

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

CONTACT PERSON: _____ TELEPHONE: _____ EMAIL ADDRESS: _____ ON BEHALF OF: _____ NAME: <u>Peter Medley</u> TITLE: <u>Chair – Capital Adequacy Task Force</u> AFFILIATION: <u>Wisconsin Office of the Commissioner of Insurance</u> ADDRESS: <u>125 S. Webster St., GEFF III – 2nd Fl.</u> <u>Madison, WI 53702</u>	DATE: <u>09/24/2012</u>	FOR NAIC USE ONLY
	Agenda Item # <u>2012-34BWG MOD</u> Year <u>2012</u> Changes to Existing Reporting [X] New Reporting Requirement []	REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT
	No Impact [X] Modifies Required Disclosure []	DISPOSITION
	[] Rejected For Public Comment [] Referred To Another NAIC Group [] Received For Public Comment [X] Adopted Date <u>04/06/2013</u> [] Rejected Date _____ [] Deferred Date _____ [] Other (Specify) _____	

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> BLANK |
| <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS | |
| <input checked="" type="checkbox"/> Life and Accident & Health | <input checked="" type="checkbox"/> Property/Casualty | <input checked="" type="checkbox"/> Health |
| <input checked="" type="checkbox"/> Separate Accounts | <input checked="" type="checkbox"/> Fraternal | <input checked="" type="checkbox"/> Title |
| <input type="checkbox"/> Other Specify _____ | | |

Anticipated Effective Date: Annual 2013

IDENTIFICATION OF ITEM(S) TO CHANGE

Separate the State Low Income Housing Tax Credit (LIHTC) categories on Schedule BA into guaranteed and nonguaranteed similar to the Federal LIHTC. For the Equity and Other Invested Asset Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculations page change Line 68 to reflect guaranteed and add new Line 69 for Non-guaranteed state LIHTC. The instructions for the schedule are being modified to reflect these changes.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Certain state low income housing tax credit investments are being given the same RBC treatment as the federal low income housing tax credits so there will be different RBC treatment for guaranteed and non-guaranteed investments. This proposal is to add these new categories to Schedule BA and the Asset Valuation Reserve of the annual statement. Having the same categories for the annual statement as with the RBC will make the information easier to verify and promote consistency of reporting.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: The RBC changes will likely go into effect for year-end 2013 and a consistent date was chosen for the annual statement changes.

Other Comments:

** This section must be completed on all forms.

ANNUAL STATEMENT INSTRUCTIONS – LIFE AND FRATERNAL

DRAFTING NOTE: The changes to the line numbers in the instructions and the blank below may impact references in other area of the instructions not specifically shown in this proposal. The instructions will be reviewed to find and correct those references.

**EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**



Detail Eliminated To Conserve Space

Lines 66
through ~~707271~~ – Low Income Housing Tax Credit Investments

Report Column 1 in accordance with SSAP No. 93, Accounting for Low Income Housing Tax Credit Property Investments.

For Line 66, report guaranteed low-income housing tax credit (LIHTC) investments. There must be an all-inclusive guarantee from CRP-rated entity that guarantees the yield on the investment. Line 66 should equal Schedule BA, Part 1, Column 12, Line 2999999 + Line 3099999.

For Line 67, report non-guaranteed LIHTC investments with the following risk mitigation factors:

- I. A level of leverage below 50%. For LIHTC Fund, the level of leverage is measured at the fund level.
- II. 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.
- III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Line 67 should equal Schedule BA, Part 1, Column 12, Line 3199999 + Line 3299999.

Only federal low-income housing tax credit investments can be reported on Lines 66 and 67. State low-income housing tax credit investments that meet the requirements of SSAP No. 93 and that at a minimum meet the requirements for federal guaranteed programs should be reported on Line 68. Line 68 should equal Schedule BA, Part 1, Column 12, Line 3399999 + Line 3499999.

State low-income housing tax credit investments that meet the requirements of SSAP No. 93 and that at a minimum meet the requirements for federal non-guaranteed programs should be reported on Line 69. Line 69 should equal Schedule BA, Part 1, Column 12, Line 3599999 + Line 3699999.

Any other low-income housing tax credit investments that meet the requirements of SSAP No. 93 and cannot be reported on Lines 66 through ~~68-69~~ should be reported on Line ~~69~~70. Line ~~69-70~~ should equal Schedule BA, Part 1, Column 12, Line ~~3599999-3799999~~ + Line ~~3699999~~3899999.

