

**Capital Adequacy (E) Task Force**  
**RBC Proposal Form**

<p align="right">DATE: <u>January 21, 2021</u></p> <p>CONTACT PERSON: <u>Steve Clayburn</u></p> <p>TELEPHONE: <u>(202) 624-2197</u></p> <p>EMAIL ADDRESS: <u>steveclayburn@acli.com</u></p> <p>ON BEHALF OF: <u>American Council of Life Insurers (ACLI)</u></p> <p>NAME: <u>Steve Clayburn</u></p> <p>TITLE: <u>Senior Actuary, Health Insurance &amp; Reinsurance</u></p> <p>AFFILIATION: <u>ACLI</u></p> <p>ADDRESS: _____</p>	<p align="center"><b><u>FOR NAIC USE ONLY</u></b></p> <p>Agenda Item # <u>2021-01-L</u></p> <p>Year <u>2021</u></p> <p align="center"><b><u>DISPOSITION</u></b></p> <p><input checked="" type="checkbox"/> ADOPTED <u>4-29-21 - CADTF</u></p> <p><input type="checkbox"/> REJECTED _____</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> EXPOSED _____</p> <p><input type="checkbox"/> OTHER (SPECIFY) _____</p>
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**IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED**

- Health RBC Blanks     
 Property/Casualty RBC Blanks     
 Life and Fraternal RBC Instructions  
 Health RBC Instructions     
 Property/Casualty RBC Instructions     
 Life and Fraternal RBC Blanks  
 OTHER

**DESCRIPTION OF CHANGE(S)**

To update the RBC calculation for Real Estate to reflect updated experience and analysis since RBC was first developed. The factors and instructions included are not final, with the exception of the structure which is included and presented in Figure 7, and will be addressed with a separate proposal.

**REASON OR JUSTIFICATION FOR CHANGE \*\***

When RBC was developed, there was limited experience on the default and loss for commercial real estate. Since then data sources have been compiled and tracked in the industry, and can now be accessed to provide more meaningful analysis and information for development of capital standards.

**Additional Staff Comments:**

4-29-21 cgb The Capital Adequacy Task Force adopted the proposal on 4/29/21.

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

Revised 2-2019

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## 1. REAL ESTATE

LR007

Companies that have developed their own risk-based capital factors for real estate have used a range of factors from 5 percent to 20 percent. One study indicated real estate volatility is about 60 percent of common stock, suggesting a factor in the range of 18 percent. Assuming a full tax effect for losses, a pre-tax factor of 15 percent was chosen. Foreclosed real estate would carry a somewhat higher risk at 23 percent pre-tax. Schedule BA real estate also has a 23 percent factor pre-tax because of the additional risks inherent in owning real estate through a partnership. The pre-tax factors were developed by dividing the post-tax factor by 0.65 (0.65 is calculated by taking 1.0 less 0.35). The pre-tax factors are not changing for 2018 due to tax reform. The base factor for equity real estate of [10%] was developed by adding a margin for conservatism to the results of an analysis of real estate performance over the period of 1978 – 2012. The analysis was conducted by a group of life insurance company real estate investment professionals coordinated by the ACLI. The data used was a national database of real property owned by investment fiduciaries and supplemented by data on real estate backing mortgage securities. The analysis is documented in a report to the NAIC dated April 9, 2017. In addition to modifying the factor for company owned and investment real estate, this updated factor will also be used for real estate acquired in satisfaction of debt (Foreclosed real estate) and for assets with the characteristics of real held estate (partnership or other structure) reported on Schedule BA. Foreclosed real estate is recognized in the statutory statements as having acquisition cost equal to market value at time of foreclosure. Schedule BA real estate was originally given a higher factor under a presumption that it was more highly levered. Analysis has shown these assets to have experience very similar to directly held and will therefore use the same factor.

While the experience analysis was done based on analysis of fair value impacts, Real Estate is reported at depreciated cost in the Statutory statements. Therefore, beginning in 2021 an adjustment is made to the factor to partially account for the difference between fair value and statutory carrying value on a property by property



(Figure 7)

Real Estate Worksheet

Fair value adjustment factor [ ]

(1)

(2)

(3)

(4)

(54)

(65)

(7)

(86)

(97)

(108)

Description



