



# AMERICAN ACADEMY *of* ACTUARIES

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## **Refinements to the Life Risk-Based Capital Formula**

**Presented by the American Academy of Actuaries' Life Capital Adequacy Subcommittee to the National Association of Insurance Commissioners' Life Risk-Based Capital Working Group**

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Three refinements to the Life Risk-Based Capital formula are recommended:

(See attached spreadsheets)

- 1) For the Asset Concentration Factor, adjust the RBC factor for all asset categories so that the doubled factor will not exceed 45 percent -- the highest RBC asset factor for unaffiliated common stock. It applies to class 5 categories of bonds, preferred stock, surplus rates, and capital notes. This requires changes to the Instructions for [LR010] the first paragraph on page 17. It also changes the pre-tax factor to 22.5 percent for bonds class 5 on Line (4) and preferred stock class 5 on Line (9) of [LR010].
- 2) The taxes on C-0 Off-Balance Sheet items is incorrectly being carried into C-1 (line 37 on LR027). It should be deducted as part of C-0 on line (8.1). To correct this, line (97) of [LR026] should become line (104). Then lines (98) to (104) should be renumbered as lines (97) to (103) and the new line (103) should now sum (1) to (102). The new Line (111) should sum lines (104) to (110).
- 3) Exhibit 9 Claim Reserves [LR020] Column (2) line (15) for Disability Income and Long Term Care should be adjusted for taxes; the other claim reserves included in this line should not. To accomplish this, a line must be added to separate lines (9), (14), and (15) into these two components. The DI and LTC Claim Reserves must be obtained from company records, as they are not separately identified in the Annual Statement. The pretax factor for these claim reserves is .077 and the tax factor is .3500 on [LR026]. The pretax RBC factor and the tax factor of 0 percent for the other health claim reserves is not changed.