0	0		0
	Equity Assets						
	Preferred Stock - Unaffiliated						
(28)	NAIC 01 Unaffiliated Preferred Stock	Company Records	0	0	0	0.003	0
(29)	NAIC 02 Unaffiliated Preferred Stock	Company Records	0	0	0	0.010	0
(30)	NAIC 03 Unaffiliated Preferred Stock	Company Records	0	0	0	0.020	0
(31)	NAIC 04 Unaffiliated Preferred Stock	Company Records	0	0	0	0.045	0
(32)	NAIC 05 Unaffiliated Preferred Stock	Company Records	0	0	0	0.100	0
(33)	NAIC 06 Unaffiliated Preferred Stock	Company Records	0	0	0	0.300	0
(34)	Total Unaffiliated Preferred Stock	Sum of Ls (28) through (33)	0	0	0		0
(35)	Unaffiliated Common Stock	Company Records	0	0	0	0.150	0
(36)	Real Estate and Schedule BA - Other Invested Assets	Company Records	0	0	0	0.200	0
(37)	Other Invested Assets	Company Records	0	0	0	0.200	0
(38)	Mortgage Loans on Real Estate	Company Records	0	0	0	0.050	0
(39)	**Cash, Cash Equivalents and Short-Term Investments** (Not reported as Bonds above)	Company Records	0	0	0	0.003	0
(40)	Total	L(27)+L(34)+L(35)+L(36)+L(37)+L(38)+L(39)	0	0	0		0

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

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR030 R0-R1

			(1)
R0 -–Subsidiary Insurance Companies and Misc. Other Amounts		PRBC O&I Reference	RBC Amount
(1)	Affiliated US P&C Insurers - Directly Owned	PR004 L(1)C(4)	0
(2)	Affiliated US P&C Insurers - Indirectly Owned	PR004 L(4)C(4)	0
(3)	Affiliated US Life Insurers - Directly Owned	PR004 L(2)C(4)	0
(4)	Affiliated US Life Insurers - Indirectly Owned	PR004 L(5)C(4)	0
(5)	Affiliated US Health Insurer - Directly Owned	PR004 L(3)C(4)	0
(6)	Affiliated US Health Insurer - Indirectly Owned	PR004 L(6)C(4)	0
(7)	Affiliated Alien Insurers - Directly Owned	PR004 L(8)C(4)	0
(8)	Affiliated Alien Insurers - Indirectly Owned	PR004 L(9)C(4)	0
(9)	Misc Off-Balance Sheet - Non-Controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
~~(15)~~	~~NAIC 01 U.S. Government Agency Bonds~~	~~PR006 L(2A)C(2)~~	~~0~~
(15)	Bonds Subject to Size Factor	PR006 L(27)C(5)	0
(16)	Bond Size Factor RBC	PR006 L(30)C(5)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, Cash Equi, non-govt MMF & S.T. Invest and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long- Term Assets - Mortgage Loans, LIHTC & WCFI	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+L(20)+L(21)C(2)	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication -Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(21)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR031 R2-R3

Attachment Seven

R2 - Asset Risk - Equity		PRBC O&I Reference	RBC Amount
(27)	Common - Affiliate Investment Subsidiary	PR004 L(7)C(2)	0
(28)	Common - Affiliate Hold. Company. in excess of Ins. Subs.	PR004 L(10)C(2)	0
(29)	Common - Investment in Parent	PR004 L(11)C(2)	0
(30)	Common - Aff'd US P&C Not Subj to RBC	PR004 L(12)C(2)	0
(31)	Common - Affil US Life Not Subj to RBC	PR004 L(13)C(2)	0
(32)	Common - Affil US Health Insurer Not Subj to RBC	PR004 L(14)C(2)	0
(33)	Common - Aff'd Non-insurer	PR004 L(15)C(2)	0
(34)	Preferred - Aff'd Invest Sub	PR004 L(7)C(3)	0
(35)	Preferred - Aff'd Hold. Co. in excess of Ins. Subs.	PR004 L(10)C(3)	0
(36)	Preferred - Investment in Parent	PR004 L(11)C(3)	0
(37)	Preferred - Affil US P&C Not Subj to RBC	PR004 L(12)C(3)	0
(38)	Preferred - Affil US Life Not Subj to RBC	PR004 L(13)C(3)	0
(39)	Preferred - Affil US Health Insurer Not Subj to RBC	PR004 L(14)C(3)	0
(40)	Preferred - Affil Non-insurer	PR004 L(15)C(3)	0
(41)	Unaffiliated Preferred Stock ~~and Hybrid Securities~~	PR007 L(7)C(2)+PR015 L(34)C(4)	0
(42)	Unaffiliated Common Stock	PR007 L(21)C(2)+PR015 L(35)C(4)	0
(43)	Other Long -Term Assets - Real Estate	PR008 L(7)C(2)	0
(44)	Other Long-Term Assets - Schedule BA Assets	PR008 L(19)C(2)+PR015 L(36)+L(37)C(4)	0
(45)	Misc Assets - Receivable for Securities	PR009 L(1)C(2)	0
(46)	Misc Assets - Aggregate Write-ins for Invested Assets	PR009 L(2)C(2)	0
(47)	Misc Assets - Derivatives	PR009 L(14)C(2)	0
(48)	Replication - Synthetic Asset: One Half	PR010 L(9999999)(7)	0
(49)	Asset Concentration RBC - Equity	PR011 L(34)C(3) Grand Total Page	0
(50)	Total R2	**L(27)+L(28)+L(29)+L(30)+L(31)+L(32)+L(33)+L(34) +L(35)+L(36)+L(37)+L(38)+L(39)+L(40)+L(41)+L(42) +L(43)+L(44)+L(45)+L(46)+L(47)+L(48)+L(49)**	0
R3 - Asset Risk - Credit			
(51)	Other Credit RBC	PR012 L(8))-L(1)-L(2)C(2)	0
(52)	One half of Rein Recoverables	0.5 x (PR012 L(1)+L(2)C(2))	0
(53)	Other half of Rein Recoverables	**If R4 L(57)>(R3 L(51) + R3 L(52)), 0, otherwise, R3 L(52)**	0
(54)	Health Credit Risk	PR013 L(12)C(2)	0
(55)	Total R3	**L(51) + L(52) + L(53) + L(54)**	0

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE PR032 R4-Rcat

			(1)
R4 - Underwriting Risk - Reserves		PRBC O&I Reference	RBC Amount
(56)	One half of Reinsurance RBC	If R4 L(57)>(R3 L(51) + R3 L(52)), R3 L(52), otherwise, 0	0
(57)	Total Adjusted Unpaid Loss/Expense Reserve RBC	PR0017 L(15)C(20)	0
(58)	Excessive Premium Growth - Loss/Expense Reserve	PR016 L(13) C(8)	0
(59)	A&H Claims Reserves Adjusted for LCF	PR024 L(5) C(2) + PR023 L(6) C(4)	0
(60)	Total R4	**L(56)+L(57)+L(58)+L(59)**	0
R5 - Underwriting Risk - Net Written Premium			
(61)	Total Adjusted NWP RBC	PR018 L(15)C(20)	0
(62)	Excessive Premium Growth - Written Premiums Charge	PR016 L(14)C(8)	0
(63)	Total Net Health Premium RBC	PR022 L(21)C(2)	0
(64)	Health Stabilization Reserves	PR025 L(8)C(2) + PR023 L(3) C(2)	0
(65)	Total R5	**L(61)+L(62)+L(63)+L(64)**	0
Rcat- Catastrophe Risk			
(66)	Total Rcat	PR027 L(3) C(1)	0
(67)	Total RBC After Covariance Before Basic Operational Risk = R0+SQRT(R1^2+R2^2+R3^2+R4^2+R5^2+Rcat^2)		0
(68)	**Basic Operational Risk = 0.030 x L(67)**		0
(69)	C-4a of U.S. Life Insurance Subsidiaries (from Company records)		0
(70)	**Net Basic Operational Risk = Line (68) - Line (69) (Not less than zero)**		0
(71)	**Total RBC After Covariance including Basic Operational Risk = L(67)+ L(68)**		0
(72)	**Authorized Control Level RBC including Basic Operational Risk = .5 x L(71)**		0

Capital Adequacy (E) Task Force

RBC Proposal Form

[x] Capital Adequacy (E) Task Force
[ ] Health RBC (E) Working Group
[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup
[ ] Investment RBC (E) Working Group
[ ] Longevity Risk (A/E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup
[ ] P/C RBC (E) Working Group

DATE: 1-28-21		**FOR NAIC USE ONLY**
CONTACT PERSON:	**Crystal Brown**	Agenda Item # 2021-02-CA
TELEPHONE:	**816-783-8146**	Year 2021
EMAIL ADDRESS:	**cbrown@naic.org**	**DISPOSITION**
ON BEHALF OF:	**Health RBC (E) Working Group**	[ ] ADOPTED ______
NAME:	**Steve Drutz**	[ ] REJECTED ______
TITLE:	**Chief Financial Analyst/Chair**	[ ] DEFERRED TO ______
AFFILIATION:	**WA Office of Insurance Commissioner**	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	**PO Box 40255**	[ ] EXPOSED ______
	Olympia, WA 98504-0255	[ ] OTHER (SPECIFY) ______

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

[x] Health RBC Blanks
[x] Property/Casualty RBC Blanks
[x] Life and Fraternal RBC Instructions
[x] Health RBC Instructions
[x] Property/Casualty RBC Instructions
[x] Life and Fraternal RBC Blanks
[ ] OTHER ____________________________

DESCRIPTION OF CHANGE(S)

Incorporate references for "Incentives" under the managed care instructions and blank as "Bonuses/Incentives."

