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 [ ] SMI RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup [ ] P/C RBC (E) Working Group [ ] Stress Testing (E) Subgroup

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ON BEHALF OF:	**Health RBC (E) Working Group**
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Agenda Item # 2020-02-CA
Year 2021

DISPOSITION

[X] ADOPTED 11-19-20
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[x] EXPOSED Sept. 4, 2020
[ ] OTHER (SPECIFY)

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

[x] Health RBC Blanks [x]Health RBC Instructions [ ] Other _____
[x] Life and Fraternal RBC Blanks [x] Life and Fraternal RBC Instructions
[x] Property/Casualty RBC Blanks [x] Property/Casualty RBC Instructions

DESCRIPTION OF CHANGE(S)

Delete the ACA Fee Sensitivity Test from each formula.

REASON OR JUSTIFICATION FOR CHANGE **

The purpose of the proposal is to delete the ACA Fee Sensitivity test from each formula as a result of the repeal of the ACA HIT tax for 2021. The SAP Working Group is also drafting a Form A to remove the disclosures of the ACA fee in 2021.

Additional Staff Comments:

07-30-20 cgb HRBCWG referred proposal 2020-02-CA to the Capital Adequacy (E) Task Force for 30-day exposure with comments to come back to the Working Group.
08-05-20 cgb The Capital Adequacy Task Force exposed the proposal for a 30-day public comment period ending on Sept. 4, 2020 with comments to come back to the Health RBC (E) Working Group.
11-11-20 cgb No comments were received.
11-19-20 cgb The Capital Adequacy (E) Task Force adopted the proposal.

**** This section must be completed on all forms.** **Revised 11-2013**

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HEALTH

TOTAL ADJUSTED CAPITAL

XR025

Total Adjusted Capital (TAC) includes the statutory capital and surplus/total net worth of the reporting entity plus adjustments. Adjustments are made in recognition of statutory accounting conventions that tend to understate the actual capital and surplus that a company possesses in case of liquidation.

There are additions to TAC for the Asset Valuation Reserve and half of the dividend liability of any Life/Health subsidiary. These reserves understate the surplus of the subsidiary and must be added back to the parent's TAC. The annual statement amount of any Life/Health subsidiary's AVR should be reported on Line (2), prorated for percent of ownership. Dividend liability for life insurance subs should be reported on Line (3). The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

Subsidiary amounts are included, as appropriate, recognizing that the subsidiary's surplus is included within the surplus of the parent. For Property and Casualty subsidiaries, there is a reduction in TAC equal to non-tabular discounts and medical discounts reported as tabular that the subsidiary may claim. Discounting of loss reserves is not widely practiced in Property/Casualty accounting. Therefore, any of these discounts being used by a Property/Casualty subsidiary to bolster the subsidiary's surplus must be removed to ensure a level playing field among companies subject to RBC. If the reporting entity owns a Property/Casualty subsidiary that has non-tabular discounts or medical discounts reported as tabular, the full amount of the reserve discount should be entered on Lines (4) and (5). Nontabular reserve discounts reported in Line (5) come from the subsidiary's Schedule P Part 1. Tabular reserves in Line (4) come from the Notes to the Financial Statement of the affiliate's annual statement.

Lines (7) through (11) are used for a sensitivity test. The sensitivity test provides a "what if" scenario eliminating deferred tax assets and deferred tax liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

DTA should include only the admitted portion of the DTA inside amount, for Line (7). Line (9) should only include the admitted portion of insurance subsidiaries deferred tax assets that are subject to RBC and whose RBC formula excludes DTAs and DTLs from the TAC calculation.

