Changes Made to the Trend Test

Adopted at the March 4, 2012, meeting of the Capital Adequacy (E) Task Force was a proposal to adjust the life RBC Trend Test. The proposal changes the threshold at which the Trend Test applies from 2.5 times the Authorized Control Level to 3.0 times the Authorized Control Level.

While states transition to the 3.0 standard, a dual presentation of the Trend Test is provided to alert users to potential alternative Trend Test results.

To accomplish this, new columns were added to page LR035 Trend Test and a new line (18) included to show which level is the regulatory basis of the domiciliary state. Additionally, a new footnote and new lines (0000001) and (0000002) were added to LR034 Risk-Based Capital Level of Action to show what level of action would be indicated based on the two levels.

Instructions Clarification for Callable Assets

Adopted at the March 4, 2012, meeting of the Capital Adequacy (E) Task Force was a proposal to add clarification to the instructions with respect to the treatment of callable assets.

Language was added to the instructions for LR027 Interest Rate Risk and Market Risk to clarify that callable assets that support reserves which have been cash-flow tested are to be excluded. Clarifying language was also added to Appendix 1 – Cash Flow Testing for C-3 RBC.

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2012 Life RBC, submit hard copies of pages LR001 through LR046 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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Deferred Tax Asset Proposal

A proposal to make changes for deferred tax assets was adopted by email vote after the June 12, 2012, Capital Adequacy (E) Task Force conference call.

Page LR017 Changes:
New lines (28), (29) and (30) were added to page LR017 Off-Balance Sheet and Other Items. In addition, a new column for “Yes/No Response” to page LR017 was added.

These new lines add RBC charges for deferred tax asset amounts as follows:
(28) Is the entity responsible for filing the U.S. federal income tax return for the reporting insurer a regulated insurance company? (Answer “Yes,” “No” or “N/A”)
(29) SSAP No. 101 Paragraph 11a DTA (taken from Note 9 Col. 3 Line 9A2(a))
If line (28) = “Yes” then factor = 0.005
If line (28) = “No” then factor = 0.010
If line (28) = “N/A” then factor = 0.000
(30) SSAP No. 101 Paragraph 11b DTA (taken from Note 9 Col. 3 Line 9A2(b))
Factor = 0.010

A “Yes” for line (28) means the entity which files the U.S. federal income tax return that includes the reporting entity is a regulated insurance company (including where the reporting entity is the direct filer of the tax return).

A “No” for line (28) means the entity which files the U.S. federal income tax return that includes the reporting entity is not a regulated insurance company (e.g., a non-insurance entity or holding company).

An “N/A” for line (28) means the entity is exempt from filing a U.S. federal income tax return; lines (29) and (30) should be zero in this case.

Page LR033 Changes:
As a result of the adoption of SSAP No. 101 by the Statutory Accounting Principles (E) Working Group, the lines and line descriptions for one of the tax sensitivity tests on page LR033 Calculation of Total Adjusted Capital were adjusted for lines (17) through (24) of the 2011 page. The sensitivity test is now referred to as the “Ex DTA ACL RBC Ratio Sensitivity Test.”

The main change made to the sensitivity test is that the full amount of the deferred tax asset (DTA) reported on the annual statement assets page line 18.2, column 3, is now subtracted from total adjusted capital rather than just the expanded DTA amount, as was the case for year-end 2011 Life RBC. In addition, lines for subsidiary amounts and for adjustments to authorized control level RBC were eliminated.

Mortgage Experience Adjustment Factors

A proposal to temporarily extend to year-end 2012 life RBC the 80% minimum and 175% maximum factors for LR003 Mortgage Experience Adjustment line (13) was adopted on the Dec. 13, 2011, conference call of the Capital Adequacy (E) Task Force.

A longer-term proposal to adjust the treatment for certain types of mortgages is currently being reviewed by the Life Risk-Based Capital (E) Working Group.