



Risk-Based Capital Newsletter

NAIC

National Association of Insurance Commissioners

2009 Mortgage Experience Factor Change

At the May 27, 2009, conference call of the Life Risk-Based Capital Working Group, a proposal was adopted to modify the minimum and maximum for the mortgage experience adjustment factor calculation for year-end 2009 only.

The minimum adjustment factor was raised from 50% to 75%. The maximum adjustment factor was lowered from 350% to 125%. The minimum and maximum factors are used in calculating the LR003 Mortgage Experience Adjustment Factor Line 13. This change only applies to Life RBC and not to the Asset Valuation Reserve (AVR) calculation.

A long-term calculation is currently being worked on to replace the mortgage experience adjustment factor calculation for year-end 2010 and later. But, another short-term calculation may be needed for 2010 if a long-term proposal is not ready to be implemented for 2010.

Derivatives Collateral Short-Term Proposal

Optional guidance for derivatives collateral reported on page LR012 Miscellaneous Assets had been adopted for year-end 2008 Life RBC. A similar short-term proposal will be under consideration at the July 2, 2009, conference call of the Life Risk-Based Capital Working Group.

Derivatives collateral as defined in the RBC instructions would be reported LR012 Miscellaneous Assets Line 9 and receive an NAIC Class 1 RBC charge. A new line will likely be added to page LR012 for the derivatives collateral for year-end 2010 and later Life RBC.

What Risk-Based Capital Pages Should be Submitted?

For year-end 2009 Life RBC, submit hard copies of pages **LR001 through LR044** to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. But a PDF file representing the hard copy filing is part of the electronic filing.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hard copy filing. Starting with year-end 2008 RBC, the actuarial certifications were also part of the electronic RBC filing as PDF files similar to the annual statement actuarial opinion.

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.

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Updated Medicare Part D Prescription Drug Coverage Factors

At the June 14, 2009, meeting of the Capital Adequacy (E) Task Force, changes for Medicare Part D prescription drug coverage factors were adopted for the 2009 life RBC formula and instructions.

Adjustments were made to the LR017 underwriting risk factors and LR019 managed care credit factors.

A major change was made to the LR016 Medicare Part D supplemental benefit factors reported on page LR017 Health Premiums Lines 5 and 14. The new factor will be phase-in over a two year period starting with a 21% factor for year-end 2009 and 34% for year-end 2010.

LR017 Health Premiums

Factors for Medicare Part D Prescription drug coverage Lines 5 and 14 were changed for page LR017 Health Premiums in a two-year phase-in:

LR017 Health Premiums	Factor
Supplemental benefits within Part D Coverage	LR017 Lines 5&14
2008 Original Factor	0.120
2009 Updated Factor	0.210
2010 Updated Factor	0.350

LR018 Underwriting Risk – Experience Fluctuation Risk

Factors for Medicare Part D Prescription drug coverage Column 4 were changed for page LR018 Underwriting Risk – Experience Fluctuation Risk Lines 10.1 and 10.2:

LR018 Col. 4 Category	2008 Factor	2009 Factor
(10.1) Underwriting Risk Factor for First 25 Million of Premium	0.141	0.251
(10.2) Underwriting Risk Factor for Premium Amounts in Excess of 25 Million in Premium	0.106	0.151

LR020 Underwriting Risk – Managed Care Credit

A managed care credit is calculated for LR018 line (12).The factors were updated for page LR020 Lines 12 and 13:

LR019 Claims Category	2008 Factor	2009 Factor
(12) Category 2a - No Federal Reinsurance but Risk Corridor Protection	0.500	0.667
(13) Category 3a - Federal Reinsurance and Risk Corridor Protection apply	0.650	0.767

Hybrid Securities Notching for Risk-Based Capital

The short-term solution of notching certain hybrid securities implemented by the Hybrid RBC (E) Working Group for year-end 2006 was in effect until Jan. 1, 2009.

Starting Jan. 1, 2009, hybrid securities were moved to a new line on Schedule D Part 1 and the notching will no longer be in effect. The hybrid annual statement note disclosure will also be eliminated at the same time.

Due to the changes in annual statement changes for hybrids, line references and a few additional subtotal lines needed to be added to the RBC formula. Hybrids will continue to be reported on the preferred stock page for the RBC calculation. But, the factors used for hybrids will continue to be the same as used for bonds and preferred stock.

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