~~Lines (16) through (19) are used for the federal ACA fee sensitivity test. The ACA fee sensitivity test provides a "what if" scenario eliminating the ACA fee from the Calculation of Total Adjusted Capital. The ACA fee included on Line (16) is the estimated data year amount that is to be paid in the fee year. The ACA fee sensitivity test has no effect on the risk-based capital amounts reported in the annual statement. Column (2), Line (16) should equal the annual statement Notes to Financial Statement, Note 22B, Column 1.~~

LIFE

CALCULATION OF TOTAL ADJUSTED CAPITAL

(Including Total Adjusted Capital Tax Sensitivity Test)
LR033

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

Detail Eliminated to Conserve Space

Line (14)
Line 14 should include only the admitted portion of deferred tax assets for insurance subsidiaries that are subject to RBC.

~~Lines (22) through (25) are used for the ACA sensitivity test. The ACA sensitivity test provides a "what if" scenario eliminating the ACA fee from the Calculation of Total Adjusted Capital. The ACA fee included on Line (22) is the estimated data year amount that is to be paid in the fee year. The ACA fee sensitivity test has no effect on the risk-based capital amounts reported in the annual statement. Column (2), Line (22) should equal the annual statement Notes to Financial Statement, Note 22B, Column 1.~~

PROPERTY/CASUALTY

PR029 - Calculation of Total Adjusted Capital

This is computed by subtracting the full value of the non-tabular discount found in Schedule P, Part 1 – Summary, L12 C32 and C33 plus any discount on medical reserves included in C24 for the company and its affiliates from its capital and surplus from P3 C1 L37, and then adding back the AVR and half of any dividend liability of any of the company's life insurance affiliates. The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. All the affiliate amounts should be adjusted by percentage of ownership before entering. All U.S. life, property & casualty and investment affiliates should be included. If a company has no affiliates, then Total Adjusted Capital is equal to its capital and surplus adjusted for non-tabular discounts.

Lines (13.1) through (13.4)
These lines calculate the credit to Total Adjusted Capital for the insurer's qualifying capital notes. The calculation on Line (13.2) limits the credit for capital notes so the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-half of Total Adjusted Capital from other sources. This is equivalent to a limit of one-third of Total Adjusted Capital from all sources including the capital and surplus notes themselves.

The TAC is reported in the annual statement's Five-Year Historical Exhibit on Line 28, Total Adjusted Capital.

The Sensitivity test provides a "what if" scenario eliminating deferred tax assets and deferred tax liabilities from the calculation of Total Adjusted Capital. The sensitivity test has no effect on the risk-based capital amounts reported in the annual statement.

Include only the admitted portion of the deferred tax asset for Line (15). Line (16) should include only the admitted portion of insurance subsidiaries' deferred tax assets.

~~Lines (22) through (25) are used for the ACA sensitivity test. The ACA sensitivity test provides a "what if" scenario eliminating the ACA fee from the Calculation of Total Adjusted Capital. The ACA fee included on Line (22) is the estimated data year amount that is to be paid in the fee year. The ACA fee sensitivity test has no effect on the risk-based capital amounts reported in the annual statement. Column (2), Line (22) should equal the annual statement Notes to Financial Statement, Note 22B, Column 1.~~

CALCULATION OF TOTAL ADJUSTED CAPITAL (XR025)

