

AFFILIATED INVESTMENTS

LR037, LR038 and LR039

Basis of Factors

Affiliated Preferred and Common Stock

The risk-based capital for U.S. life insurance companies, property and casualty insurance companies, health entities and investment subsidiaries is calculated on a “see through” basis (multiplied by the percent of ownership). This requires “looking through” all holding and subsidiary companies to the lowest level of ownership for each affiliated stock investment. The advantage of this approach is that where there is a choice of whether to have ownership of an asset in either the parent or the subsidiary, RBC results are unlikely to affect that decision.

The pre-tax factor for common stock of other affiliates is set at 30 percent since many of these investments have risk characteristics similar to those of unaffiliated common stock. Conversely, due to management’s knowledge and control, the capital remaining in the affiliate may be the minimum needed to properly conduct its normal course of business. For that reason, a separate sensitivity analysis is completed using a pre-tax factor of 100 percent. If an insurance subsidiary is owned by another affiliate, the RBC of the insurance subsidiary is calculated first, and the pre-tax 30 percent is applied to the difference between the carrying value of the other affiliate and the carrying value of the insurance subsidiary.

The pre-tax factor for publicly traded insurance subsidiaries held at fair value is 34.6 percent, and is applied to the excess of the statutorily haircut fair value over the book value of the subsidiary. The factor is lower than the 30 percent factor for other affiliates to avoid double-counting the haircut applied to the fair value and to be consistent with the factor used in the property and casualty and health RBC formulas.

There are 14 categories of subsidiary and affiliated investments that are subject to an RBC requirement for common and preferred stock. Those 14 categories are:

1. Directly Owned Property and Casualty Insurance Subsidiaries Subject to a Look-Through Risk-Based Capital Calculation
2. Directly Owned Life Insurance Subsidiaries Subject to a Look-Through Risk-Based Capital Calculation
3. Directly and Indirectly Owned Health Entity Subsidiaries Subject to a Look-Through Risk-Based Capital Calculation
4. Indirectly Owned Property and Casualty Insurance Subsidiaries Subject to a Look-Through Risk-Based Capital Calculation
5. Indirectly Owned Life Insurance Subsidiaries Subject to a Look-Through Risk-Based Capital Calculation
6. Investment Subsidiaries
7. Holding Company Value in Excess of Indirectly Owned Insurance Subsidiaries
8. Alien Insurance Subsidiaries – Canadian Life
9. Alien Insurance Subsidiaries – Others
10. Investments in Upstream Affiliate (Parent)
11. Other Affiliated Investments – Property and Casualty Insurers not Subject to Risk-Based Capital
12. Other Affiliated Investments – Life Insurers not Subject to Risk-Based Capital
13. Other Affiliated Investments – Non-insurers
14. Publicly Traded Insurance Subsidiaries Held at Fair Value

Codes 1 through 13 appear in Column (2) of LR039 Details for Affiliated Investments. The program will automatically calculate the code and the risk-based capital charge based on the category of affiliate the company is reported under. Reporting an affiliate in the wrong category may cause a cross-check failure, requiring correction of the oversight and refile a corrected version with the NAIC and/or any state requi

The total of all reported affiliated stock should equal the amounts reported on Schedule D, Part 2, Section 1, Line 8599999 plus Schedule D, Part 2, Section 2, Line 9199999 and Schedule D, Part 6, Section 1, Line 0999999 plus Line 1899999.

Affiliated investments fall into two broad cat

Directly Owned U.S. Life Insurance Subsidiaries

Report information regarding any top-layer directly owned U.S. life insurance affiliates in the schedule. For each affiliate, report the same information as required for directly owned property and casualty insurance affiliates that are subject to risk-based capital. The value of common stock should be the same as reported in Schedule D, Part 6, Section 1, Line 1299999 (less any amounts reported on the worksheet as affiliate code "12"). The amount of preferred stock reported should match Schedule D, Part 6, Section 1, Line 0399999 (less any amounts reported on the worksheet as affiliate code "12"). If the life insurance affiliate is not subject to risk-based capital, then it should be considered an Other Affiliated Investment. Subsidiaries reported in this section will be assigned an affiliate code of "2" for directly owned life insurers.

The risk-based capital of each life affiliate should be obtained by using a separate copy of the life risk-based capital program for each affiliate.