Multiply the amount in Column 4 for each category by the reserve factors for Page 34, Columns 5, 7 and 9, Lines 66 through ~~69~~70. Report the products by category in Columns 6, 8 and 10, respectively.

| Line 717372 – Other Invested Assets – Schedule BA

Report the book/adjusted carrying value of all other Schedule BA investments owned which cannot be classified into one of the above categories (Lines 0199999, 0299999, 0399999, 0499999, 0599999, 0699999, 1999999, 2099999, 2199999, 2299999, 2799999, 2899999, ~~3799999~~~~3999999~~ and ~~3899999~~~~4099999~~) in Column 1 and any encumbrances on these assets in Column 3. Schedule DL, Part 1 investments reported on Line 8899999 would be included in this total if not classified in one of the above categories. Collateral loans (Lines 2399999 and 2499999) have been intentionally excluded from this total. For surplus debentures and capital notes, the amount to report in Column 1 is to be calculated based upon the accounting prescribed in SSAP No. 41, Surplus Notes. Report the sum of Columns 1 and 3 in Column 4. Column 4 may not be less than zero. Note that ALL surplus debentures and capital notes should be included here in Line 7172, EXCEPT those with an CRP rating equivalent to the NAIC class 1 rating (which are reported in Line 31 of this schedule). Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. The maximum reserve factor for capital and surplus debentures should be the factors used for preferred stocks not bonds.

Include: Any investments believed by the reporting entity to fit the category of “Fixed or Variable Interest Rate Investments that Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument,” or “Joint Ventures or Partnership Interests for which the Primary Underlying Investments are considered to be Fixed Income Instruments” but which do not qualify for Filing Exemption and have not been reviewed by the SVO. In addition, include those investments that have been reviewed by the SVO and were determined to have the underlying characteristics of “Other” instruments (joint venture, partnership and LLC investments) or to be “Any Other Class of Assets”.

Exclude: All surplus debentures and capital notes that possess an CRP rating equivalent to the NAIC class 1 rating. These surplus debentures are to be reported on Line 31 (Other Invested Assets with Underlying Characteristics of Preferred Stocks) of this schedule.

| Line 727473 – Other Short-Term Invested Assets – Schedule DA

Report the book/adjusted carrying value of all other Schedule DA (Lines 8599999 and 9099999) and Schedule DL, Part 1 (Line 8999999) assets owned that cannot be classified into one of the above categories in Column 1 and any encumbrances on these assets in Column 3. Report the sum of Columns 1 and 3 in Column 4. Multiply the amount on Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

| Line 7475 – Total Other Invested Assets – Schedules BA & DA

The Columns 6, 8 and 10 amounts must be combined with Columns 6, 8 and 10, Line 30 amounts and reported on the Asset Valuation Reserve Page, Column 5, Lines 7, 10 and 9 respectively.

NOTE: Other invested asset reserves will be calculated based on the nature of the underlying investments related to the Schedule BA and Schedule DA assets. Assets should be categorized as if the company owned the underlying investment. For example:

- Mortgage participation certificates and similar holdings should be classified as fixed income assets.
- Gas and oil production and mineral rights have potential variability of return and should be categorized as equity investments.
- Partnership investments should be classified as fixed or equity investments or as equity real estate, depending on the purpose of the partnership. The maximum AVR factor would be that appropriate for the asset classification.
- A “look through” approach should be taken for any Schedule BA and Schedule DA assets not specifically listed, so as to reflect in the AVR calculation the essential nature of the investments.

ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY FRATERNAL AND TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS



Detail Eliminated To Conserve Space

<u>Group or Category</u>	<u>Line Number</u>
Oil and Gas Production – Unaffiliated.....	0199999
Oil and Gas Production – Affiliated.....	0299999
Transportation Equipment – Unaffiliated.....	0399999
Transportation Equipment – Affiliated.....	0499999
Mineral Rights – Unaffiliated.....	0599999
Mineral Rights – Affiliated.....	0699999
Fixed or Variable Interest Rate Investments That Have the Underlying Characteristics of:	
Bonds – Unaffiliated.....	0799999
Bonds – Affiliated.....	0899999
Mortgage Loans – Unaffiliated.....	0999999
Mortgage Loans – Affiliated.....	1099999
Other Fixed Income Instruments – Unaffiliated.....	1199999
Other Fixed Income Instruments – Affiliated.....	1299999
Joint Venture, Partnership or Limited Liability Company Interests that have the Underlying Characteristics of:	
Fixed Income Instruments – Unaffiliated.....	1399999
Fixed Income Instruments – Affiliated.....	1499999
Common Stocks – Unaffiliated.....	1599999
Common Stocks – Affiliated.....	1699999
Real Estate – Unaffiliated.....	1799999
Real Estate – Affiliated.....	1899999
Other – Unaffiliated.....	1999999
Other – Affiliated.....	2099999
Surplus Debentures, etc. – Unaffiliated.....	2199999
Surplus Debentures, etc. – Affiliated.....	2299999
Collateral Loans – Unaffiliated.....	2399999
Collateral Loans – Affiliated.....	2499999
Non-collateral Loans – Unaffiliated.....	2599999
Non-collateral Loans – Affiliated.....	2699999
Capital Notes – Unaffiliated.....	2799999
Capital Notes – Affiliated.....	2899999
Guaranteed Federal Low Income Housing Tax Credit – Unaffiliated.....	2999999
Guaranteed Federal Low Income Housing Tax Credit – Affiliated.....	3099999
Non- Guaranteed Federal Low Income Housing Tax Credit – Unaffiliated.....	3199999
Non- Guaranteed Federal Low Income Housing Tax Credit – Affiliated.....	3299999
<u>Guaranteed</u> State Low Income Housing Tax Credit – Unaffiliated.....	3399999
<u>Guaranteed</u> State Low Income Housing Tax Credit – Affiliated.....	3499999
<u>Non-Guaranteed</u> State Low Income Housing Tax Credit – Unaffiliated.....	3599999
<u>Non-Guaranteed</u> State Low Income Housing Tax Credit – Affiliated.....	3699999
All Other Low Income Housing Tax Credit – Unaffiliated.....	35999993799999
All Other Low Income Housing Tax Credit – Affiliated.....	36999993899999
Any Other Class of Assets – Unaffiliated.....	37999993999999
Any Other Class of Assets – Affiliated.....	38999994099999
Subtotal – Unaffiliated.....	39999994199999
Subtotal – Affiliated.....	40999994299999
TOTALS.....	41999994399999

QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY FRATERNAL AND TITLE

SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

<u>Group or Category</u>	<u>Line Number</u>
Detail Eliminated To Conserve Space	
Capital Notes	
Unaffiliated.....	2799999
Affiliated	2899999
Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated.....	2999999
Affiliated	3099999
Non- Guaranteed Federal Low Income Housing Tax Credit	
Unaffiliated.....	3199999
Affiliated	3299999
<u>Guaranteed State Low Income Housing Tax Credit</u>	
Unaffiliated.....	3399999
Affiliated	3499999
<u>Non-Guaranteed State Low Income Housing Tax Credit</u>	
Unaffiliated.....	3599999
Affiliated	3699999
All Other Low Income Housing Tax Credit	
Unaffiliated.....	35999993799999
Affiliated	36999993899999
Any Other Class of Assets	
Unaffiliated.....	37999993999999
Affiliated	38999994099999
Subtotals	
Unaffiliated.....	39999994199999
Affiliated	40999994299999
TOTALS.....	41999994399999

ANNUAL STATEMENT BLANK – LIFE AND FRATERNAL

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution		Reserve Objective		Maximum Reserve	
							5 Factor	6 Amount (Cols. 4x5)	7 Factor	8 Amount (Cols. 4x7)	9 Factor	10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
56		Unaffiliated Public		XXX	XXX		0.0000		0.1300(d)		0.1300(d)	
57		Unaffiliated Private		XXX	XXX		0.0000		0.1600		0.1600	
58		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
59		Affiliated Certain Other (See SVO Purposes & Procedures Manual).....		XXX	XXX		0.0000		0.1300		0.1300	
60		Affiliated Other - All Other		XXX	XXX		0.0000		0.1600		0.1600	
61		Total with Common Stock Characteristics (Sum of Lines 56 through 60)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
62		Home Office Property (General Account only)					0.0000		0.0750		0.0750	
63		Investment Properties					0.0000		0.0750		0.0750	
64		Properties Acquired in Satisfaction of Debt.....					0.0000		0.1100		0.1100	
65		Total with Real Estate Characteristics (Lines 62 through 64)					XXX		XXX		XXX	
		LOW INCOME HOUSING TAX CREDIT INVESTMENTS										
66		Guaranteed Federal Low Income Housing Tax Credit.....					0.0003		0.0006		0.0010	
67		Non-guaranteed Federal Low Income Housing Tax Credit.....					0.0063		0.0120		0.0190	
68		Guaranteed State Low Income Housing Tax Credit.....					0.0273000		0.0600006		0.09750010	
69		Non-guaranteed State Low Income Housing Tax Credit.....					0.0063		0.0120		0.0190	
6970		All Other Low Income Housing Tax Credit.....					0.0273		0.0600		0.0975	
7071		Total LIHTC					XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
7172		Other Invested Assets - Schedule BA		XXX			0.0000		0.1300		0.1300	
7273		Other Short-term Invested Assets - Schedule DA.....		XXX			0.0000		0.1300		0.1300	
7374		Total All Other (Sum of Lines 71-72 + 7273)		XXX			XXX		XXX		XXX	
7475		Total Other Invested Assets - Schedules BA & DA Sum of Lines 30, 38, 55, 61, 65, 70-71 and 7374)					XXX		XXX		XXX	

- (a) Times the company's experience adjustment factor (EAF).
- (b) Column 9 is the greater of 6.4% without any EAF adjustments or a company's EAF adjusted In Good Standing (IGS) factor plus 150 basis points. Columns 5 and 7 are 28% and 62% respectively of Column 9.
- (c) Determined using the same factors and breakdowns used for directly owned mortgage loans.
- (d) Times the company's weighted average portfolio beta (Minimum .10, Maximum .20).
- (e) Determined using same factors and breakdowns used for directly owned real estate.

W:\QA\BlanksProposals\2012-34BWG_Modified.doc