



Risk-Based Capital Newsletter

NAIC

Updated 10/14/2005

National Association of Insurance Commissioners

What Risk-Based Capital Pages Should be Submitted?

For year-end 2005 Life RBC, submit hard copies of pages **LR001 through LR043** to the NAIC in addition to the electronic filing.

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted, but still need to be retained by the company as documentation.

C-3 Phase II Market Risk Calculations

C-3 Phase II market risk calculations were adopted at the June 11, 2005, meeting of the Life RBC Working Group. **To complete the adoption process, the NAIC Joint Executive (EX) Committee/Plenary at the October 14, 2005, conference call, adopted the proposal. The C-3 Phase II proposal will officially go into effect for year-end 2005 RBC.**

Products covered in the requirements include:

- All variable annuities except for modified guaranteed annuities.
- Group annuities containing guarantees similar in nature to variable annuity guaranteed living benefits (VAGLBs) or guaranteed minimum death benefits (GMDBs).
- All other products that contain guarantees similar in nature to GMDBs or VAGLBs.

The RBC requirement is calculated using modeling. The company's own model can be used or pre-packaged scenarios can be used. A simpler, more conservative alternative method is allowed for certain products. A single standard scenario also is calculated and may need to be used as the RBC requirement.

More information regarding the C-3 Phase II calculation is currently posted on the NAIC web site at:

http://www.naic.org/frs/rbc/life_rbc_wg/index.htm (and then select "Life RBC Requirements for C-3 Phase II, Market Risk").

Check this site for updated guidance on these calculations.

Cash Equivalent Bond Lines Added

Lines (2.2) and (2.3) were added to page LR012 Miscellaneous Assets. These lines were added in order to reduce the cash equivalents balance from Page 2 Line 6 for cash equivalent bonds.

This change was made due to the annual statement instructions changing for Schedule D Part 1A indicating cash equivalent bonds are now included with other bonds on that schedule.

So, if cash equivalent bonds are included with other bonds reported on page LR002 Bonds, these new lines will prevent receiving an RBC charge for cash equivalent bonds on both LR002 Bonds and LR012 Miscellaneous Assets.

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New Long-Term Care Page Added to Risk-Based Capital

A new page LR020 Long-Term Care will be added to the RBC formula for year-end 2005 risk-based capital.

Previously, the risk-based capital charge for long-term care business had been based on premiums only.

Now, the RBC charge will be based on a combination of premiums and a two-year premium to loss ratio multiplied by total claims.

The premiums will be multiplied in a tiered factor calculation as follows:

Other Long-Term Care Premium	Pre-tax Factor
First 50 Million	0.154
Over 50 Million	0.046

A ratio of premiums to claims will be calculated for the current year and prior year. For the loss ratios to be used, the current year and prior year premiums must be greater than zero. In addition, the current and prior year claims incurred must be greater than or equal to zero.

Otherwise, the current year incurred claims are used instead of the two-year loss ratio multiplied by the current year premiums.

The result of the claims ratio or the current year's incurred claims is multiplied by tiered factors as follows:

	If Current Year LTC Premium Positive: Pre-Tax Claim Factor	If Current Year LTC Premium Negative or Zero: Pre-Tax Claim Factor
Long-Term Care Claims		
First 35 Million	0.385	0.569
Over 35 Million	0.123	0.185

The LTC premium charge and claim charge would be combined and then reduced by 35% on the tax adjustment page.

Non-Cancellable Long-Term Care Business

All non-cancellable long-term care business receives one standard charge based on premiums on LR016 Health Premiums. Only premiums and not claims are not used to calculate RBC for non-cancellable long-term care.

The non-cancellable long-term care business should be excluded from the new Long-Term Care page that was added for 2005. Non-cancellable long-term care premium receives a pre-tax RBC charge of 15.4%. The after-tax factor is approximately 10%.

LR003 Industry Normalized Loss Ratio

The “Industry Normalized Loss Ratio” shown on LR003 Mortgage Experience Adjustment Factor Line (12) is estimated to be approximately **0.014%** for year-end 2005. However, that factor will not be finalized until around December 2, 2005.

Low Income Housing Tax Credits

No changes were made in 2005 for Low Income Housing Tax Credits (LIHTC), but there are several items to discuss or clarify:

State LIHTC programs had accounting guidance adopted for them in SSAP No. 93. However, the state programs were not considered when the risk-based capital proposal was developed for the LIHTCs. Currently, only the federal LIHTCs receive a lower factor for life RBC or asset valuation reserve (AVR) purposes.

What constitutes "guaranteed" LIHTCs reported on Page LR007 Line (17) was not specified in the Life RBC instructions. According to the AVR instructions, guaranteed LIHTC should have an all-inclusive guarantee from an NRSRO-rated general partner.

Low Income Housing Tax Credit investments that do not meet the requirements of LR007 Lines (17) or (18) should be included with other Schedule BA real estate reported on LR007 Line (14).

Workers’ Compensation Carve-Out Factors

Workers’ compensation carve-out business factors were changed for page LR018 Underwriting Risk – Other Lines (4), (5) and (6.3). This is due to the factors for the calculation being phased in over a three-year period as follows:

	2004 Factors	2005 Factors	2006 Factors
Line (4) Net Premiums Written	0.121	0.243	0.364
Line (5) Claim Liability and Reserve	0.116	0.231	0.347
Line(6.3) Unaffiliated Reinsurance Recoverables	0.020	0.040	0.060

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