REASON OR JUSTIFICATION FOR CHANGE **

Currently the managed care instructions and blank only reference the bonuses, this change would clarify that both incentives and bonuses are to be included.

Additional Staff Comments:

02-10-21 cgb The Proposal was exposed to the Health Risk-Based Capital (E) Working Group for a 30-day comment period that ends on Mar. 12, 2021.
03-17-21 cgb No comments were received during the comment period. The Working Group referred the proposal to the Capital Adequacy (E) Task Force for a 30-day comment period for all lines of business, with any comments to come back to the Working Group.

**** This section must be completed on all forms.** **Revised 2-2019**

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HEALTH

UNDERWRITING RISK – MANAGED CARE CREDIT
XR017

The effect of managed care arrangements on the variability of underwriting results is the fundamental difference between health entities and pure indemnity carriers. The managed care credit is used to reduce the RBC requirement for experience fluctuations. It is important to understand that the managed care credit is based on the reduction in uncertainty about future claims payments, not on any reduction in the actual level of cost. Those managed care arrangements that have the greatest reduction in the uncertainty of claim payments receive the greatest credit, while those that have less effect on the predictability of claims payments engender less of a discount.

There are currently five levels of managed care that are used in the formula, other than for Medicare Part D Coverage, although in the future as new managed care arrangements evolve, the number of categories may increase, or new arrangements may be added to the existing categories. The managed care categories are:

* Category 0 – Arrangements not Included in Other Categories
* Category 1 – Contractual Fee Payments
* Category 2 – Bonus and/or Incentives / Withhold Arrangements
* Category 3 – Capitation
* Category 4 – Non-Contingent Expenses and Aggregate Cost Arrangements and Certain PSO Capitated Arrangements

For Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10) through (13) will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future, no other managed care credits are allowed for this coverage.

The managed care credit is based on the percentage of paid claims that fall into each of these categories. Total claims payments are allocated among these managed care "buckets" to determine the weighted average discount, which is then used to reduce the Underwriting Risk-Experience Fluctuation RBC. Paid claims are used instead of incurred claims due to the variability of reserves (unpaid claims) in incurred claim amounts and the difficulty in allocating reserves (unpaid claims) by managed care category.

In some instances, claim payments may fit into more than one category. If that occurs, enter the claim payments into the highest applicable category. CLAIM PAYMENTS CAN ONLY BE ENTERED INTO ONE OF THESE CATEGORIES! The total of the claim payments reported in the Managed Care Credit Calculation page should equal the total year's paid claims.

Line (1) – Category 0 – Arrangements not Included in Other Categories. There is a zero managed care credit for claim payments in this category, which includes:

- Fee for service (charges).
- Discounted FFS (based upon charges).
- Usual Customary and Reasonable (UCR) Schedules.
- Relative Value Scales (RVS) where neither payment base nor RV factor is fixed by contract or where they are fixed by contract for one year or less.
- Stop-loss payments by a health entity to its providers that are capitated or subject to withhold/incentive programs.
- Retroactive payments to capitated providers or intermediaries whether by capitation or other payment method (excluding retroactive withholds later released to the provider and retroactive payments made solely because of a correction to the number of members within the capitated agreement).
- Capitation paid to providers or intermediaries that have received retroactive payments for previous years (including bonus arrangements on capitation programs).

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This amount should equal Exhibit 7, Part 1, Column 1, Line 5 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (2) – Category 1 – Payments Made According to Contractual Arrangements. There is a 15 percent managed care credit for payments included in this category:

- Hospital per diems, DRGs or other hospital case rates.
- Non-adjustable professional case and global rates.
- Provider fee schedules.
- RVS where the payment base and RV factor are fixed by contract for more than one year.
- Ambulatory payment classifications (APCs).

This amount should equal Exhibit 7, Part 1, Column 1, Line 6 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (3) - Category 2a - Payments Made Subject to Withholds or Bonuses/Incentives With No Other Managed Care Arrangements. This category may include business that would have otherwise fit into Category 0. That is, there may be a bonus/incentives/withhold arrangement with a provider who is reimbursed based on a UCR schedule (Category 0).

The maximum Category 2a managed care credit is 25 percent. The credit is based upon a calculation that determines the ratio of withholds returned and bonuses and/or incentives paid to providers during the prior year to total withholds and bonuses and incentives available to the providers during that year. That ratio is then multiplied by the average provider withhold ratio for the prior year to determine the current year's Category 2a managed care credit factor. Bonus and/or incentive payments that are not related to financial results are not included (e.g., patient satisfaction). Therefore, the credit factor is equal to the result of the following calculation:

EXAMPLE – **2019** Reporting Year

2018 withhold / bonus/incentive payments 750,000
2018 withholds / bonuses/incentives available 1,000,000
A. MCC Factor Multiplier..75% – Eligible for credit
2018 withholds / bonuses/incentives available 1,000,000
2018 claims subject to withhold - gross*..5,000,000
B. Average Withhold Rate 20%
Category 2 Managed Care Credit Factor (A x B)...15%

The resulting factor is multiplied by claim payments subject to withhold - net** in the current year.

*** These are amounts due before deducting withhold or paying bonuses and/or incentives.**
**** These are actual payments made after deducting withhold or paying bonuses and/or incentives.**

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives, but otherwise had no managed care arrangements. This amount should equal Exhibit 7, Part 1, Column 1, Line 7 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (4) – Category 2b – Payments Made Subject to Withholds or Bonuses/Incentives That Are Otherwise Managed Care Category 1. Category 2b may include business that would have otherwise fit into Category 1. That is, there may be a bonus/incentives/withhold arrangement with a provider who is reimbursed based on a provider fee schedule (Category 1). The Category 2 discount for claim payments that would otherwise qualify for Category 1 is the greater of the Category 1 factor or the calculated Category 2 factor.

The maximum Category 2b managed care credit is 25 percent. The minimum of Category 2b managed care credit is 15 percent (Category 1 credit factor). The credit calculation is the same as found in the previous example for Category 2a.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives AND where the payments were made according to one of the contractual arrangements listed for Category 1. This amount should equal Exhibit 7, Part 1, Column 1, Line 8 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (5) – Category 3a – Capitated Payments Directly to Providers. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitation or percent of premium payments directly to licensed providers.

Enter the amount of claim payments paid DIRECTLY to licensed providers on a capitated basis. This amount should equal Exhibit 7, Part 1, Column 1, Line 1 + Line 3 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (6) – Category 3b – Capitated Payments to Regulated Intermediaries. There is a managed care credit of 60 percent for claim payments in this category, which includes:

- All capitation or percent of premium payments to intermediaries that in turn pay licensed providers.

Enter the amount of medical expense capitations paid to regulated intermediaries. An *intermediary* is a person, corporation or other business entity (not licensed as a medical provider) that arranges, by contracts with physicians and other licensed medical providers, to deliver health services for a health entity and its enrollees via a separate contract between the intermediary and the health entity. This includes affiliates of a health entity that are not subject to RBC, except in those cases where the health entity qualifies for a higher managed care credit because the capitated affiliate employs providers and pays them non-contingent salaries, and where the affiliated intermediary has a contract only with the affiliated health entity. A *Regulated Intermediary* is an intermediary (affiliated or not) subject to state regulation and files the Health RBC formula with the state.

Line (7) – Category 3c – Capitated Payments to Non-Regulated Intermediaries. There is a managed care credit of 60 percent for claim payments in this category, which includes:

- All capitation or percent of premium payments to intermediaries that in turn pay licensed providers. (Subject to a 5 percent limitation on payments to providers or other corporations that have no contractual relationship with such intermediary. Amounts greater than the 5 percent limitation should be reported in Category 0.)

Enter the amount of medical expense capitations paid to non-regulated intermediaries.

IN ORDER TO QUALIFY FOR ANY OF THE CAPITATION CATEGORIES, SUCH CAPITATION MUST BE FIXED (AS A PERCENTAGE OF PREMIUM OR FIXED DOLLAR AMOUNT PER MEMBER) FOR A PERIOD OF AT LEAST 12 MONTHS. Where an arrangement contains a provision for prospective revision within a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under category 1 for a provider, and for an intermediary at the greater of category 1 or a credit calculated using the underlying payment method(s) to the providers of care. Where an arrangement contains a provision for retroactive revisions either within or beyond a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under category 0 for both providers and intermediaries.

Line (8) – Category 4 – Medical & Hospital Expense Paid as Salary to Providers. There is a managed care credit of 75 percent for claim payments in this category. Once claim payments under this managed care category are totaled, any fee for service revenue from uninsured plans (i.e., ASO or ASC) that was included on line 7 in the Underwriting Risk section should be deducted before applying the managed care credit factor. This category includes:

- Non-contingent salaries to persons directly providing care.
- The portion of payments to affiliated entities, which is passed on as non-contingent salaries to persons directly providing care where the entity has a contract only with its affiliated health entity.
- All facilities related medical expenses and other non-provider medical costs generated within a health facility that is owned and operated by the health entity.
- Aggregate cost payments.

