To: Financial Examiners and Other State Regulators

Due to changes to Life RBC to reflect the TCJA, the Working Group expects that the Dec. 31, 2018, ACL for most life insurers will be higher than it would have been under the 2017 Life RBC formula. The higher ACL will increase the "Trigger Points for Level of Regulatory Action" (as defined in the instructions for the Life RBC calculation.) As a consequence, this is expected to decrease the amount of TAC in excess of ACL for Dec. 31, 2018, filings compared to what such amount would have been under the previous tax law, even though the Dec. 31, 2018, TAC for some life insurers may increase due to the TCJA. An insurer's mix of assets and liabilities, business profile, and tax attributes will determine the impact of the TCJA on the Life RBC calculation for that company.

According to information summarized by the NAIC, the Working Group expects that an immaterial number of life insurers, if any, will breach an RBC threshold (Company Action Level (CAL), ACL, etc.) due to the increase in ACL. However, the Working Group expects that there is a potential for more life insurers to trigger the Life RBC Trend Test for Dec. 31, 2018, due to the TCJA-related changes to the Life RBC formula. Later in this document, suggestions are offered as to how regulators might analyze any breaches of an RBC threshold or triggering of the Trend Test in 2018.

While the law and the instructions define the Life RBC calculation as TAC minus ACL, it is common to divide TAC by ACL (or by CAL) to derive an "RBC Ratio". An increase in ACL will tend to decrease a life insurers' RBC Ratio. The Working Group expects that the 2018 RBC Ratio for most life insurers will be lower than it would have been under the 2017 Life RBC formula. The percentage point reduction in RBC Ratio will tend to be larger for companies with higher RBC Ratios.

This document examines the changes to ACL, TAC, and RBC results due to the TCJA, including: