Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force [ ] Health RBC (E) Wo[illegible] [

DATE: 4/22/22

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ON BEHALF OF: AAA C-2 Mortality Work Group

Agenda Item # 2022-06-L

Year 2022

DISPOSITION

[X] ADOPTED 6/17/22, TF 6/30/22

[X] EXPOSED 4/22/22

[ ] OTHER (SPECIFY)

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

[ ] Health RBC Blanks [ ] Property/Casualty RBC Blanks [X] Life and Fraternal RBC Instructions

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[ ] OTHER _____

DESCRIPTION OF CHANGE(S)

Instructional changes and factors for LR025.

REASON OR JUSTIFICATION FOR CHANGE **

Structural changes necessary to facilitate the iRe-exposed for comment by the Working Group along with an alternative version with modifi
Adopted with the alternative factors by the Working Group 6/17/22
6/30/22 – The Capital Adequacy (E) Task Force adopted at their 6/30/22 meeting.

**** This section must be completed on all forms.** **Revised 2-2019**

LIFE INSURANCE - OPTION 2

LR025

Basis of Factors

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95th percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released minus mortality margin present in reserves. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95th percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

Specific Instructions for Application of the Formula

Lines 2, 5 and 21-41 are not applicable to Fraternal Benefit Societies.

The NAR is derived for each of the factor categories using annual statement sources and company records. In Force and Reserves amounts are net of reinsurance throughout. The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.

The NAR size bands apply to the total amounts for individual & industrial life and group term & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to $500 million. Size band 2 is for NAR amounts greater than $500 million and up to $25 billion. Size band 3 is for NAR amounts greater than $25 billion.

Pricing Flexibility for Individual Life Insurance is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years. and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at e

ability to recover, on a present value basi

		00400 =	
Allocation of Next $24,500 Million		X 0.~~00165~~ 00175 =	
Allocation of Over $25,000 Million		X 0.~~00110~~ 00120 =	
Total Permanent Life Policies without Pricing Flexibility Net Amount at Risk			

Lines (35) and (36) Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records. This category includes group contracts where the premium terms have 36 months or fewer until expiration or renewal. Insurers may choose to assign contracts to the category for remaining rate terms over 36 months if the evaluation of remaining rate terms is not completed. The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29), Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32). Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under.

Line (37)	Group & Credit Life with Remaining Rate Terms 36 Months and Under	(1) Statement Value	Factor	(2) RBC Requirement
	Allocation of First $500 Million		X 0.~~00130~~ 00140 =	
	Allocation of Next $24,500 Million		X 0.~~00045~~ 00055 =	
	Allocation of Over $25,000 Million		X 0.~~00030~~ 00040 =	

Line (41) FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. The capital factor assigned is the same as the largest size band for group & credit life contracts with remaining rate terms 36 months and under.

		(1) Statement Value	Factor	(2) RBC Requirement
Line (41)	FEGLI/SGLI In Force		X 0.~~00030~~ 00040 =	

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.