		Annual Statement Source	(1) Amount	Factor	(2) Adjusted Capital
Company Amounts					
(1)	Capital and Surplus	Page 3, Col 3, Line 33	$0	1.000	
Subsidiary Adjustments					
(2)	AVR - Life Subsidiaries	Affiliate's statement §		1.000	
(3)	Dividend Liability - Life Subsidiaries	Affiliate's statement		0.500	
(4)	Tabular Discounts - P&C Subsidiaries	Affiliate's statement		-1.000	
(5)	Non-Tabular Discounts - P&C Subsidiaries	Affiliate's statement		-1.000	
(6)	Total Adjusted Capital, Post-deferred Tax				
Sensitivity Test:					
(7)	DTA Value for Company	Page 2, Col 3, Line 18.2		1.000	
(8)	DTL Value for Company	Page 3, Col 3, Line 10.2		1.000	
(9)	DTA Value for Insurance Subsidiaries	Company Records		1.000	
(10)	DTL Value for Insurance Subsidiaries	Company Records		1.000	
(11)	Total Adjusted Capital, Pre-deferred Tax (sensitivity)	L(6) - L(7) + L(8) - L(9) +L(10)			
Ex DTA ACL RBC Ratio Sensitivity Test					
(12)	Deferred Tax Asset	Page 2 Column 3 Line 18.2		1.000	
(13)	Total Adjusted Capital Less Deferred Tax Asset	Line (6) less Line (12)			
(14)	Authorized Control Level RBC	XR026 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			
(15)	Ex DTA ACL RBC Ratio	Line (13) / Line (14)			0.000%
~~**ACA Fee RBC Ratio Sensitivity Test**~~					
~~**(16)**~~	~~**ACA Fee (Data Year Amount to be Paid in the Fee Ye**~~	~~**Note 22B**~~		~~**1.000**~~	~~**$0**~~
~~**(17)**~~	~~**Total Adjusted Capital Less ACA Fee**~~	~~**Line (6) less Line (16)**~~			~~**$0**~~
~~**(18)**~~	~~**Authorized Control Level RBC**~~	~~**XR026 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)**~~			~~**$0**~~
~~**(19)**~~	~~**ACA Fee RBC Ratio**~~	~~**Line (17) / Line (18)**~~			~~**0.000%**~~

§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves.

Denotes items that must be manually entered on filing software.

CALCULATION OF TOTAL ADJUSTED CAPITAL (LR033)

(Including Total Adjusted Capital Tax Sensitivity Test)

			(1)				(2)
		Annual Statement Source	tatement Value		Factor		Adjusted Capital
	Company Amounts						
(1)	Capital and Surplus	Page 3 Column 1 Line 38		X	1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §		X	1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part		X	0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part		X	0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records		X	-1.000	=	
	Life Subsidiary Company Amounts†						
(6)	Asset Valuation Reserve	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ §		X	1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡		X	0.500	=	
	Property and Casualty and Other Non-U.S. Affiliated Amounts						
(8)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 8 Line 0599999 and Line 1499999, in part		X	1.000	=	
(9)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (7) less Line (8)					
	Credit for Capital Notes						
(10.1)	Surplus Notes	Page 3 Column 1 Line 32					
(10.2)	Limitation on Capital Notes	0.5 x [Line (9) - Line (10.1)] - Line (10.1), but not less than 0					
(10.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)					
(10.4)	Credit for Capital Notes	Lesser of Column (1) Line (10.2) or Line (10.3)					
(11)	XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)					
(12)	Total Adjusted Capital	Line (9) + Line (10.4) - Line (11)					
	Tax Sensitivity Test						
	Company Amounts						
(13)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2		X	-1.000	=	
(14)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2		X	1.000	=	
	Subsidiary Amounts						
(15)	Deferred Tax Asset (DTA) Value	Company Records		X	-1.000	=	
(16)	Deferred Tax Liability (DTL) Value	Company Records		X	1.000	=	
(17)	Tax Sensitivity Test: Total Adjusted Capital	Line (12)+(13)+(14)+(15)+(16)					
	Ex DTA ACL RBC Ratio Sensitivity Test						
(18)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2		X	1.000	=	
(19)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (12) less Line (18)					
(20)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)		X	1.000	=	
(21)	Ex DTA ACL RBC Ratio	Line (19) / Line (20)					0.000%
~~-~~	~~ACA Fee RBC Ratio Sensitivity Test~~						
~~(22)~~	~~ACA Fee (Data Year Amount to be Paid in the Fee Year)~~	~~Note 22B~~		~~X~~	~~1.000~~	~~=~~	
~~(23)~~	~~Total Adjusted Capital Less ACA Fee~~	~~Line (12) less Line (22)~~					
~~(24)~~	~~Authorized Control Level RBC~~	~~LR034 Risk-Based Capital Level of Action Line (4)~~					
~~(25)~~	~~ACA Fee RBC Ratio~~	~~Line (23) / Line (24)~~					~~0.000%~~

† Including subsidiaries owned by holding companies.

