Interactions between the Classification Decision, Annual Statement Reporting, and Life RBC Requirements

Annual Statement Presentation

- Once a classification decision has been made, the long-term investments are reported in the annual statement's appropriate detail investment schedule per the classification type:
  - Bonds in Schedule D, Part 1
  - Preferred Stock in Schedule D, Part 2, Section 1
  - Common Stock in Schedule D, Part 2, Section 2
- The Book/Adjusted Carrying Value (BACV) column, which contains the statutory value of the investment before nonadmitted amounts and is based upon the valuation method prescribed by the appropriate Statement of Statutory Accounting Principle (SSAP), exists in each of these schedules.
  - For example, SSAP No. 26 requires a life insurer's designation 1 through 5 bonds to be valued at amortized cost; designation 6 bonds are valued at the lower of amortized cost or fair value.
  - SSAP No. 30 requires unaffiliated common stock to be carried at fair value.
- The Book/Adjusted Carrying Value amounts for the securities in the various parts of Schedule D are reported in other schedules and exhibits, such as the Asset Valuation Reserve (AVR) and the Schedule D Summary by Country.

Life Risk-Based Capital

- The Life Risk-Based Capital formula (LRBC) pulls in the BACV amounts from various annual statement schedules (primarily the AVR and Schedule D Summary by Country) for entry into the Book/Adjusted Carrying Value column of LRBC.
  - In a relatively small number of instances in the LRBC formula, amounts are manually input by the reporting entity.
- The BACV column of LRBC is multiplied by an RBC Factor to generate the "RBC Requirement".
  - Bond and Preferred Stock Life RBC Factors (post tax) are based upon the designation:

NAIC 1 = .3%	NAIC 2 = 1%	NAIC 3 = 3.4%
NAIC 4 = 7.4%	NAIC 5 = 17%	NAIC 6 = 20%

  - Unaffiliated Common Stock Life RBC Factor defaults to 30% but can be adjusted by the reporting entity's Beta:
    - Limits on Adjusted Common Stock Factor of: 15% minimum and 30% maximum.
- Once the RBC Requirements have been calculated for all LRBC risk items, the results are separated into component pieces based upon statistical correlation: risk items that are highly correlated are included in the same component.
  - C-0 component aggregates most of the affiliated investment risk items.
  - C-1o component aggregates most of the fixed income investment risk items (e.g., bonds, preferred stock).
  - C-1cs component aggregates most of the unaffiliated common stock investment risk items.
- All investment components except C-0 are then processed through the Covariance Calculation, which smooths (or reduces) the RBC Requirement for the total component. The theory behind this covariance calculation is that it is extremely unlikely for all risks to which an insurer is exposed to trigger at the exact same point in time; thus, a dollar for dollar capital requirement is not necessary for each of the previously individually calculated RBC Requirement amounts.