Salaries paid to doctors and nurses whose sole corporate purpose is utilization review are also included in this category if such payments are classified as “medical expense” payments (paid claims) rather than administrative expenses. The "aggregate cost" method of reimbursement means where a health plan has a reimbursement plan with a corporate entity that directly provides care, where (1) the health plan is contractually required to pay the total operating costs of the corporate entity, less any income to the entity from other users of services, and (2) there are mutual unlimited guarantees of solvency between the entity and the health plan, which put their respective capital and surplus at risk in guaranteeing each other.

This amount should equal Exhibit 7, Part 1, Column 1, Line 9 + Line 10 of the annual statement excluding Stand-Alone Medicare Part D business reported in Lines (12) and (13).

Line (9) – Sub-Total Paid Claims. The total of paid claims for Comprehensive Medical, Medicare Supplement and Dental [should equal the total claims paid for the year as reported in Exhibit 7, Part 1, Column 1, Line 13 less Line 11 of the annual statement and the sum of Lines (8.3), (12) and (13) on page XR017 – Underwriting Risk – Managed Care Credit.

Line (10) – Category 0 – No Federal Reinsurance or Risk Corridor Protection. Category 0 for Medicare Part D Coverage would be all claims during a period where neither the reinsurance coverage or risk corridor protection is provided.

Line (11) – Category 1 – Federal Reinsurance but no Risk Corridor Protection. Category 1 for Medicare Part D Coverage would be all claims during a period when only the reinsurance coverage is provided. This is designed for some future time period and is not to be interpreted as including employer-based Part D coverage that is not subject to risk corridor protection.

Line (12) – Category 2a – No Federal Reinsurance but Risk Corridor Protection. Category 2a for Medicare Part D Coverage would be for all claims during a period when only the risk corridor protection is provided.

Line (13) – Category 3a – Federal Reinsurance and Risk Corridor Protection. Category 3a for Medicare Part D Coverage would be for all claims during a period when both reinsurance coverage and risk corridor protection are provided.

Line (14) – Sub-Total Paid Claims. The total paid claims for Medicare Part D Coverage, excluding supplemental benefits.

Line (16) – Weighted Average Managed Care Discount. These amounts are calculated by dividing the total weighted claims by the comparable sub-total claim payments. For Column (3), this is Column (3), Line (9) divided by Column (2), Line (9). For Column (4), this is Column (4) Line (14) divided by Column (2), Line (14).

Line (17) – Weighted Average Managed Care Risk Adjustment Factor**.** These are the credit factors that are carried back to the underwriting risk calculation. They are one minus the Weighted Average Managed Care Discount values in Line (16).

Lines (18) through (24) are the calculation of the weighted average factor for the Category 2 claims payments subject to withholds and bonuses/incentives. This table requires data from the PRIOR YEAR to compute the current year's discount factor. These do not apply to Medicare Part D coverage.

Line (18) – Withhold & Bonus/Incentive Payments**, *prior year*.** Enter the prior year's actual withhold and bonus/incentive payments.

Line (19) –Withhold & Bonuses/Incentives Available**, *prior year*.** Enter the prior ~~year's~~years withholds and bonuses/incentives that were available for payment in the prior year.

Line (20) – MCC Multiplier – Average Withhold Returned**.** Divides Line (18) by Line (19) to determine the portion of withholds and bonuses/incentives that were actually returned in the prior year.

Line (21) – Withholds & Bonuses/Incentives Available, ***prior year*.** Equal to Line (19) and is automatically pulled forward.

Line (22) – Claims Payments Subject to Withhold, ***prior year*.** Claim payments that were subject to withholds and bonuses/incentives in the prior year. Equal to L(3) + L(4) of the managed care credit claims payment table FOR THE PRIOR YEAR.

Line (23) – Average Withhold Rate, ***prior year*.** Divides Line (21) by Line (22) to determine the average withhold rate for the prior year.

Line (24) – MCC Discount Factor, Category 2**.** Multiplies Line (20) by Line (23) to determine the discount factor for Category 2 claims payments in the current year, based on the performance of the health ~~entity's~~entities withhold/bonus/incentive program in the prior year.

LIFE

UNDERWRITING RISK - MANAGED CARE CREDIT
LR022

This worksheet LR022 Underwriting Risk – Managed Care Credit is optional. It may be completed for only part of the comprehensive medical dental business, Stand-Alone Medicare Part D Coverage or all of them. Line (1) will be filled in as the balancing item if any of Lines (2) through (8) are entered (and then Line (9) will be required).

The effect of managed care arrangements on the variability of underwriting results is the fundamental difference between coverages subject to the managed care credit and pure indemnity insurance. The managed care credit is used to reduce the RBC requirement for experience fluctuations. It is important to understand that the managed care credit is based on the reduction in uncertainty about future claims payments, not on any reduction in the actual level of cost. Those managed care arrangements that have the greatest reduction in the uncertainty of claims payments receive the greatest credit, while those that have less effect on the predictability of claims payments engender less of a discount.

There are five levels of managed care that are used in the RBC formulas other than for Stand-Alone Medicare Part D Coverage, although in the future as new managed care arrangements evolve, the number of categories may increase or new arrangements may be added to the existing categories. The managed care categories are:

- Category 0 - Arrangements not Included in Other Categories
- Category 1 - Contractual Fee Payments
- Category 2 – Bonus and/or incentives / Withhold Arrangements
- Category 3 - Capitation
- Category 4 - Non-contingent Expenses and Aggregate Cost Arrangements and Certain PSO Capitated Arrangements

For Stand-Alone Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10) through (13) will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

The managed care credit is based on the percentage of paid claims that fall into each of these categories. Total claims payments are allocated among these managed care "buckets" to determine the weighted average discount, which is then used to reduce the Underwriting Risk-Experience Fluctuation RBC. Paid claims are used instead of incurred claims due to the variability of reserves (unpaid claims) in incurred claim amounts and the difficulty in allocating reserves (unpaid claims) by managed care category.

In some instances, claims payments may fit into more than one category. If that occurs, enter the claims payments into the highest applicable category. CLAIMS PAYMENTS CAN ONLY BE ENTERED INTO ONE OF THESE CATEGORIES! The total of the claims payments reported in the managed care worksheet should equal the total year's paid claims. Category 2a, Category 2b and Category 3c are not allowed to include non-regulated intermediaries who are affiliated with the reporting company in order to insure that true risk transfer is accomplished.

Line (1)
Category 0 - Arrangements not Included in Other Categories. There is a zero managed care credit for claim payments in this category, which includes:
- Fee for service (charges).
- Discounted fee for service (based upon charges).

- Usual customary and reasonable (UCR) schedules.
- Relative value scale (RVS), where neither payment base nor RV factor is fixed by contract or where they are fixed by contract for one year or less.
- Retroactive payments to capitated providers or intermediaries whether by capitation or other payment method (excluding retroactive withholds later released to the provider and retroactive payments made solely because of a correction to the number of members within the capitated agreement).
- Capitation paid to providers or intermediaries that have received retroactive payments for previous years (including bonus arrangements on capitation programs).
- Claim payments not included in other categories.

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Line (2)
Category 1 - Payments Made According to Contractual Arrangements. There is a 15 percent managed care credit for payments included in this category:

- Hospital per diems, diagnostic related groups (DRGs) or other hospital case rates.
- Non-adjustable professional case and global rates.
- Provider fee schedules.
- Relative value scale (RVS), where the payment base and RV factor are fixed by contract for more than one year.

Line (3)
Category 2a - Payments Made Subject to Withholds or Bonuses/Incentives with No Other Managed Care Arrangements. This category may include business that would have otherwise fit into Category 0. That is, there may be a bonus/incentives/withhold arrangement with a provider who is reimbursed based on a UCR schedule (Category 0).

The maximum Category 2a managed care credit is 25 percent. The credit is based upon a calculation that determines the ratio of withholds returned and bonuses and/or incentives paid to providers during the prior year to total withholds and bonuses and incentives available to the providers during that year. That ratio is then multiplied by the average provider withhold ratio for the prior year to determine the current year's Category 2a managed care credit factor. Bonus and/or incentive payments that are not related to financial results are not included (e.g., patient satisfaction). Therefore, the credit factor is equal to the result of the following calculation:

EXAMPLE - 1998 Reporting Year	
1997 withhold / bonus/incentive payments	750,000
1997 withholds / bonuses/incentives available	1,000,000
A . MCC Factor Multiplier	75% - Eligible for credit
1997 withholds / bonuses/incentives available	1,000,000
1997 claims subject to withhold -gross†	5,000,000
B. Average Withhold Rate	20%
Category 2 Managed Care Credit Factor (A x B)	15%

The resulting factor is multiplied by claims payments subject to withhold - net‡ in the current year.

† These are amounts due before deducting withhold or paying bonuses and/or incentives.
‡ These are actual payments made after deducting withhold or paying bonuses and/or incentives.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives, but otherwise had no managed care arrangements.

Line (4)

Category 2b - Payments Made Subject to Withholds or Bonuses/Incentives That Are Otherwise Managed Care Category 1. Category 2b may include business that would have otherwise fit into Category 1. That is, there may be a bonus/incentive/withhold arrangement with a provider who is reimbursed based on a provider fee schedule (Category 1). The Category 2 discount for claims payments that would otherwise qualify for Category 1 is the greater of the Category 1 factor or the calculated Category 2 factor.

The maximum Category 2b managed care credit is 25 percent. The minimum of Category 2b managed care credit is 15 percent (Category 1 credit factor). The credit calculation is the same as found in the previous example for Category 2a.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives AND where the payments were made according to one of the contractual arrangements listed for Category 1.

