

# Capital Adequacy (E) Task Force

## RBC Proposal Form

Capital Adequacy (E) Task Force  
Catastrophe Risk (E) Subgroup  
Variable Annuities Capital. & Reserve  
(E/A) Subgroup

Health RBC (E) Working Group  
P/C RBC (E) Working Group  
Economic Scenarios (E/A) Subgroup

Life RBC (E) Working Group  
Longevity Risk (A/E) Subgroup  
RBC Investment Risk & Evaluation  
(E) Working Group

## REAL ESTATE LR007

### Basis of Factors

The base factor for equity real estate of 11% was developed by adding a margin for conservatism to the results of an analysis of real estate performance over the period of 1978-2020. The analysis was conducted by a group of life insurance company 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-backed securities. The analysis is documented in a report to the NAIC dated March 29, 2021. 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). Foreclosed real estate is reported in the statutory statements as having acquisition cost equal to market value at time of foreclosure. For assets with the characteristics of real estate partnership or other structure) reported on Schedule BA, a higher factor of 13% is used to account for the lower transparency involved with these structures. 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 experienced less volatility and will therefore use a modestly higher factor.

While the experience analysis was done based on analysis of fair value impacts, Real Estate is reported at depreciated value in the statutory statements. The difference in values impacts the risk to statutory surplus. Therefore, an adjustment is made based on the difference between fair value and statutory carrying value on a property-by-property basis. The adjustment is defined as

$$\text{Adj Factor} = \text{RE Factor} * (1 - [\text{factor}] * (\text{MV} - \text{BVg}) / \text{BVg})$$

factor is 0 This zero factor for the fair value adjustment is effective beginning year end 2021 RBC filings.

The resulting adjusted RBC factor is subject to a minimum of zero. In the RBC calculation, see Figure 7, fair value is from Schedule A Column 10 plus encumbrances, or from Schedule BA column 11 plus encumbrances, while BVg is the net Book Adjusted Carrying Value plus the encumbrance

Encumbrances have been included in the real estate base since the value of the property is held net of the encumbrance and value is subject to loss. Encumbrances receive the base real estate factor of 11% reduced by the average factor for commercial mortgages of 1.75% tax. In the past this was computed as a base factor applied to the net real estate value plus a separate factor applied to the amount of the encumbrance. In the equivalent result will be obtained by applying the base factor to the gross statutory value of the property, and a credit provided for the amount of the encumbrance.





Company Name

REAL ESTATE

Confidential when Completed

NAIC Company Code

Annual Statement Source

(1)  
Book / Adjust

(2)  
Average

(3)  
RBC



Company Name

Confidential when Completed

NAIC Company Code

ASSET CONCENTRATION FACTOR

(1)	(2)	(3)	(4)	(5)	(6)
Asset Type	Book / Adjusted Carrying Value	Factor	Additional RBC	Adjustment/ Subsidiary RBC	RBC Requirement
(31) Farm Mortgages - 90 Days Overdue		X ‡ =			
(32) Farm Mortgages - 90 Days Overdue - Cumulative Writedowns		X ‡ =			
(33) Residential Mortgages - 90 Days Overdue		X ‡ =			
(34) Residential Mortgages - 90 Days Overdue - Cumulative Writedowns		X ‡ =			
(35) Commercial Mortgages - 90 Days Overdue		X ‡ =			
(36) Commercial Mortgages - 90 Days Overdue - Cumulative Writedowns		X ‡ =			
(37) Farm Mortgages in Foreclosure		X ‡ =			
(38) Farm Mortgages in Foreclosure - Cumulative Writedowns		X ‡ =			
(39) Residential Mortgages in Foreclosure		X ‡ =			
(40) Residential Mortgages in Foreclosure - Cumulative Writedowns		X ‡ =			
(41) Commercial Mortgages in Foreclosure		X ‡ =			
(42) Commercial Mortgages in Foreclosure - Cumulative Writedowns		X ‡ =			
(43) Unaffiliated Mortgages with Covenants		X ‡ =			
(44) Unaffiliated Mortgages - Defeased with Government Securities		X 0.0090 =			
(45) Unaffiliated Mortgages - Primarily Senior		X 0.0175 =			
(46) Unaffiliated Mortgages - All Other		X 0.0300 =			
(47) Affiliated Mortgages - Category CM2		X 0.0175 =			
(48) Affiliated Mortgages - Category CM3		X 0.0300 =			
(49) Affiliated Mortgages - Category CM4		X 0.0500 =			
(50) Affiliated Mortgages - Category CM5		X 0.0750 =			
(51) Schedule BA Mortgages 90 Days Overdue		X ‡ =			
(52) Schedule BA Mortgages 90 Days Overdue - Cumulative Writedowns		X ‡ =			
(53) Schedule BA Mortgages in Process of Foreclosure		X ‡ =			
(54) Schedule BA Mortgages Foreclosed - Cumulative Writedowns		X ‡ =			
(55)		X 0.0014 =			
(56)		X 0.0260 =			
(57)		X 0.0260-0.0014 =			
(58)		X 0.1500-0.026 =			
(59) All Other Low Income Housing Tax Credits		X -0.1500 =			
(59)-(60) NAIC 02 Working Capital Finance Notes		X 0.0163 =			
(60)-(64)					



Company Name

Confidential when Completed

NAIC Company Code

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Company Name

Confidential when Completed

NAIC Company Code

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		(1) RBC Requirement
	<u>Source</u>	
(32) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	
(33) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	
(34) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	
(35) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	
(36) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (57) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	
(37) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (24)	
(38) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	
(39) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	
(40) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory 33.7 (n)21.6 (e)8.25.7 (q).5 (r)3.-7.6 (lrk/P <</5T4 7 (e)8.2 (e)8.1 (t)12.5 ( 25.8 (act)4.4 (oy)13.6 (er)ee)t)4.	
(37)		