‡ Multiply statement value by percent of ownership.

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CALCULATION OF TOTAL ADJUSTED CAPITAL PR029

			(1)		(2)
		Annual Statement Reference	Statement Value*	Factor	Adjusted Capital
(1)	Capital and Surplus	P3 C1 L37	0	1.000	0
(2)	Non-Tabular Discount - Losses	Sch P P1-Sum C32 L12	0	1.000	0
(3)	Non-Tabular Discount - Expense	Sch P P1-Sum C33 L12	0	1.000	0
(4)	Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(5)	Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Company Records	0	1.000	0
(6)	P&C Subs Non-Tabular Discount - Losses	Subs' Sch P Pt1-Sum C32 L12	0	1.000	0
(7)	P&C Subs Non-Tabular Discount - Expense	Subs' Sch P Pt1-Sum C33 L12	0	1.000	0
(8)	P&C Subs Discount on Medical Loss Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(9)	P&C Subs Discount on Medical Expense Reserves Reported as Tabular in Schedule P	Subs' Company Records	0	1.000	0
(10)	AVR - Life Subs §	Subs P3 C1 L24.01 §	0	1.000	0
(11)	Dividend Liability - Life Subs	Subs P3 C1 L6.1 + L6.2	0	0.500	0
(12)	Total Adjusted Capital Before Capital Notes	L(1)-L(2)-L(3)-L(4)-L(5)-L(6)-L(7)-L(8)-L(9)+L(10)+L(11)			0
	Credit for Capital Notes				
(13.1)	Surplus Notes	Page 3 Column 1 Line 33	0		
(13.2)	Limitation on Capital Notes	0.5x[Line(12)-Line(13.1)]-Line 13.1, but not less than zero	0		
(13.3)	Capital Notes Before Limitation	PR028 Column (4) Line (18)	0		
(13.4)	Credit for Capital Notes	Lesser of Column (1) Line (13.2) or Line (13.3)			0
(14)	Total Adjusted Capital (Post-Deferred Tax)	Line (12) + Line (13.4)			0
	Sensitivity Test :				
(15)	Deferred Tax Assets	Page 2, Column 3, Line 18.2	0	1.000	0
(15.1)	Deferred Tax Liabilities	Page 3, Column 1, Line 7.2	0	1.000	0
(16)	Deferred Tax Assets for Subsidiary	Company Record	0	1.000	0
(16.1)	Deferred Tax Liabilities for Subsidiary	Company Record	0	1.000	0
(17)	Total Adjusted Capital For Sensitivity Test	Line (14) - Line (15)+(15.1)-(16)+(16.1)			0
	Ex DTA ACL RBC Ratio Sensitivity Test				
(18)	Deferred Tax Asset	Page 2 Column 3 Line 18.2	0	1.000	0
(19)	Total Adjusted Capital Less Deferred Tax Asset	Line (14) less Line (18)			0
(20)	Authorized Control Level RBC	PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)			0
(21)	Ex DTA ACL RBC Ratio	Line (19) / Line (20)			0.000%
	~~**ACA Fee RBC Ratio Sensitivity Test**~~				
~~(22)~~	~~**ACA Fee (Data Year Amount to be Paid in the Fee Year)**~~	~~**Notes to Financial Statements Item 22B**~~	~~**0**~~	~~**1.000**~~	~~**0**~~
~~(23)~~	~~**Total Adjusted Capital Less ACA Fee**~~	~~**Line (14) - Line (22)**~~			~~**0**~~
~~(24)~~	~~**Authorized Control Level RBC**~~	~~**PR034 Comparison of Total Adjusted Capital to Risk-Based Capital Line (4)**~~			~~**0**~~
~~(25)~~	~~**ACA Fee RBC Ratio**~~	~~**Line (23) / Line (24)**~~			~~**0.000%**~~

* Report amounts in this column as whole dollars.

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

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