Line (5)
Category 3a - Capitated Payments Directly to Providers. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitation or percent of premium payments directly to licensed providers.

Enter the amount of claims payments paid DIRECTLY to licensed providers on a capitated basis.

Line (6)
Category 3b - Capitated Payments to Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitation or percent of premium payments to regulated intermediaries that, in turn, pay licensed providers.

Enter the amount of medical expense capitations paid to regulated intermediaries (see Appendix 2 for definition). In those cases where the capitated regulated intermediary employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

Line (7)
Category 3c - Capitated Payments to Non-Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

- All capitated or percent of premium payments to non-affiliated intermediaries that, in turn, pay licensed providers (subject to a 5 percent limitation on payments to providers or other corporations that have no contractual relationship with such intermediary. Amounts greater than the 5 percent limitation should be reported in Category 0).

Enter the amount of medical expense capitations paid to non-regulated intermediaries not affiliated with the reporting company. Do not include the amount of medical expense capitations paid to non-regulated intermediaries affiliated with the reporting company. These amounts should be reported in Category 0. Non-regulated intermediaries are those organizations that meet the definition in Appendix 2 for Intermediary but not regulated intermediary. In those cases where the capitated non-regulated intermediary (even if affiliated) employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

IN ORDER TO QUALIFY FOR ANY OF THE CAPITATION CATEGORIES, SUCH CAPITATION MUST BE FIXED (AS A PERCENTAGE OF PREMIUM OR FIXED DOLLAR AMOUNT PER MEMBER) FOR A PERIOD OF AT LEAST 12 MONTHS. Where an arrangement contains a provision for prospective revision within a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 1 for a provider, and for an intermediary at the greater of Category 1 or a credit calculated using the underlying payment method(s) to the providers of care. Where an arrangement contains a provision for retroactive revisions either within or beyond a 12 month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 0 for both providers and intermediaries.

Line (8)
Category 4 - Medical & Hospital Expense Paid as Salary to Providers. There is a managed care credit of 75 percent for claims payments in this category. Once claims payments under this managed care category are totaled, any fee for service revenue from uninsured plans (i.e., ASO or ASC) that was included on Line (7) in the underwriting risk section should be deducted before applying the managed care credit factor.

- Non-contingent salaries to persons directly providing care.
- The portion of payments to affiliated entities passed on as non-contingent salaries to persons directly providing care where the entity has a contract only with the company.
- All facilities-related medical expenses and other non-provider medical costs generated within health facility that is owned and operated by the insurer.
- Aggregate cost payments.

Salaries paid to doctors and nurses whose sole corporate purpose is utilization review are also included in this category if such payments are classified as "medical expense" payments (paid claims) rather than administrative expenses. The Aggregate Cost method of reimbursement means where a health plan has a reimbursement plan with a corporate entity that directly provides care, where (1) the health plan is contractually required to pay the total operating costs of the corporate entity, less any income to the entity from other users of services; and (2) there are mutual unlimited guarantees of solvency between the entity and the health plan, which put their respective capital and surplus at risk in guaranteeing each other.

Line (9)
Subtotal Paid Claims – The total of Column (2) paid claims should equal the total claims paid for the year as reported in Schedule H, Part 5, Columns 1 and 2, Line A.4 of the annual statement.

Line (10)
Category 0 for Stand-Alone Medicare Part D Coverage would be all claims during a period where neither the reinsurance coverage or risk corridor protection is provided.

Line (11)
Category 1 for Stand-Alone Medicare Part D Coverage would be for all claims during a period when only the reinsurance coverage is provided. This is designed for some future time period and is not to be interpreted as including employer-based Part D coverage that is not subject to risk corridor protection.

Line (12)
Category 2a for Stand-Alone Medicare Part D Coverage would be for all claims during a period when only the risk corridor protection is provided.

Line (13)
Category 3a for Stand-Alone Medicare Part D Coverage would be for all claims during a period when both reinsurance coverage and risk corridor protection are provided.

Line (16)
Weighted Average Managed Care Discount – The amounts in Column (3) and Column (4) are calculated by dividing the total weighted claims in Column (3) by the total claims paid in Column (2) for Lines (9) and (14) respectively.

Line (17)

Weighted Average Managed Care Risk Adjustment Factor – These are the credit factors that are carried back to the underwriting risk calculation. They are one minus the Weighted Average Managed Care Discount (Line (16)).

Lines (18) through (24)
Lines (18) through (24) are the calculation of the weighted average factor for the Category 2 claims payments subject to withholds and bonuses/incentives. This table requires data from the PRIOR YEAR to compute the current year's discount factor.

Line (18)
Enter the prior year's actual withhold and bonus/incentive payments.

Line (19)
Enter the prior year's withholds and bonuses/incentives that were available for payment in the prior year.

Line (20)
Divides Line (18) by Line (19) to determine the portion of withholds and bonuses/incentives that were actually returned in the prior year.

Line (21)
Equal to Line (19) and is automatically pulled forward.

Line (22)
Claims payments that were subject to withholds and bonuses/incentives in the prior year. Equal to Line (3) + Line (4) of LR022 Underwriting Risk – Managed Care Credit FOR THE PRIOR YEAR.

Line (23)
Divides Line (21) by Line (22) to determine the average withhold rate for the prior year.

Line (24)
Multiplies Line (20) by Line (23) to determine the discount factor for Category 2 claims payments in the current year, based on the performance of the insurer's withhold/bonus/incentive program in the prior year.

PR021 - Underwriting Risk – Managed Care Credit

This worksheet PR021 Underwriting Risk – Managed Care Credit is optional. It may be completed for only part of the Comprehensive Medical, Stand-Alone Medicare Part D Coverage, Dental business or all of them. Line (1) will be filled in as the balancing item if any of Lines (2) through (8) are entered (and then Line (9) will be required).

The effect of managed care arrangements on the variability of underwriting results is the fundamental difference between coverages subject to the managed care credit and pure indemnity insurance. The managed care credit is used to reduce the RBC requirement for experience fluctuations. It is important to understand that the managed care credit is based on the reduction in uncertainty about future claims payments, not on any reduction in the actual level of cost. Those managed care arrangements that have the greatest reduction in the uncertainty of claims payments receive the greatest credit, while those that have less effect on the predictability of claims payments engender less of a discount.

There are currently five levels of managed care that are used in the RBC formulas other than for Stand-Alone Medicare Part D Coverage, although in the future as new managed care arrangements evolve, the number of categories may increase or new arrangements may be added to the existing categories. The managed care categories are:

- Category 0 - Arrangements not Included in Other Categories
- Category 1 - Contractual Fee Payments
- Category 2 – Bonus and/or Incentives / Withhold Arrangements
- Category 3 - Capitation
- Category 4 - Non-contingent Expenses and Aggregate Cost Arrangements and Certain PSO Capitated Arrangements

For Stand-Alone Medicare Part D Coverage, the reduction in uncertainty comes from two federal supports. The reinsurance coverage is optional in that a plan sponsor may elect to participate in the Part D Payment Demonstration. The risk corridor protection is expected to have less impact after the first few years. To allow flexibility within the RBC formula, Lines (10.1) through (10.4) will be used to give credit for the programs in which the plan sponsor participates. While all PDPs will have formularies and may utilize other methods to reduce uncertainty, for the near future no other managed care credits are allowed for this coverage.

The managed care credit is based on the percentage of paid claims that fall into each of these categories. Total claims payments are allocated among these managed care "buckets" to determine the weighted average discount, which is then used to reduce the Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental RBC. Paid claims are used instead of incurred claims due to the variability of reserves (unpaid claims) in incurred claim amounts and the difficulty in allocating reserves (unpaid claims) by managed care category.

In some instances, claims payments may fit into more than one category. If that occurs, enter the claims payments into the highest applicable category. CLAIMS PAYMENTS CAN ONLY BE ENTERED INTO ONE OF THESE CATEGORIES! The total of the claims payments reported in the managed care worksheet should equal the total year's paid claims. Category 2a, Category 2b and Category 3c are not allowed to include non-regulated intermediaries who are affiliated with the reporting company in order to ensure that true risk transfer is accomplished.

Line (1)
Category 0 - Arrangements not Included in Other Categories. There is a zero managed care credit for claim payments in this category, which includes:

- Fee for service (charges).
- Discounted fee for service (based upon charges).
- Usual customary and reasonable (UCR) schedules.
- Relative value scale (RVS) where neither payment base nor RV factor is fixed by contract or where they are fixed by contract for one year or less.

* Retroactive payments to capitated providers or intermediaries whether by capitation or other payment method (excluding retroactive withholds later released to the provider and retroactive payments made solely because of a correction to the number of members within the capitated agreement).
* Capitation paid to providers or intermediaries that have received retroactive payments for previous years (including bonus arrangements on capitation programs).
* Claim payments not included in other categories.

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Line (2)
Category 1 - Payments Made According to Contractual Arrangements. There is a 15 percent managed care credit for payments included in this category:

* Hospital per diems, diagnostic related groups (DRGs) or other hospital case rates.
* Non-adjustable professional case and global rates.
* Provider fee schedules.
* Relative value scale (RVS) where the payment base and RV factor are fixed by contract for more than one year.

Line (3)
Category 2a - Payments Made Subject to Withholds or Bonuses/Incentives with No Other Managed Care Arrangements. This category may include business that would have otherwise fit into Category 0. That is, there may be a bonus/incentive/withhold arrangement with a provider who is reimbursed based on a UCR schedule (Category 0).