Directly/Indirectly Owned U.S. Health Entity Subsidiaries/Affiliates and Deferred Tax Assets (for year-end 2009 only)

The filing life insurance companies are responsible for providing the health RBC amount for its health entity subsidiaries/affiliates for use in the life RBC formula, even if the health entity is not required to file this calculation by its state of domicile. The health RBC times the life insurer's percentage ownership of the health entity subsidiary will be used as the risk charge in this part of the life RBC formula. Subsidiaries reported in this section will be assigned an affiliate code of "3" for directly/indirectly owned health entities.

As a temporary measure for year-end 2009 only, report any additional deferred tax assets with an affiliate code of "3" on this page (regardless of whether the deferred tax asset is an affiliated amount or not). For column (5) Book/Adjusted Carrying Value of Affiliate's Common Stock, enter the statutory net admitted value of the deferred tax asset. In Column (4) Affiliate's RBC After Covariance, enter 5.0% of the Column (5) amount. For Column (1) Name of Affiliate, enter a description something like "Additional Deferred Tax Asset Admitted Amount."

Indirectly Owned U.S. Property and Casualty Insurance Affiliates

The reporting company's book/adjusted carrying value of the holding company should be allocated between any top-layer, indirectly owned insurance affiliates and the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The carrying value of the holding company should be first allocated based on the values shown on the holding company's balance sheet. The following example shows a hypothetical holding company, Holder, Inc., that is 100 percent owned by Big Insurance Company and illustrates the allocation of Holder's carrying value among these categories:

Balance Sheet			
Holder, Inc.			
12/31/XX			
ABC Life	\$ 4,000,000	Long-Term Debt	\$ 14,000,000
XYZ Casualty	2,000,000	Other Liabilities	5,000,000
GX Todd Real Estate	10,000,000		
Cash	5,000,000	Equity	5,000,000
Other Assets	3,000,000		
Total Assets	\$ 24,000,000	Total Liabilities and Equity	\$ 24,000,000

DETAILS FOR AFFILIATED INVESTMENTS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Name of Affiliate	Affiliate Code (1 to 13)	NAIC Company Code or Alien ID Number†	Affiliate's RBC After Covariance‡	Book / Adjusted Carrying Value of Affiliate's Common Stock	Total Value of Affiliate's Outstanding Common Stock	Book / Adjusted Carrying Value of Affiliate's Preferred Stock	Total Value of Affiliate's Outstanding Preferred Stock	Percent Owned	RBC Requirement*
(0000001)	Additional Deferred Tax Asset Admitted Amount	3		\$50,000	\$1,000,000	\$0	\$0	\$0	100.0%	\$76,923
(0000002)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000003)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000004)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000005)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000006)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000007)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000008)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000009)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000010)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000011)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000012)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000013)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000014)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000015)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(0000016)				\$0	\$0	\$0	\$0	\$0	100.0%	\$0
(9999999)	Total	xxxxx	xxxxx	\$50,000	\$1,000,000	xxxxx	\$0	xxxxx	xxxxx	\$76,923

Affiliate Type	Affiliate Code	RBC Basis
Direct U.S. Property and Casualty Subsidiaries	1	Subs' RBC After Covariance / 0.65
Direct U.S. Life Subsidiaries	2	Subs' RBC After Covariance / 0.65
Direct and Indirect U.S. Health Subsidiaries & Additional Deferred Tax Assets	3	Subs' RBC After Covariance / 0.65
Indirect U.S. Property and Casualty Subsidiaries	4	Subs' RBC After Covariance / 0.65
Indirect U.S. Life Subsidiaries & Deferred Tax Assets	5	Subs' RBC After Covariance / 0.65
Investment Subsidiaries	6	Subs' RBC After Covariance / 0.65
Holding Company in Excess of Indirect Subsidiaries	7	0.300 x Book / Adjusted Carrying Value
Alien Insurance Subsidiaries - Canadian Life	8	Subsidiaries' MCCSR / 0.65
Alien Insurance Subsidiaries - Other	9	1.000 x Book / Adjusted Carrying Value
Investment in Parents	10	0.300 x Book / Adjusted Carrying Value
Other Affiliate - P&C Insurers not subject to RBC	11	0.300 x Book / Adjusted Carrying Value
Other Affiliate - Life Insurers not subject to RBC	12	0.300 x Book / Adjusted Carrying Value
Other Affiliate - All Other	13	0.300 x Book / Adjusted Carrying Value

† If applicable.

‡ If applicable. For Canadian life subsidiaries, the Minimum Continuing Capital and Surplus Requirement (MCCSR) should be used.

* The RBC Requirement column is calculated on a pre-tax basis.