

Capital Adequacy (E) Task Force

RBC Proposal Form

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|---|---|---|
| ☐ Capital Adequacy (E) Task Force | ☐ Health RBC (E) Working Group | ☒ Life RBC (E) Working Group |
| ☐ Catastrophe Risk (E) Subgroup | ☐ Investment RBC (E) Working Group | ☐ Longevity Risk (A/E) Subgroup |
| ☐ Variable Annuities Capital. & Reserve (E/A) Subgroup | ☐ P/C RBC (E) Working Group | ☐ RBC Investment Risk & Evaluation (E) Working Group |

DATE: <u>03/15/2023</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Brian Bayerle</u>	Agenda Item # <u>2024-15-L</u>
TELEPHONE: <u>(202) 624-2169</u>	Year _____
EMAIL ADDRESS: <u>BrianBayerle@acli.com</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>ACLI</u>	ADOPTED:
NAME: <u>Brian Bayerle</u>	☐ TASK FORCE (TF) _____
TITLE: <u>Chief Life Actuary</u>	☐ WORKING GROUP (WG) _____
AFFILIATION: <u>ACLI</u>	☐ SUBGROUP (SG) _____
ADDRESS: <u>101 Constitution Ave, NW Suite 700</u>	EXPOSED:
<u>Washington, DC 20001</u>	☐ TASK FORCE (TF) _____
	☐ WORKING GROUP (WG) _____
	☐ SUBGROUP (SG) _____
	REJECTED:
	☐ TF ☐ WG ☐ SG _____
	OTHER:
	☐ DEFERRED TO _____
	☐ REFERRED TO OTHER NAIC GROUP _____
	☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| ☐ Health RBC Blanks | ☐ Property/Casualty RBC Blanks | ☒ Life and Fraternal RBC Blanks |
| ☐ Health RBC Instructions | ☐ Property/Casualty RBC Instructions | ☒ Life and Fraternal RBC Instructions |
| ☐ Health RBC Formula | ☐ Property/Casualty RBC Formula | ☐ Life and Fraternal RBC Formula |
| ☐ OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Background: In order to support reporting of certain mortgage-type investments as collateral loans backed by mortgages in 2024, without changing capital treatment of BA mortgage investments, in 2024, update RBC mapping capture those investments consistent with existing practice. Note that those investments will map to AVR for Investments with Underlying Characteristics with Mortgages and be captured in that RBC category.

While this change accomplishes a “no change” result for 2024, it is expected that a broader discussion, including structural changes, will occur in 2025.

ACLI Proposal:

Life and Fraternal RBC Blanks LR008:

Update Line “(50) Schedule BA Collateral Loans” Annual Statement Source to be updated as follows:

Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part

The value in Column (1) Book / Adjusted Carrying Value will now be a company records entry and should represent all collateral loans which have not been captured elsewhere in the RBC formula.

Update to LR008 RBC Instructions:

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Update to LR009 RBC Instructions:

Column (1) Except for Line (1), (12), and (16), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999, 1299999, 2399999 and 2499999, and collateral loans backed by mortgages, as reported in footnote 5T, line 7.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 11-2023

Collateral Loan → AVR → RBC mapping proposal - 2024

For Life RBC Working Group

Overview

In 2024, certain investments will be required to be reported as collateral loans backed by mortgages. The attached proposal comprises a mapping change from BA → AVR → RBC which results in those assets maintaining their historical capital treatment as BA mortgages. This would be appropriate given that they are fixed income instruments which are collateralized by mortgages (generally first lien mortgages) and that they therefore have mortgage-like risk.

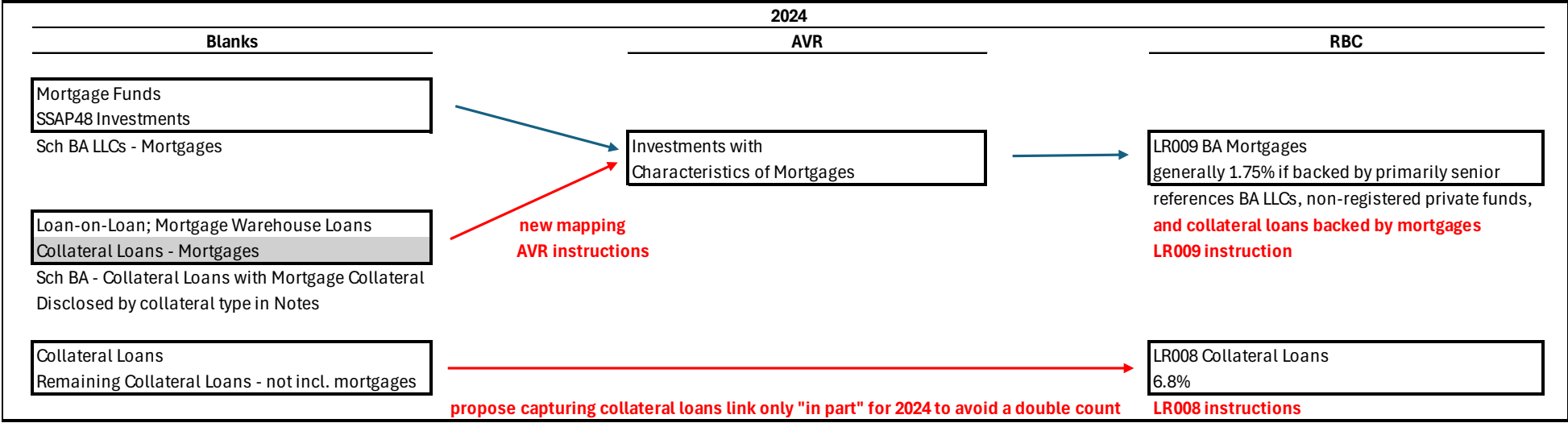
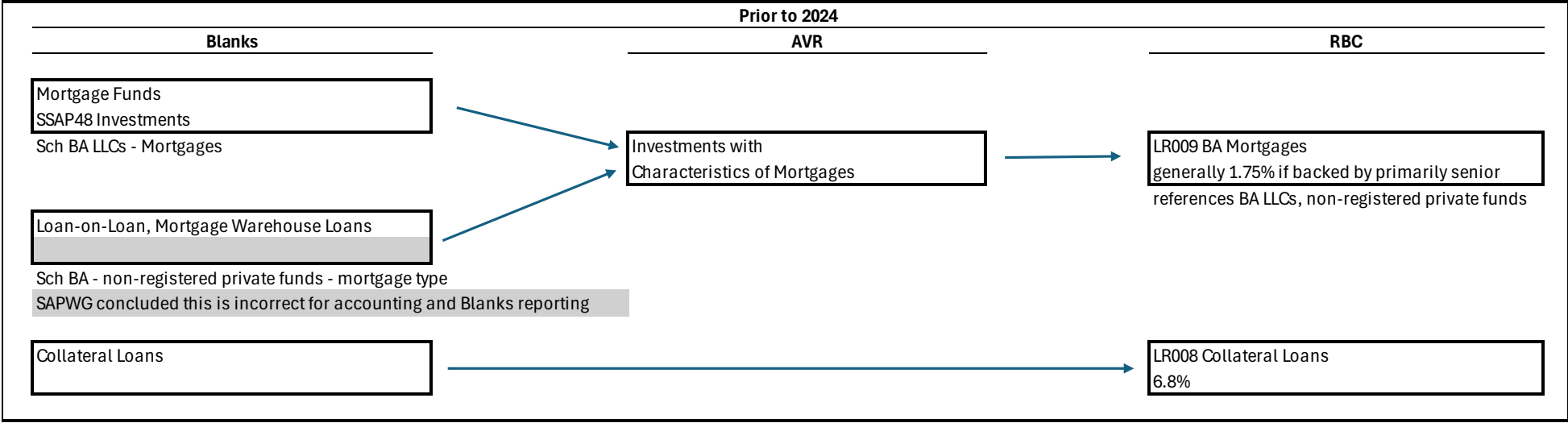
1- Overview of Proposal

2- Note on AVR mapping proposal supported by SAPWG

3- Review of proposed Life RBC instruction changes

Note that this is designed to solve 2024 reporting and capital with no disruption on the transition year. If a more comprehensive set of changes is adopted in 2025, we would expect those changes would supercede this fix. In other words, the focus of this proposal is to maintain current capital treatment this year, even as accounting changes occur.

Invested Assets Which are Captured for Capital as BA Mortgages



2025

Subsequent to determination of 2024 guidance, expose for comment a mapping of all collateral loans to AVR to RBC
Result of 2025 exposure should be that everything maps directly through all of the steps, 1-to-1, or many-to-1, with no "in part" reference needed

Blanks Proposal for 2024 Reporting:

Annual Statement Instructions - AVR

Blanks proposal ensures that Collateral Loans backed by Mortgages map the AVR section which categorizes those investments in the appropriate buckets for RBC.

Life RBC Proposal:

To maintain capital treatment of loan-on-loan investments as BA mortgages, in a year when their accounting presentation navigates to Collateral Loans back by Mortgages, the following changes are proposed:

LR008

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g, BA mortgages.

8	(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)	
9	(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part	
10	(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93	

LR009

Reference to tie out should be adjusted to include new category: Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,12999999, 23999999~~-and~~ 24999999 **and collateral loans backed by mortgages (footnote 5T, line 7).**

The minor changes listed above to LR008, and LR009, will be provided in an RBC Proposal Form, and would result in BA mortgages maintaining their capital charge in 2024, even as reporting for those investments changes to Collateral Loans backed by Mortgages.

OTHER LONG-TERM ASSETS

		(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Annual Statement Source					
<u>Schedule BA - Unaffiliated Common Stock</u>						
(42) Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65			X	\$	=
(43) Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66			X	0.3000	=
(44) Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47) Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
<u>Schedule BA - All Other</u>						
(48.1) BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2) BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3) Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)			X	0.3000	=
(49.1) BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2) Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)			X	0.3000	=
(50) Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part			X	0.0680	=
(51) Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93			X	0.3000	=
(52.1) NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94			X	0.0050	=
(52.2) NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95			X	0.0163	=
(52.3) Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1) Other Schedule BA Assets	AVR Equity Component Column 1 Line 96					
(53.2) Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)					
(53.3) Net Other Schedule BA Assets	Line (53.1) less (53.2)			X	0.3000	=
(54) Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57) Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58) Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.