The maximum Category 2a managed care credit is 25 percent. The credit is based upon a calculation that determines the ratio of withholds returned and bonuses and/or incentives paid to providers during the prior year to total withholds and bonuses and incentives available to the providers during that year. That ratio is then multiplied by the average provider withhold ratio for the prior year to determine the current year's Category 2a managed care credit factor. Bonus and/or incentive payments that are not related to financial results are not included (e.g., patient satisfaction). Therefore, the credit factor is equal to the result of the following calculation:

EXAMPLE - 1998 Reporting Year

1997 withhold / bonus payments	$750,000
1997 withholds / bonuses available	$1,000,000
A. MCC Factor Multiplier	75% - Eligible for credit
1997 withholds / bonuses available	$1,000,000
1997 claims subject to withhold -gross†	$5,000,000
B. Average Withhold Rate	20%
Category 2 Managed Care Credit Factor (A x B)	15%

The resulting factor is multiplied by claims payments subject to withhold - net‡ in the current year.

† These are amounts due before deducting withhold or paying bonuses and/or incentives.
‡ These are actual payments made after deducting withhold or paying bonuses and/or incentives.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives, but otherwise had no managed care arrangements.

Line (4)
Category 2b - Payments Made Subject to Withholds or Bonuses/Incentives That Are Otherwise Managed Care Category 1. Category 2b may include business that would have otherwise fit into Category 1. That is, there may be a bonus/incentive/withhold arrangement with a provider who is reimbursed based on a provider fee schedule

(Category 1). The Category 2 discount for claims payments that would otherwise qualify for Category 1 is the greater of the Category 1 factor or the calculated Category 2 factor.

The maximum Category 2b managed care credit is 25 percent. The minimum Category 2b managed care credit is 15 percent (Category 1 credit factor). The credit calculation is the same as found in the previous example for Category 2a.

Enter the paid claims for the current year where payments to providers were subject to withholds and bonuses/incentives AND where the payments were made according to one of the contractual arrangements listed for Category 1.

Line (5)
Category 3a - Capitated Payments Directly to Providers. There is a managed care credit of 60 percent for claims payments in this category, which includes:

* All capitation or percent of premium payments made directly to licensed providers.

Enter the amount of claims payments paid DIRECTLY to licensed providers on a capitated basis.

Line (6)
Category 3b - Capitated Payments to Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

* All capitation or percent of premium payments to regulated intermediaries that in turn pay licensed providers.

Enter the amount of medical expense capitations paid to regulated intermediaries (see Appendix 1 for definition). In those cases where the capitated regulated intermediary employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

Line (7)
Category 3c - Capitated Payments to Non-Regulated Intermediaries. There is a managed care credit of 60 percent for claims payments in this category, which includes:

* All capitated or percent of premium payments to non-affiliated intermediaries that in turn pay licensed providers. (Subject to a 5 percent limitation on payments to providers or other corporations that have no contractual relationship with such intermediary. Amounts greater than the 5 percent limitation should be reported in Category 0).

Enter the amount of medical expense capitations paid to non-regulated intermediaries not affiliated with the reporting company. Do not include the amount of medical expense capitations paid to non-regulated intermediaries that are affiliated with the reporting company. These amounts should be reported in Category 0. Non-regulated intermediaries are those organizations which meet the definition of Intermediary but not regulated intermediary in Appendix 1. In cases where the capitated non-regulated intermediary (even if affiliated) employs providers and pays them non-contingent salaries or otherwise qualifies for Category 4, the insurer may include that portion of such capitated payments in Category 4.

IN ORDER TO QUALIFY FOR ANY OF THE CAPITATION CATEGORIES, SUCH CAPITATION MUST BE FIXED (AS A PERCENTAGE OF PREMIUM OR FIXED DOLLAR AMOUNT PER MEMBER) FOR A PERIOD OF AT LEAST 12 MONTHS. Where an arrangement contains a provision for prospective revision within a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 1 for a provider, and for an intermediary at the greater of Category 1 or a credit calculated using the underlying payment method(s) to the providers of care. Where an arrangement contains a provision for retroactive revisions either within or beyond a 12-month period, the entire arrangement shall be subject to a managed care credit that is calculated under Category 0 for providers and intermediaries.

Line (8)
Category 4 - Medical & Hospital Expense Paid as Salary to Providers. There is a managed care credit of 75 percent for claims payments in this category. Once claims payments under this managed care category are totaled, any fee for service revenue from uninsured plans (i.e., ASO or ASC) that was included on Line (7) in the underwriting risk section should be deducted before applying the managed care credit factor.

* Non-contingent salaries to persons directly providing care.
* The portion of payments to affiliated entities which is passed on as non-contingent salaries to persons directly providing care where the entity has a contract only with the company.
* All facilities related medical expenses and other non-provider medical costs generated within health facility that is owned and operated by the insurer.
* Aggregate cost payments.

Salaries paid to doctors and nurses whose sole corporate purpose is utilization review are also included in this category if such payments are classified as “medical expense” payments (paid claims) rather than administrative expenses. The Aggregate Cost method of reimbursement means where a health plan has a reimbursement plan with a corporate entity that directly provides care, where (1) the health plan is contractually required to pay the total operating costs of the corporate entity, less any income to the entity from other users of services; and (2) there are mutual unlimited guarantees of solvency between the entity and the health plan, that put their respective capital and surplus at risk in guaranteeing each other.

Line (10.1)
Category 0 for Stand-Alone Medicare Part D Coverage would be all claims during a period where neither the reinsurance coverage or risk corridor protection is provided.

Line (10.2)
Category 1 for Stand-Alone Medicare Part D Coverage would be for all claims during a period when only the reinsurance coverage is provided. This is designed for some future time period and is not to be interpreted as including employer-based Part D coverage that is not subject to risk corridor protection.

Line (10.3)
Category 2a for Stand-Alone Medicare Part D Coverage would be for all claims during a period when only the risk corridor protection is provided.

Line (10.4)
Category 3a for Stand-Alone Medicare Part D Coverage would be for all claims during a period when both reinsurance coverage and risk corridor protection are provided.

Line (10.6)
Total Paid Claims – The total of Column (1) paid claims should equal the total claims paid for the year as reported in Schedule H, Part 5, Columns 1 and 2, Line D16 of the annual statement.

Line (11)
Weighted Average Managed Care Discount – This amount is calculated by dividing the total weighted claims (Line (9) Column (2)) by the total claim payments (Line (9) Column (1).

Line (12)

Weighted Average Managed Care Risk Adjustment Factor - This is the credit factor that is carried back to the underwriting risk calculation. They are one minus the Weighted Average Managed Care Discount (Line (11)).

Lines (13) through (19)
Lines (13) through (19) are the calculation of the weighted average factor for the Category 2 claims payments subject to withholds and bonuses/incentives. This table requires data from the PRIOR YEAR to compute the current year's discount factor.

Line (13)
Enter the prior year's actual withhold and bonus/incentive payments.

Line (14)
Enter the prior year's withholds and bonuses/incentives that were available for payment in the prior year.

Line (15)
Divides Line (13) by Line (14) to determine the portion of withholds and bonuses/incentives that were actually returned in the prior year.

Line (16)
Equal to Line (14) and is automatically pulled forward.

Line (17)
Claims payments that were subject to withholds and bonuses/incentives in the prior year. Equal to Line (3) + Line (4) of Underwriting Risk–Managed Care Credit FOR THE PRIOR YEAR.

Line (18)
Divides Line (16) by Line (17) to determine the average withhold rate for the prior year.

Line (19)
Multiplies Line (15) by Line (18) to determine the discount factor for Category 2 claims payments in the current year, based on the performance of the insurer's withhold/bonus/incentive program in the prior year.

HEALTH, LIFE AND PROPERTY AND CASUALTY

APPENDIX 1 – COMMONLY USED TERMS

The Definitions of Commonly Used Terms are frequently duplicates from the main body of the text. If there are any inconsistencies between the definitions in this section and the definitions in the main body of the instructions, the main body definition should be used.

Incentives, Withhold and Bonus Amounts – Are amounts to be paid to providers by the Health entity as an incentive to achieve goals such as effective management of care. An incentive arrangement may involve paying an agreed-on amount for each claim (e.g. provider agrees practice in an underserved area). While a bonus arrangement may be paid at the end of a contact period after specific goals have been met. Withhold arrangements can involve a set amount to be withheld from each claim, and then paying a portion (which could be none or all) of the withheld amount at the end of the contract period.

Incentive pool, withhold, and bonus amounts are defined as: amounts to be paid to providers by the Health entity as an incentive to achieve goals such as effective management of care. Some arrangements involve paying an agreed-on amount for each claim, and then paying a bonus at the end of the contract period. Other arrangements involve a set amount to be withheld from each claim, and then paying a portion (which could be none or all) of the withheld amount at the end of the contract period.

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Commented [BC1]: This could also be worded as "(e.g. provider is paid on a per claim basis for practicing in an underserved area.)"

Commented [BC2]: This is directly from the A/S instructions. It used as a basis for the definition drafted above.

UNDERWRITING RISK - Managed Care Credit Calculation

Managed Care Claims Payments		Annual Statement Source	(1) Factor	(2) Paid Claims	(3) Weighted Claims†	(4) Part D Weighted Claims‡
(1)	Category 0 - Arrangements not Included in Other Categories	Exhibit 7, Part 1, Column 1, Line 5, in part §	0			
(2)	Category 1 - Payments Made According to Contractual Arrangements	Exhibit 7, Part 1, Column 1, Line 6, in part §	0.150			
(3)	Category 2a - Subject to Withholds or Bonuses/**Incentives** - Otherwise Catego	Exhibit 7, Part 1, Column 1, Line 7, in part §	*			
(4)	Category 2b - Subject to Withholds or Bonuses/**Incentives** - Otherwise Catego	Exhibit 7, Part 1, Column 1, Line 8, in part §	*			
(5)	Category 3a - Capitated Payments Directly to Providers		0.600			
(5.1)	Capitation Payments - Medical Group - Category 3a	Exhibit 7, Part 1, Column 1, Line 1, in part §				
(5.2)	Capitation Payments - All Other Providers - Category 3a	Exhibit 7, Part 1, Column 1, Line 3, in part §				
(6)	Category 3b - Capitated Payments to Regulated Intermediaries	Included in Exhibit 7, Part 1, Column 1, Line 2 §	0.600	$0		
(7)	Category 3c - Capitated Payments to Non-Regulated Intermediaries	Included in Exhibit 7, Part 1, Column 1, Line 2 §	0.600	$0		
(8)	Category 4 - Medical & Hospital Expense Paid as Salary to Providers		0.750			
(8.1)	Non-Contingent Salaries - Category 4	Exhibit 7, Part 1, Column 1, Line 9, in part §				
(8.2)	Aggregate Cost Arrangements - Category 4	Exhibit 7, Part 1, Column 1, Line 10, in part §				
(8.3)	Less Fee For Service Revenue from ASC or ASO	Company Records				
(9)	Sub-Total Paid Claims	Exhibit 7, Part 1, Column 1, Lines 13 - 11 - (8.3) - (12) - (13)				
Stand-Alone Medicare Part D Coverage Claim Payments						
(10)	Category 0 - No Federal Reinsurance or Risk Corridor Protection	Company Records	XXX	XXX		XXX
(11)	Category 1 - Federal Reinsurance but no Risk Corridor Protection	Company Records	XXX	XXX		XXX
(12)	Category 2a - No Federal Reinsurance but Risk Corridor Protection	Company Records	0.667			
(13)	Category 3a - Federal Reinsurance and Risk Corridor Protection Apply	Company Records	0.767			
(14)	Sub-Total Paid Claims	Sum of Lines (10) through (13)				
(15)	Total Paid Claims	Sum of Lines (9) and (14)				
(16)	Weighted Average Managed Care Discount					
(17)	Weighted Average Managed Care Risk Adjustment Factor					

† This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision Managed Care Discount factor.
‡ This column is for the Medicare Part D Managed Care Discount factor.
§ Stand-Alone Medicare Part D business reported in Lines (12) and (13) would be excluded from these amounts.
* The factor is calculated on page XR018.

Denotes items that must be manually entered on filing software.

*** Calculation of Category 2 Managed Care Factor**

		Annual Statement Source	(1) Amount
(18)	Withhold & Bonus/**Incentive** Payments, ***Prior Year***	Company Records	
(19)	Withhold & Bonuses/**Incentives** Available, ***Prior Year***	Company Records	
(20)	MCC Multiplier - Average Withhold Returned [Line (18)/(19)]		
(21)	Withholds & Bonuses/**Incentives** Available, ***Prior Year***	Company Records	
(22)	Claims Payments Subject to Withhold, ***Prior Year***	Company Records	
(23)	Average Withhold Rate, Prior Year [Line (21)/(22)]		
(24)	MCC Discount Factor, Category 2 Min{.25,[Lines (20) x (23)]}		

* The factor is pulled into Lines (3) and (4) on page XR017.

Denotes items that must be manually entered on filing software.

UNDERWRITING RISK – MANAGED CARE CREDIT

	Comprehensive Medical, Medicare Supplement and Dental Claim Payments	Annual Statement Source	(2) Paid Claims		Factor		(3) Weighted Claims*	(4) Part D Weighted Claims**
(1)	Category 0 - Arrangements not Included in Other Categories	Company records		X	0.000	=		
(2)	Category 1 - Payments Made According to Contractual Arrangements	Company records		X	0.150	=		
(3)	Category 2a - Subject to Withholds or Bonuses/**Incentives** – Otherwise Category 0	Company records		X	†	=		
(4)	Category 2b - Subject to Withholds or Bonuses/**Incentives** – Otherwise Category 1	Company records		X	‡	=		
(5)	Category 3a - Capitated Payments Directly to Providers	Company records		X	0.600	=		
(6)	Category 3b - Capitated Payments to Regulated Intermediaries	Company records		X	0.600	=		
(7)	Category 3c - Capitated Payments to Non-Regulated Intermediaries	Company records		X	0.600	=		
(8)	Category 4 - Medical & Hospital Expense Paid as Salary to Providers	Company records		X	0.750	=		
(9)	Subtotal Paid Claims	Sum of Lines (1) through (8)						
	Stand-Alone Medicare Part D Coverage Claim Payments							
(10)	Category 0 - No Federal Reinsurance or Risk Corridor Protection	Company records	XXX	X	xxx	=		XXX
(11)	Category 1 - Federal Reinsurance but no Risk Corridor Protection	Company records	XXX	X	xxx	=		XXX
(12)	Category 2a - No Federal Reinsurance but Risk Corridor Protection	Company records		X	0.667	=		
(13)	Category 3a - Federal Reinsurance and Risk Corridor Protection apply	Company records		X	0.767	=		
(14)	Subtotal Stand-Alone Medicare Part D Paid Claims	Sum of Lines (10) through (13)						
(15)	Total Paid Claims	Line (9) + Line (14)						
(16)	Weighted Average Managed Care Discount	Column (3) = Column (3) Line (9) / Column (2) Line (9) Column (4) = Column (4) Line (14) / Column (2) Line (14)						
(17)	Weighted Average Managed Care Risk Adjustment Factor	1.0 - Line (16)						

	Calculation of Category 2 Managed Care Factor (Comprehensive Medical and Dental only)		(1) Amount
(18)	Withhold & bonus/**incentive** payments, prior year	Company Records	
(19)	Withhold & bonuses/**incentives** available, prior year	Company Records	
(20)	Managed Care Credit Multiplier – average withhold returned	Line (18) / Line (19)	
(21)	Withholds & bonuses/**incentives** available, prior year	Line (19)	
(22)	Claims payments subject to withhold, prior year	Company Records	
(23)	Average withhold rate, prior year	Line (21) / Line (22)	
(24)	Managed Care Credit Discount Factor, Category 2	Minimum of 0.25 or Line (20) x Line (23)	

† Category 2 Managed Care Factor calculated on Line (24).
‡ Category 2 Managed Care Factor calculated on Line (24) with a minimum factor of 15 percent.
* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental managed care discount factor.
** This column is for the Stand-Alone Medicare Part D managed care discount factor.

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

UNDERWRITING RISK - MANAGED CARE CREDIT PR021

	Comprehensive Medical, Medicare Supplement and Dental & Vision Claim Payments	Annual Statement Source	(1) Amount	(2) Paid Claims	Factor	(3) Weighted Claims†	(4) Part D Weighted Claims††
(1)	Category 0 - Arrangements not Included in Other Categories	Company records		0	0.000	0	
(2)	Category 1 - Payments Made According to Contractual Arrangements	Company records		0	0.150	0	
(3)	Category 2a - Subject to Withholds or Bonuses/**Incentives** – Otherwise Category (	Company records		0	*	0	
(4)	Category 2b - Subject to Withholds or Bonuses/**Incentives** – Otherwise Category	Company records		0	**	0	
(5)	Category 3a - Capitated Payments Directly to Providers	Company records		0	0.600	0	
(6)	Category 3b - Capitated Payments to Regulated Intermediaries	Company records		0	0.600	0	
(7)	Category 3c - Capitated Payments to Non-Regulated Intermediaries	Company records		0	0.600	0	
(8)	Category 4 - Medical & Hospital Expense Paid as Salary to Providers	Company records		0	0.750	0	
(9)	Sub-Total Paid Claims	Sum of Lines (1) through (8)		0		0	
	Stand-Alone Medicare Part D Coverage Claim Payments						
(10.1)	Category 0 - No Federal Reinsurance or Risk Corridor Protection	Company records		XXX	XXX		XXX
(10.2)	Category 1 - Federal Reinsurance but no Risk Corridor Protection	Company records		XXX	XXX		XXX
(10.3)	Category 2a - No Federal Reinsurance but Risk Corridor Protection	Company records		0	0.667		0
(10.4)	Category 3a - Federal Reinsurance and Risk Corridor Protection apply	Company records		0	0.767		0
(10.5)	Sub-Total Paid Claims	Sum of Lines (10.1) through (10.4)		0			0
(10.6)	Total Paid Claims	Sum of Lines (9) and (10.5)		0			
(11)	Weighted Average Managed Care Discount	Col (3) = Col (3) Line (9) / Col (2) Line (9) Col (4) = Col (4) Line (10.5) / Col (2) Line (10.5)				0.000	0.000
(12)	Weighted Average Managed Care Risk Adjustment Factor	Col (3) = 1.0 - Col (3) Line (11) Col (4) = 1.0 - Col (4) Line (11)				0.000	0.000
	Calculation of Category 2 Managed Care Factor		(1) Amount				
(13)	Withhold & bonus/**incentive** payments, prior year	Company Records	0				
(14)	Withhold & bonuses/**incentives** available, prior year	Company Records	0				
(15)	Managed Care Credit Multiplier – average withhold returned	Line (13) / Line (14)	0.000				
(16)	Withholds & bonuses/**incentives** available, prior year	Line (14)	0				
(17)	Claims payments subject to withhold, prior year	Company Records	0				
(18)	Average withhold rate, prior year	Line (16) / Line (17)	0.000				
(19)	Managed Care Credit Discount Factor, Category 2	Minimum of 0.25 or Line (15) x Line (18)	0.000				

* Category 2 Managed Care Factor calculated on Line (19)
**Category 2 Managed Care Factor calculated on Line (19) with a minimum factor of 15 percent.
† This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental managed care discount factor.
†† This column is for the Stand-Alone Medicare Part D managed care discount factor.
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
[X] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Operational Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] Longevity Risk (A/E) Subgroup

	DATE: 10/19/2020	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Jean Buckley**	Agenda Item # 2020-08-CR
TELEPHONE:	**816-783-8406**	Year 2021
EMAIL ADDRESS:	**jbuckley@naic.org**	**DISPOSITION**
ON BEHALF OF:		[ ] ADOPTED
NAME:	**Sakman Luk**	[ ] REJECTED
TITLE:	**Supervising Actuary**	[ ] DEFERRED TO
AFFILIATION:	**New York State Department**	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	**One State Street**	[x] EXPOSED 10/19/20
	New York, NY 10004	[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks	[ ] Property/Casualty RBC Blanks	[ ] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions	[x] Property/Casualty RBC Instructions	[ ] Life and Fraternal RBC Blanks
[ ] OTHER ___________________________		

DESCRIPTION OF CHANGE(S)

Add instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the Interrogatories.

REASON OR JUSTIFICATION FOR CHANGE **

Some insurers with no earthquake and/or hurricane exposure did not file PR027A, PR027B and the Interrogatories on PR027. This results with situation that it is not clear if the insurers fail to complete the exhibits or they simply have no gross exposure, thus creating cross-check problem. The clarification wording will reduce the cross-check problems experienced by NAIC.

Additional Staff Comments:

10/19/20 – The Cat Risk SG exposed the proposal for a thirty-day public comment period ending Nov. 18.
03/08/21 – The Cat Risk SG adopted the proposal.
03/15/21 – The P/C RBC WG adopted the proposal.

**** This section must be completed on all forms.** **Revised 2-2019**

CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027

The catastrophe risk charge for earthquake (PR027A) and hurricane (PR027B) risks is calculated by multiplying the RBC factors by the corresponding modeled losses and reinsurance recoverables. The risk applies on a net basis with a corresponding contingent credit risk charge for certain categories of reinsurers. Data must be provided for the worst year in 50, 100, 250, and 500; however, only the worst year in 100 will be used in the calculation of the catastrophe risk charge. While projected losses modeled on an Aggregate Exceedance Probability basis is preferred, companies are permitted to report on an Occurrence Exceedance Probability basis if that is consistent with the company's internal risk management process.

The Grand Total (PR027) page includes an interrogatory to support an exemption from filing the catastrophe risk charge. Any company qualifying for exemption from the earthquake risk charge must identify the particular criteria from among (1a), (1b), (2) and (3) that provides its qualification for exemption, and may leave the other three items from this group of four possible qualifications for exemption blank; except identification of criteria (3) as the basis for the exemption requires a further answer to (3a) and (3b). If an insurer does not write or assume earthquake risks leaving no gross exposure, enter an "X" in interrogatory 3, with no need to fill in (3a) and (3b). Any company qualifying for exemption from the hurricane risk charge must identify the particular criteria from among (4a), (4b), (5) and (6) that provides its qualification for exemption, and may leave the other three items from this second group of four possible qualifications for exemption blank. If an insurer does not write or assume hurricane risks leaving no gross exposure, enter an "X" in interrogatory 6.

If the company qualifies for exemption from the earthquake risk charge, page PR027A and line (1) on this page may be left blank. If the company qualifies for exemption from the hurricane risk charge, page PR027B and line (2) on this page may be left blank.

In general, the following conditions will qualify a company for exemption: if it uses an intercompany pooling arrangement or quota share arrangement with U.S. affiliates covering 100% of its earthquake and hurricane risks such that there is no exposure for these risks; if it has a ratio of Insured Value – Property to surplus as regards policyholders of less than 50%; or if it writes Insured Value – Property that includes hurricane and/or earthquake coverage in catastrophe-prone areas representing less than 10% of its surplus as regards policyholders.

"Insured Value – Property" includes aggregate policy limits for structures and contents for policies written and assumed in the following annual statement lines – Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril.

"Catastrophe-Prone Areas in the U.S." include:

i. For hurricane risks, Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean and/or the Gulf of Mexico including Puerto Rico.
ii. For earthquake risk or for fire following earthquake, any of the following commonwealth or states: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

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	[ ] Investment RBC (E) Working Group	[ ] Operational Risk (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[ ] P/C RBC (E) Working Group	[ ] Longevity Risk (A/E) Subgroup

	DATE: **10/27/20**	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Eva Yeung**	Agenda Item # 2020-11-CR
TELEPHONE:	**816-783-8407**	Year 2021
EMAIL ADDRESS:	**eyeung@naic.org**	**DISPOSITION**
ON BEHALF OF:	**P/C RBC (E) Working Group**	[ ] ADOPTED
NAME:	**Tom Botsko**	[ ] REJECTED
TITLE:	**Chair**	[ ] DEFERRED TO
AFFILIATION:	**Ohio Department of Insurance**	[ ] REFERRED TO OTHER NAIC GROUP
ADDRESS:	**50 West Town Street, Suite 300**	[x] EXPOSED 10/27/20
	Columbus, OH 43215	[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks	[x] Property/Casualty RBC Blanks	[ ] Life and Fraternal RBC Instructions
[ ] Health RBC Instructions	[x] Property/Casualty RBC Instructions	[ ] Life and Fraternal RBC Blanks
[ ] OTHER ___________________________		

DESCRIPTION OF CHANGE(S)

The proposed change would remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat.

REASON OR JUSTIFICATION FOR CHANGE **

Operational risk is now separately addressed in RBC as a stand-alone capital add-on. When this factor was implemented, it borrowed from the credit risk factors in R3 that included a load for operational risk. This is assessment of operational risk is duplicative and is inadvertently being applied in Rcat. The gross modeled Rcat risk does not apply this duplicative assessment of operational risk to Rcat, and it follows that it should not be applied to ceded modeled Rcat risk either.

Additional Staff Comments:

10/27/20 – The PCRBC WG exposed this proposal for a 35-day public comment period ending Dec. 1.
03/08/21 – The Cat Risk SG adopted the proposal.
03/15/21 – The P/C RBC WG adopted the proposal.

**** This section must be completed on all forms.** **Revised 2-2019**

Specific Instructions for Application of the Formula

<u>Column (1) – Direct and Assumed Modeled Losses</u>
These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

<u>Column (2) – Net Modeled Losses</u>
These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

<u>Column (3) - Ceded Amounts Recoverable</u>
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

<u>Column (4) - Ceded Amounts with Zero Credit Risk Charge</u>
Per the footnote, modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

<u>Column (6) – Amount</u>
These are automatically calculated based on the previous columns.

<u>Column (7) - RBC Requirement</u>
A factor of 1.000 is applied to the reported modeled catastrophe losses calculated on both AEP and OEP basis, and a factor of **0.018** is applied to the reinsurance recoverables. The RBC Requirement is based on either AEP reported results <u>or</u> OEP reported results (not both), consistent with the way the company internally evaluates and manages its modeled net catastrophe risk.

<u>Column (5) – Y/N</u>
Please indicate "Y" for OEP basis and "N" for AEP basis. This column should not be blank.

CALCULATION OF CATASTROPHE RISK CHARGE FOR EARTHQUAKE PR027A

	Earthquake	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
			Modeled Losses			
(1)	Worst Year in 50	Company Records				
(2)	Worst Year in 100	Company Records				
(3)	Worst Year in 250	Company Records				
(4)	Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled earthquake losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Earthquake Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Earthquake Risk	L(2) C(3) - C(4)	0	**0.018**	0
(8)	Total Earthquake Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Earthquake Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Earthquake Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, EQECAT, RMS, the ARA HurLoss Model, or the Florida Public Model for hurricane; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

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

CALCULATION OF CATASTROPHE RISK CHARGE FOR HURRICANE PR027B

	Hurricane	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
			Modeled Losses			
(1)	Worst Year in 50	Company Records				
(2)	Worst Year in 100	Company Records				
(3)	Worst Year in 250	Company Records				
(4)	Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled hurricane losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Hurricane Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Hurricane Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Hurricane Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Hurricane Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Hurricane Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, EQECAT, RMS, the ARA HurLoss Model, or the Florida Public Model for hurricane; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

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

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
				Ongoing Items – Life RBC			
1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
2	Life RBC WG	1	2021 or later	1.Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2.Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CATF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
3	Life RBC WG	1	2021 or later	Provide recommendations for recognizing longevity risk in statutory reserves and/or RBC, as appropriate.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
				Carry-Over Items Currently being Addressed – Life RBC			
4	Life RBC WG	1	2021 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities **with consideration of contingent deferred annuities as well**	AAA		
5	Life RBC WG	1	2021	Determine if any adjustment is needed to the XXX/AXXX RBC Shortfall calculation to address surplus notes issued by captives.	11/1/17 Referral from the Reinsurance (E) Task Force		3/24/2018
6	Life RBC WG	1	2021	Determine if any adjustment is needed due to the changes made to the *Life and Health Guaranty Association Model Act, Model #520.*			9/1/2018
7	Life RBC WG	1	2021	Determine if any adjustment is needed to the reinsurance credit risk in light of changes related to collateral and the changes made to the property RBC formula.			9/1/2018
8	Life RBC WG	1	2021	Discuss and determine the bond factors for the 20 designations.	Referral from Investment RBC July/2020		
9	Life RBC WG	1	2021	Discuss and determine the need to adjust the real estate factors.	Referral from Investment RBC July/2020		
				New Items – Life			
10	Life RBC WG	1	2021 or later	Work with the Life Actuarial (A) Task Force and Conning to develop the economic scenario generator for implementation.			
				Carry-Over Items Currently being Addressed – P&C RBC			
1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
2	P&C RBC WG	1	Year-end 2022 or later	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.		~~The SG agreed on adding Wildfire Peril to Rcat.~~	~~10/19/2020~~
			Year-end 2020 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsures that do not trigger growth risk in their own right.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
3	P&C RBC WG	1	2020 Summer Meeting or later	Continue development of RBC formula revisions based on the Covered Agreement: 'a) consider eliminating the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers; 'b) consider whether the factor for uncollateralized, unrated reinsurers, runoff and captive companies should be adjusted ~~c) Evaluate the possibility of using NAIC as a centralized location for reinsurer designations~~.		12/5/19 - The WG exposed Proposal 2018-19-P (Vulnerable 6 or unrated risk charge) for a 30-day exposure period. 2/3/20 - The WG adopted Proposal 2018-19-P. However, the WG intended to evaluate the data annually until reaching any agreed upon change to the factor and the structure. 3/15/21 - The WG exposed Proposal 2021-03-P (Credit Risk Instruction Modification) for a 30-day exposure period.	8/4/2018
4	P&C RBC WG	1	Year-end 2021 or later	Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to P/C RBC Affiliated Investments			6/10/2019
5	P&C RBC WG	1	2021 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.			6/10/2019
~~6~~	~~P&C RBC WG~~	~~1~~	~~Year-end 2020~~	~~Evaluate the RBC impact on two different retroactive reinsurance exception approaches.~~		~~1/7/20 - received a referral from the SAPWG~~	~~1/9/2020~~
6	Cat Risk SG	1	Year-end 2020 or later	Evaluate the possibility of allowing additional third party models or adjustments to the vendor models to calculate the cat model losses			12/6/2019
7	P&C RBC WG	1	2021 Spring Meeting	Evaluate if changes should be made to the P/C formula to better assess companies in runoff.		1/29/20 - received a referral from the Restructuring Mechanisms (E) WG	2/3/2020
8	P&C RBC WG	1	2021 Spring Meeting	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020

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

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
9	Cat Risk SG	1	2021 Spring Meeting	Modify instructions to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the interrogatories		10/27/20 - expose the propsal for 30 day comment period	10/19/2020
10	P&C RBC WG/Cat Risk SG	1	2021 Spring Meeting	Remove the embedded 3% operational risk component contained in the reinsurance contingent credit risk factor of Rcat		10/27/20 - expose the propsal for 35 day comment period	10/27/2020
11	P&C RBC WG	1	2021 Summer Meeting	Evaluate R3 Adjustment for Operational Risk Charge			10/27/2020
				New Items – P&C RBC			
12	Cat Risk SG	1	2022 Spring Meeting or later	Implement Wildfire Peril in the Rcat component (For Informational Purpose Only)			3/8/2021
				Ongoing Items – Health RBC			
1	Health RBC WG	3 ~~1~~	Year-end 2022~~21~~ RBC or later ~~2021 Spring Meeting~~	Evaluate the impact of Federal Health Care Law on the Health RBC Formulas	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes to the health formula as a result of ongoing federal discussions and legislation. ~~Consider and refer~~ Adopted proposal 2020-02-CA ~~to the TF for the deletion of the ACA Fee Sensitivity Test.~~	~~07/30/2020~~
2	Health RBC WG	3	Year-end 2022~~21~~ RBC or later	Discuss and monitor the development of federal level programs and actions and the potential impact of these changes to the HRBC formula: - Development of the state reinsurance programs; - Association Health Plans; - Cross-border sales	HRBCWG	Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
				Carry-Over Items Currently being Addressed – Health RBC			
3	Health RBC WG	3	Year-End 2023 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA	

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

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
4	Health RBC WG	2	Year-end 2023 RBC or later	Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.	HRBC WG	Adopted 2016-06-H Rejected 2019-04-H **Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group**	
5	Health RBC WG	1	Year-end 2022 or later	Establish an Ad Hoc Group to review the Health Test and annual statement changes for reporting health business in the Life and P/C Blanks	HRBCWG	Evaluate the applicability of the current Health Test in the Annual Statement instructions in today's health insurance market. Discuss ways to gather additional information for health business reported in other blanks.	8/4/2018
6	Health RBC WG	1	Year-end 2022~~20~~ RBC or later	Review the Managed Care Credit calculation in the Health RBC formula - specifically Category 2a and 2b. **Review Managed Care Credit across formulas.**	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	12/3/2018
7	Health RBC WG	1	Year-end 2022~~20~~ or later	Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.	HRBCWG	Review if changes are required to the Health RBC Formula	4/7/2019
~~8~~	~~Health RBC WG~~	~~1~~	~~2021 Spring Meeting~~	~~Review and consider the formula for the MAX function in Line 17 of the Excessive Growth Charge.~~	~~HRBCWG~~	~~Adopted 2020-04-H~~	~~4/3/2020~~
9	Health RBC WG	1	Year-End **2022~~21~~** or later	Consider impact of COVID-19 and pandemic risk in the Health RBC formula.	HRBCWG		7/30/2020
10	**Health RBC WG**	**1**	**Year-End 2021 or later**	**Work with the Academy to evaluate incorporating and including investment income in the Underwriting Risk component of the Health RBC formula.**	**HRBCWG**	**Referral Letter was sent to the Academy on Sept 21.**	**8/18/2020**
11	**Health RBC WG**	**1**	**2021**	**Discuss and determine the bond factors for the 20 designations.**	**Referral from Investment RBC July/2020**	**Working Group will use two- and five-year time horizon factors in 2020 impact analysis.**	**9/11/2020**
				New Items – Health RBC			
				New Items – Task Force			
12	CADTF	1	2021 or Later	**Supplementary Investment Risks Interrogatories (SIRI)**	Referral from Blackrock and IL DOI	The Task Force received the referral on Oct. 27. This referral will be tabled until the bond factors have been adopted and the TF will conduct a holistic review all investment referrals.	11/19/2020

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				Ongoing Items – Task Force			
13	CADTF	1	2020	Consideration given to 20 designations for bonds in all RBC formulas so that an impact analysis can be provided on 2020 year-end data to determine the bond RBC factors. The Task Force will need to discuss and determine whether Hybrids are included with the new bond's structure. <u>History</u> In 2012 /13 as part of the Solvency Modernization Initiative "roadmap" and subsequent White Paper roadmap, the Capital Adequacy (E) Task Force identified increased granularity in the asset and investment risk charges as a priority area. It was originally targeted at the Life RBC formula and was referred to as the "C1 factor review". The project was assigned to a newly formed Investment RBC (E) Working Group in 2013. Work was conducted by the Life C-1 Work Group of American Academy of Actuaries (Academy) at the instructions of the working group using defined criteria for the analysis: The C1 bond factors are defined as the amount needed to pre-fund losses at the 96th percentile minus the amount assumed to be funded in statutory policy reserves. The credit loss distribution is skewed with the mean occurring at approximately the 60th percentile. The RP does not vary by economic scenario.	IRBCWG - Dec 2019	An Academy report issued in 2015 and updated 2017 report recommended an increase in the number of designations. Ultimately, the WG members agreed that the number of designations should be increased to 20. In 2017//2018, the PRBC and HRBC (E) Working Groups began discussion of the change to 20 designations. In 2019 both working groups concurred with the LRBC WG position that the number of designations should be increased to 19 in their respective formulas Proposal # 2019 – 16CA	
14	CADTF	2	2022	Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016	Ad Hoc Group	Ad Hoc group will provide periodic updates on their progress.	
				Carry-Over Items not Currently being Addressed – Task Force			
15	CADTF	3	2021	Receivable for Securities factor		Consider evaluating the factor every 3 years. (2021, 2024, 2027, etc.)	
16	CADTF	3	2021 or Later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge? Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	10/11/2018
17	CADTF	3	2021 or Later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (i.e. put option or forward contract) that are wrapped by a debt structure.	Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	8/4/2019

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2020

2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
18	CADTF	3	2021 or Later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	11/16/2018

Carry-Over Items Currently being Addressed – Task Force

19	CADTF	2	2020 or Later	XXX/AXXX Captive Reinsurance RBC Shortfall	Referral from Reinsurance Task Force /RITF	Referred to Life RBC WG for consideration and comment	11/1/2017
20	CADTF	2	2020 or Later	Payout Annuities for RBC	Referral from Allstate and IL DOI	Referred to Life RBC WG for consideration and comment	3/25/2018
21	CADTF	2	2020 or Later	Guaranty Association Assessment Risk	Referral from Receivership and Insolvency (E) Task Force 5/1/2018	Referred to the Life RBC WG and Health RBC WG for consideration and comment.	6/30/2018

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